

Managing a Family Business in the Czech Republic

Zbyněk Mašláň

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Zásady pro vypracování:

Prostudujte dané téma Řízení rodinných podniků v České republice a vyhledejte možné zdroje.

Shromážděte literaturu na základě studie, rozdělte jednotlivé body práce.

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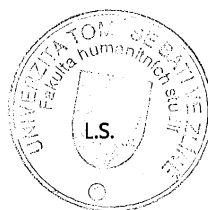
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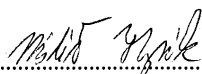
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ABSTRAKT

Moje bakalářská práce je zaměřena na problematiku managementu rodinných firem v České republice. Jelikož je tato forma podniku v porovnání s jinými poměrně specifická, bylo potřeba se na tyto specifika důkladněji zaměřit a to především na to zásadní, což je propojení rodiny a podnikání. Rodinné podnikání je tedy především otázkou socioekonomickou.

Teoretická část popisuje rodinné podnikání a jeho charakteristické rysy. Vzhledem k tomu, že stále neexistuje žádná ustálená definice toho to podnikání, jsou zde uvedeny tři možné definice, z nich každá pohlíží na rodinné podniky z jiného úhlu pohledu. Poměrně obsáhlá část je také věnována historii a vývoji rodinných firem. Dále jsou zde zahrnuty kapitoly o významu tohoto podnikání a především dopadu na regionální rozvoj v České republice. Teoretická část se také zaměřuje na význam rodiny a její vliv na chod firmy, firemní kultury a hodnot. Poslední kapitola teoretické části se zabývá managementem rodinných firem.

Praktická část mojí práce je pojata formou dotazníku s otevřenými otázkami. V tomto průzkumu jsou zahrnuty tři české rodinné firmy. Každá z těchto firem se mimo jiné liší svou velikostí, oborem podnikání a strukturou. Majitelům těchto firem byly položeny otázky, vykonstruovány na základě poznatků získaných v teoretické části. Tato analytická část dále obsahuje základní informace o jednotlivých podnicích, jejich struktuře a počtu rodinných a nerodinných zaměstnanců. Na konci praktické části jsou výsledky mého výzkumu shrnuty a zhodnoceny.

Klíčová slova: rodinný podnik, kultura podniku, firemní hodnoty, rodinní příslušníci, management, regionální rozvoj, následnictví, vztahy

ABSTRACT

My bachelor's thesis is focused on issue of family business management in the Czech Republic. As this form of business is relatively specific in comparison to others, it was necessary to explore these specifics in depth, especially the most important one which is the interconnection of family and business. Thus it is a socio-economic phenomenon.

The theoretical part deals with family business and its characteristic features. As there is no fixed definition of this type of undertaking, it includes three possible definitions, each of these definitions describes family undertaking from different point of view. Relatively extensive part is also devoted to history and development of family companies. In addition to that there are chapters concerning importance of such business and its impact on regional development in the Czech Republic. The theoretical part is also focused on the importance of family and its influence on business policy, its culture and values. Last chapter of this part deals with family business management.

The analytical part of my bachelor's thesis is conceived in form of questionnaire with open questions. In this research there are three Czech family businesses included and each of them differs in its size, field of undertaking and structure. The owners of these companies were asked the questions, constructed on knowledge gained in the theoretical part. This analytical part also includes the basic information about particular companies, its structure and number of family/ non-family employees. At the end of this section, there is a summary and evaluation of my research.

Keywords: family business, company culture, company values, family members, management, regional development, succession, relationships

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INTRODUCTION

This bachelor's thesis deals with an issue of family business management in Czech Republic, inclusive the main characteristics features and specifics, which are typical for this kind of business. It is composed from theoretical and analytical part.

From the historical point of view, family businesses put the basics for business itself and it is considered the oldest form of entrepreneurship ever.

Family-owned companies are characterised by unique attributes, which differs it from other forms of business. Important attribute of such business is family member's motivation to work on company's development. Also the founders' effort to build a strong family business tradition in particular region is remarkable.

Unique element, which is characteristic for family business, is connection of family' name with name of the company. This interconnection is also one of the reasons for high family members' loyalty towards the family-owned business. In addition to that family member are often will to work hard, reinvest their profits or even insert their own property to the company in order to insecure company' success and development.

As the values and social feeling is another characteristic of this business. Family-owned companies often contribute to regional development. This contribution may have various forms, from sponsoring of local organizations or events to their organization. Family companies have usually simpler structure than non-family ones which provides them advantage of bigger flexibility. On the other hand there is also a possible disadvantage considering family involvement.

With respect to all the aspects, it is obvious that family business is special business which requires special management.

I. THEORY

1 Defining a Family Business

Poutziouris, Smyrnios and Klein claim that with respect to private character which is typical for most family businesses there could hardly be found accurate information about them. As there is not any concise, measurable definition which has been agreed upon, the quantifying of a family business' collective impact is a big challenge. There were many different criteria such as the percentage of ownership, strategic control, involvement of multiple generations and the intention to keep the business in family, used by experts in the field. These criteria are considered as important characteristics of a family business and its description and they all depend on where the business is in its life cycle. During their research, they created a range of possible definitions concerning broad, narrow and exclusive ones. They also created a scheme called "bull's eye".

The broad definition represented by a marginal circle of the bull's eye is the most inclusive one, requiring some family participation in the business and that the family has control over the business in its strategic direction (see Figure 1.). There is a gamut of possibilities involved in this definition.

From a large public company in which the descendants of the company founder own a major share of stock to an independent tradesman whose daughter manages his administration and his son does occasional manual work.

The narrow definition supposes that the business owner has the intention to pass the business on to another member of the family who will take a role in running the business (see Figure 1.). The latter requirement involves day-to-day interaction in the company. Concerning the other requirement – intention, the authors claim that if the entrepreneur plans to build a wealthy company for his or her descendants, that his or her decisions in strategic planning will be different from those who run nonfamily business.

A central ring represents the narrowest definition which may concern a grand-parent or founder as chairman and some siblings in the top management. It also requires one relative with ownership without day-to-day interaction and other relatives in entry-level positions(see Figure 1.). Nevertheless the founder of such a company had in the past a similar profile to entrepreneurs included in marginal parts of the bull's eye.

The measurement used for defining and characterizing a family business is often partial and not objective. That is the major reason why more research hasn't been done in this field. (Poutziouris 2006)

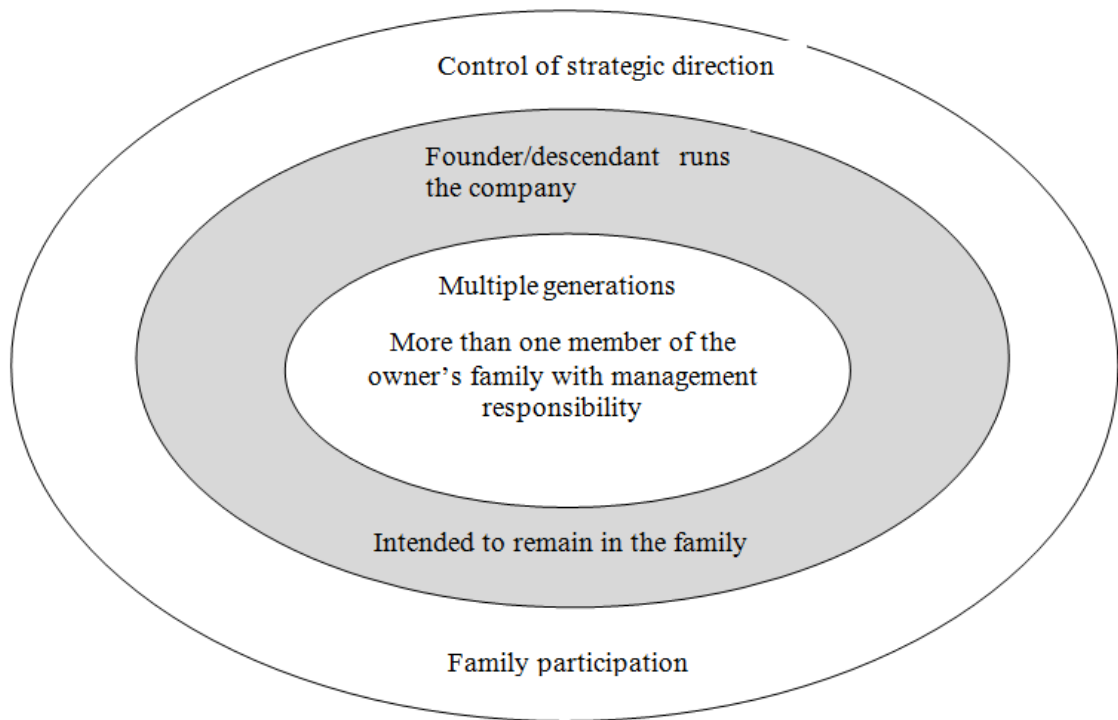


Figure n. 1- The bull's eye. 1 (Poutziouris et al., 2006).

2 Characteristics of Family Business

Family firms make the Czech business community healthier. Families try to maintain their good name and tradition, on which they have been working hard. That's why they devote attention to high quality of products and services. This family business has a significantly different orientation than the non-family one. They are much more oriented on the future rather than on long-term profit. In contrast with the non-family business, family ones are able to sacrifice their profit to keep their business working and healthy, which is also a reason why this kind of business is more resistant when it comes to critical situation. Family-owned businesses are also considered as relatively reliable business partners. The progressivity of such businesses is determined by the fact that they very often employ people from risk groups of residents.

These businesses thus become a new possible solution for problems with unemployment, since they proved an ability to create new working opportunities. This ability is probably closely connected to high social responsibility of many family business' owners. Many of these firms are also dependent on passing the business to younger family members, usually on owner's son or daughter. This successful handover requires relatively long-term cooperation between the owner and his or her successor. All these aspects point the family business openness towards younger family members, graduates, students, people without working experience and all the people who represent this risk group.

All these characteristics properties mentioned above make the family business a strong and powerful subject. High social feeling, emphasis on quality, tradition and also motivation of family members make this type of business unique. These characteristics also prove that family business has its irreplaceable position on the market.

(Rodinné firmy)

On the other hand all these positive attributes are dependent on good relationships among the family members. If the relationships in family are disrupted, all the positive aspects become negative ones. Nevertheless there are some other threats which may affect the function of the family-owned business. Very often the situation is that the family members don't separate their business affairs from the family ones and conversely. Sometimes family members are also inclined to seek more powers than they actually have. For the owner or founder, it is also very hard to keep the criticism level of family members and regular employees at the same level. Another significant problem is that some family

businesses don't see a boundary line between family property and business' property. And this may be very risky. (Hesková 2008)

3 Importance of Family Businesses

Family-owned companies form a significant part of the European economy. Despite this, family businesses in the Czech Republic are still underestimated.

As this type of business is not a part of a separate category in Czech Republic, it is still considered as a classic business without any definition of ownership characteristics. Significant differences in personal, psychological and economic fields are denigrated by simple generalization which leads to underestimation of the family and family relationships at the business level. Specific social relationships, typical for family business can't be neglected, but research must be done in a wider framework.

(Rodinné firmy)

One of the few specifics of the family-owned business defined by law is employment of family members defined in labour law. The basic stream is thus family law which is rooted in the Constitution of the Czech Republic and Family Law. The main legislation governing activity of family businesses is the Trades Licensing Act, Commercial Code, Civil Code and Labour Code. In addition to these statutes regarding a family business is the Income Tax Law. (Hesková 2008)

In the Czech Republic only few researches have been done on this specific business. Most of the studies on this topic were done in USA and Western Europe. Researches in the eastern part of Europe are relatively unique. Moreover, the Czech Republic does not have any legislative framework which would provide a definition of family business and its system of order. Contemporary formulations of legislation are very unclear and complicated for a family. Families are compelled to hire external operator for specific action which they are not allowed to do on their own such as accountancy or tax declaration.

(Rodinné firmy)

Family businesses significantly participate in the creation of GDP and employment throughout the European Union. International Enterprise Research Academy claims that 85% of all businesses in EU are family businesses. The largest share of family businesses throughout EU is in Italy, where 95% of all businesses have a family character. Considering a family-owned business in EU, these businesses can't be categorized only as small or medium undertakings. Among the family businesses there are to be found those, which are included in the category of big companies, namely those which employ more than 500 employees. (Odehnalová 2011)

The only statistical figure in the field of family business in the Czech Republic is the one from 2007, which indicates 937 thousand business entities including 786,2 thousand persons. More than half of the businessmen, including cooperating family members, mentioned in the statistics operate in the field of services. The deficit of statistical information concerning family businesses in the Czech Republic is evidently caused by the fact that there isn't any exact demarcation of the term "Family business". (Rodinné firmy)

3.1 Family-owned Businesses as a Source of Regional Development

Hesková (2008) states that family businesses can be beneficial for the regions of the Czech Republic, especially for their pro-growth strategy based on diversified regional development in particular areas. Influence of family businesses in regions can be tremendous, especially in some fields such as:

Utilization of the natural and cultural potential

Family-owned businesses can play a part in this field by participation in revitalization of regional traditions and their utilization as a source of economic growth. This could inclusive segments such as: tourism or economization of the cultural heritage.

Source of Innovations

As most of the Family businesses in Czech Republic are represented by small or middle-sized companies and these types of businesses are considered as the most flexible ones, they can relatively easily use a development potential of a given region by placing on the market new innovations with a potential economic impact for the whole region.

Utilization of Comparative Advantages

Strong motivation of family members involved in their common business and their strategic planning aimed at long-term prosperity may indicate the biggest advantage of such a business.

Differentiated Development of Human Resources

Considering a family business development, it really has an importance in organizing a network of consulting services, special education courses focused on support of family-owned businesses based on knowledge from abroad. This development could be beneficial for local citizens and could really help them in gaining special knowledge or even bigger involvement in developing projects.

International and Interregional Cooperation

There is an opportunity to cooperate with neighbouring states or regions.

Growth of Social Cohesion

Family businesses with their specific character can help in reaching a high level of social cohesion of subjects, based on economic and civic participation of certain groups of people and their identification with a given area. This could be done for example by sponsoring or participation in organizing some cultural or sport events.

Stabilization of the residential structure in regions and revitalization of countryside

Regional family-owned businesses have no tendency to migration so they can have profit from the development of rural areas and their stabilization. Families owning their business in some particular region have, of course, an interest and motivation to participate in prestigious development of their region and appreciation of the landscape potential.

There could be a big development potential in rural areas which are out of the development axis and in peripheral regions and other areas with low economic performance.

Family businesses can have significant involvement in the solution process of specific problems including rural and peripheral areas of development. These should be determined by concrete missions:

- Rural areas and peripheral regions to be revitalized, including rehabilitation of rural housing.
- Development of multifunctional agriculture and support of its non-productive functions.
- Support of diversification in economical activities in the countryside and peripheral territorial region. This should include for example development of organic-farms, landscape and locality maintenance, development of centres for agrotourism etc..
- Trade undertaking support in rural areas especially those providing services to public.
- Support of small and middle-sized enterprises in rural areas, support of traditional crafts recovery and production fields.

Businesses oriented on these points could be also supported by adequate grant programs. (Hesková 2008)

4 Czech Family Businesses in Course of History

From a historical perspective, the family businesses set up the basics for business itself. This type of businesses has been going along society for a very long time and it is still significant part of economy. (Hesková 2008)

Family business tradition in Czech Republic is as old as the republic itself. This kind of business, as well as other businesses, experienced a big growth after the Velvet Revolution which meant the fall of the communist regime, which was strictly against all activities concerning any kind of undertaking. So the development of undertaking was highly influenced by the political development in the country. On the other hand, if we look back in history, we will find out that this kind of business was relatively developed, especially in field of small crafts. These trades were usually inherited from father to son. (Koráb 2008)

According to Odehnalová (2011), the first type of such a business, could be considered activities of nobles. Family members of these aristocratic families owned the soil and land. For taking care of these properties, they hired subjects.

The main problem of these nobles was that they were bad in management which led to huge losses. They rarely reinvested the profit they made from the farming back to the business so most of the families ended up in big debts.

Later, people started establishing guilds. These guilds could be found in big cities first, but then they spread to smaller ones as well. The guilds were represented by a community of craftsmen who worked within the same field. Their mission was protection of their field of activity. They watched over the prices and also tried to regulate the amount of products and experts in the field. The craft was thus inherited from father to son. (Odehnalová 2011)

4.1 The Industrial revolution

The Industrial Revolution took place between 20's and 70's of 19th Century. This revolution meant a transition from manufacturing to factory production. Family manufactories founded by a father transformed to factory productions which were later taken over by posterity. Preservation of family property was supported by the economical background of that time and also the conception of a family. The basis of the families of those days was their property. After the founder's death, the oldest son usually inherited the whole family property. This inheritor had to take care of the whole family fortune and also

of the family members. That consisted in not only supporting them, but also in providing for their education. This had changed by the end of the 19th Century, because of growing liberalization in the sociological conception of a family. With regard to the Civil Code which equalized siblings in the inheritance procedure, properties like factories started to be divided into smaller entities. As industry and competition were growing and many family-owned businesses lacked capital, banks became more and more involved. Later, most of the family-owned businesses were transformed into joint stock companies. Nevertheless the families usually kept a major share. (Odehnalová 2011)

4.2 World War I

Four years before World War I, the ratio between light and heavy industry was approximately 70:30. But before the beginning of the war, heavy industry started to experience a dynamic growth. This was a result of militarization of industry. (Odehnalová 2011)

4.3 The First Republic

After World War I, the situation in Czechoslovakian industry was very chaotic and there was also a huge decline of heavy industry connected with demilitarization of industry. This whole situation improved by the year 1921 when the Czechoslovakian government applied a series of reforms involving financial, social and land sectors. The return of soldiers to firms procurement of domestic and imported raw materials, and restoration of rail transport also contributed to remedy of the situation. (Odehnalová 2011)

The Czechoslovakian economy became modern, open and strongly oriented on export. Export was mainly oriented towards products of the light industry such as textiles, clothes, shoes and later also groceries, fuels and glass. (Hanzelková 2004)

A very significant role of former times was played by the workforce. Apprenticeships were at a high level, providing high-quality crafts education, which were of high repute. Craftsmen than tended to set up their own small family businesses. (Odehnalová 2011)

4.4 World War II

About the beginning of the World War II, militarization of industry came into the game again. It meant that light industry was pushed down like in the case of World War I. On the

other hand since the German Empire aimed at heavy industry, the Protectorate's light industry gained a relatively strong position. Particular fields, which could be highlighted are the sugar industry, leather industry, brewing and glassblowing. (Odehanlová 2011)

4.5 Post-war period

After the World War II, Czechoslovakia became a part of the eastern bloc countries. The democratic regime was completely destroyed and the growing private sector was completely nationalized. Firms were taken from their original owners and transformed into state property. The open market economy was replaced by a centrally planned economy, which was planned for five-year period (so called "pětiletka"). This plan ordered what products and how many of them should factories produce. Prices and allocation of sources were controlled centrally. There were no market principles. The direction of trading also changed and the country switched its orientation from the west to the east. This period of nationalization brought difficult times for most of the family business owners. They experienced both economical and personal tragedies. The families didn't lose only their firms and means of livelihood, but in many cases they also lost the tradition on which they had been working for a years or even generations. For those who didn't fit into the communist regime, this tragedy was also often magnified by persecution and imprisonment. This did not change until the Velvet Revolution. (Hesková 2008)

4.6 The Velvet Revolution

This revolution of November 1989 which re-established traditional democratic systems in Czechoslovakia brought many political, social and economical changes. The most significant event for former family business owners was the process of restitution and privatization. This process enabled owners to regain their family businesses into their ownership. (Hanzelková 2004)

The joy of families who regained their firms back turned into disappointment quite soon. The firm already wasn't the same like it was at the time of nationalization. Inasmuch as during 45 years of communism regime there was no money invested in new technologies, the families very often found their firms in a very obsolescent state and its original production programmes were divided throughout the whole country into various national firms. The families found themselves in hard financial situations and also high

indebtedness was very common matter. Very significant thing that the families had to deal with was lack of appropriate education which could have helped them in managing their business. Also the economical and political environment which was a result of the current economical transformation process made this whole situation even more difficult.

(Hesková 2008)

4.6.1 Main Problems Influencing Former Family Businesses

Hesková(2008) claims that the problems of the economy of those days which highly influenced a family business could be divided into three categories:

- **Macroeconomic-** these were closely connected to inflation which was the cause that real wages were growing much faster than labour productivity. Also another problem like the foreign trade deficit appeared because the market had changed its orientation from the east back to the west and export aimed at the east bloc countries had declined significantly. Another problem was big unemployment which was caused by bankruptcy of many state-owned companies.
- **Microeconomic-** in this case a criminality, which showed up as a result of an insufficient legal system played a major role. But there were also other problems. State administration was well-known for its bureaucracy and tax system didn't provide any favourable conditions for small and medium-sized companies. In addition, competition had a growing character because of big changes in the industry structure.
- **Specific problems-** these problems were closely connected to conditions in given industry, company history, size of a company and others. After the Velvet Revolution, the morality of employees was on very low level. This was caused mainly by decades of state supervision. Despite relatively low labour and production expenses, the companies were not able to compete at world trade levels because of old technologies and equipment, which were given back to them in the restitution process. Lack of financial means and professional knowledge made the process of modernization very difficult. Problems in the management sector were also common. Strategic planning, management, marketing and wholesaling issues of companies were often neglected. Many companies weren't able to adapt to western markets. Access to information was difficult as well as the research aimed

at business was insufficient. Another problem was that many companies didn't manage to react to fast changing legal and tax conditions. (Hesková 2008)

5 FAMILY BUSINESS – SPECIAL BUSINESS

5.1 Values and Culture

The role of family values and culture is a very significant factor in a family business. A rich value system and stable culture is considered as one of the differences between family and non-family business. (Hanzelková 2008)

5.1.1 Values

Family values are represented by a family's fundamental values, ambitions, beliefs and these determine how the family works. Values, ambitions and beliefs are very important for a company culture and strongly influence its business practices. By translating these family values into core values, a family gets a moral compass for its business activity.

(Pricewaterhouse Coopers)

Values and business practices are also bases for family vision and business mission. Although it is usually the founder who states the mission for his or her business, the succeeding generation habitually follows all these values. On the other hand, sometimes it is necessary for the successor generation to reinterpret or revitalise the original values. (Leach 2011)

5.1.2 Culture

Culture could be understood as the sum of all the messages, which a company sends out. These messages could be formal or informal. They are represented by company values and behaviour. (Pricewaterhouse Coopers)

Hesková (2008) claims that behaviour of the company members is determined by various aspects like: human nature, relationships among people within the company, business environment etc. There are four main types of company culture: paternalistic, liberal, participatory and professional.

Paternalistic Culture

Main characteristic of this culture is the effort to maintain family tradition. A company is represented by its founder and those family members who are responsible for key decisions. Leadership of such a company hardly accepts opinions of non-family employees. Head of the family has a tendency to interfere in the lives of his family members.

If the head of the family has predispositions to lead the business progressively and effectively, he or she is usually supported by other family members. This type of culture is considered as a positive one.

On the other hand this culture has also a certain negative aspect, because of its strong orientation on the head of the family. This could cause serious problems when the founder falls sick or dies. Another thing is the process of preparation for succession which is very slow. This type of culture is characterized especially by small family-owned business situated in stable regions.

Liberal Culture

The liberal culture has certain similar characteristics as the paternalistic one, but it has a certain extent of freedom. Employees are allowed to make some decisions considering actual business issues and also have an opportunity to show their own creativity. This is very positive in comparison to paternalistic culture.

This culture requires an enterprising approach and flexibility. The negative aspect can show up when the employees do not follow the founder's vision and values. As a result of such behaviour, the founder can change his or her succession policy.

Participatory Culture

This culture is based on equality and position of particular groups. Employees play a relatively big role in business activities. This could be a cause that employees gain stronger position in the business than the founding family which lose its control over the business activities.

As this culture has its roots in collective decision-making, it places a high demand on collective consensus and time.

It should be said that this type of culture is not very common in family businesses and when it appears, it is only for short time.

Professional Culture

Professional culture is based on the personality of management staff. This has a big impact on relationships among employees which become very individual. Working relationships are based on personal development with elements of competition. Employees are encouraged and motivated for more effective work, loyalty and flexibility.

Unsound competition among employees and low morale is considered as a negative factor in this culture. (Hesková 2008)

5.2 Role of the Family

In contrast with non-family businesses, in family-owned businesses, the role of the founding family is very essential and has a huge influence on business policy. Individual family members can gain their influence so that they play a part in its management and in all company' activities. Many family members are permanently on the edge between family issues based on feelings and business issues which are based more on rational thinking. When it comes to stress situation, in contrast with non-family business, family members often tend to behave more emotionally to each other and this could be very dangerous for rational decision-making in a family business. Overlapping of various roles is in family-owned business much more frequent than in other types of entrepreneurship.

On the top of the hierarchy, there must be one person playing four roles: main supervisory authority, business leader, owner or companion and head of the family. Each of these roles requires individual approach, which is in contrast with the rest. For instance: Owner's or companion's interest in the highest possible profit doesn't coincide with business leader's interest in increasing company' equity.

There could also appear other problems, those on an emotional level. For instance: When the head of the family has to say to his son, that he doesn't fit a management position, when considering that the position had been promised to him in the past. (Koráb 2008)

Considering all the aspects of family business there is no doubt that the family plays an essential role in such companies.

5.2.1 The F-PEC Scale of Family Influence

The F-PEC scale is a tool for measuring family influence on family business. This scale operates with three main factors- power, experience and culture. The strength of all these factors then shows the extent of family involvement in the company. (Odehanlová 2011)

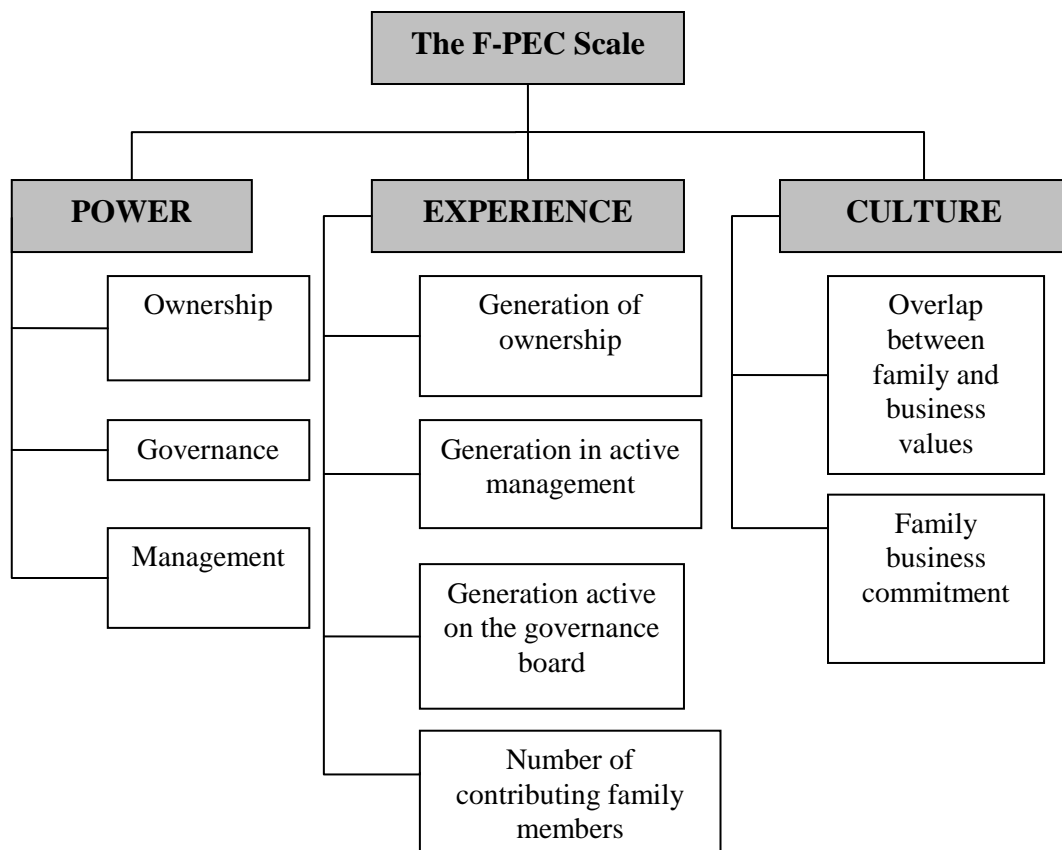


Figure n.2 The F-PEC Scale 1(Hanzelková, 2004).

POWER measures the family influence via its extent of participation in ownership, governance and management.

EXPERIENCE shows how many successions were done in past. Number of successions has also an impact on family and business values.

CULTURE indicates how the family and business values overlap with family commitment to the company. (Hanzelková 2004)

5.3 Succession

Next to the business's creation and growth, succession represents another crucial phase in family business's lifecycle. However because of the strong influence of the family, this process is often very emotional. (Mojca Duh 2012)

A generational exchange of the key person in the company, who is usually also an executive manager, can often endanger the strength and stability of the company. In

addition to that, when the company is prosperous, the family members tend to be very insecure about the succession. It is thus obvious that succession planning requires long preparation. (Pfeifer 2011)

Choice of the new successor usually represents selection between the founder's sons or daughters. These siblings, of course, have been carrying their ambition of succeeding their whole career- that is what makes the founder's choice even harder. In addition to that, the founders are often worried about their children's ability and also about the manner of choosing one of them without hurting the others. It should be said that family business succession is not only about passing the firm to the younger generation. It is also a certain kind of revolution in the company with respect to the fact that the new successor usually partly reconstructs the business culture and values. He or she may also bring new ideas about farther development of the company, business policy, staff, loyalties etc. (Leach 2011)

6 FAMILY BUSINESS MANAGEMENT

6.1 Strategic Management of Family business

Hesková (2008) stays that standard principles of strategic management theory are applied for family-business management. A family-owned business must have a clear given strategy, based on a realistically set of goals. Owners of the firm more or less participate in the whole process of strategic management from the proposal to its realization. In family-owned businesses, whose shares are traded on the stock exchange, the owners promote their interest indirectly while in companies owned only privately, the strategic management process is done directly by the owner.

Family influence and its values represent (in contrast with non-family business) a very significant influence and importance for a family business. (Hesková 2008)

Close connection between management and ownership brings also other difficulties which may cause discords among family members. For example: When the influence of one family member is bigger than influence of others, if there are no given competences borders of individual family members or if there is no succession plan yet. Application of suitable strategic management thus may contribute to risk reduction. It is very essential for family-owned businesses to harmonize needs of the individual family members and needs of the business.

For this purpose, there were created some basic rules for effective management of such business which should be considered:

- Definition of family business vision
- Definition of principles for family-owned business management (decision making, staff policy, ethic code etc.)
- Definition of responsibility of individual members y
- Definition of roles and tasks individual family members
- Establishment of supervisory authorities, their structure and responsibility
- Establishment of company's governance, its structure and responsibility
- Method of profit determination and its distribution
- Options of ownership share transfer and the way of leaving the ownership structure
- Method of ownership share evaluating during its transfer
- Unanimous and written approval of family business management rules

- Succession plan (Bláha)

6.1.1 Competence Distribution of Family Members in Management Process

Hesková (2008) stays that as there is a joint responsibility among family members in family business management, its goals and tasks differ from non-family ones.

For development of family business strategy there was created a three-level pattern of family business development.

On the first development level the family and business needs are identical. The owner acts like a manager and makes all decisions. So it is obvious that there is no distribution of competence.

On the second development level, the family business owner (founder) plays the role of supervisor. In this case, company goals change. In addition to the primary business goals it is becoming necessary to start thinking about future of siblings-create a succession plan.

On the third development level conflicts and critical situation start to appears. Entrepreneurship can stagnate despite innovation need to seek new business opportunities. Owner (often still a manager) has to face a new situation and make the first steps for succession. The goal of this phase is to keep the family in harmony (this could became a priority for the family business). Objectives of the family entrepreneurship are usually set up according to family needs or desire to reach effective economy performance.

A very important factor is early reaction to possible changes within the family business at all levels of its life. (Hesková 2008)

6.2 Organization of Family Business Management

According to Koráb (2008), there are four family participation forms in business management:

- Management by owners
- Management by family
- Management of owner/ family with participation of external managers
- Management only by external managers (separation of capital and management)

6.3 Management by owners

In this type of management, appropriate leadership positions belong exclusively to one or more owners. In other words, all leading positions in family-owned company are controlled by owners. However there is also a need to separate those situations, when the company is

owned by one person or more persons. If the company has more owners, the management is proportionally divided among them.

6.3.1 Family Business Run by Single Owner

If the given firm has only one owner, its management could be called as “autocratic management”. In practice, there may be a single companion and secretary of some limited company in one person, a general partner in limited partnership in which he or she owns a major share, or just a single entrepreneur.

To determine the advantages and disadvantages of such management is almost impossible, because they depend on particular examples.

Most of businessmen do not tend to delegate powers. This approach may eliminate possible struggles about important decision-making but on the other hand it creates an authoritative structure, which is considered as inappropriate when it comes to complex decision-making.

Character, knowledge, education, experience and intuition are essential factors influencing success or failure of this type of management.

6.3.2 Family Business Run by Multiple Owners

If the company is run by more than one owner, than we talk about partnership management. In this type of management, owners and managers are represented by the same group. The border between manager and ownership interest should not be crossed. This possible overlap between management and ownership interest may cause serious troubles for family-owned companies. As a big overlap could such a situation be considered when all owners are in leading positions and each of them having a different vision, strategy and wishes.

An organization of partners in business management could be a possible solution in avoiding these struggles among partners.

6.4 Management by Family

This type represents such management in which two or more members of given family participate in top management regardless of their ownership. It could be for example a company which is owned only by the father of the family but his two sons participate in top management. On the other hand if those two sons had a share in the company, it would represent a combination of management by family and partnership management.

6.4.1 Sibling Management

This type of management is represented by siblings managing the family business together. The fact that they have been growing up together can result in problems considering sibling rivalry and mutual conflicts among siblings. When entering into the family business management, relationships among them get into a different level. These relationships have crucial impact on the company's employees and whole company.

After the transition to ownership, siblings are dependent on mutual respect and understanding (as there is no father to settle the struggles).

6.4.2 Management with Contribution of Sons-in-law and Daughters-in-law

This type of management may work normally when the sons-in-law or daughters-in-law accept all family traditions, values and culture. In another case this involvement could mean difficulties. In other words these sons-in-law or daughters-in-law would be acting only to fulfil their own needs regardless the family.

Basics for decision-making competence of these family members must be their professional knowledge, abilities and skills. They usually have also to prove all these skills much more than former family members, since there is no assumption that they will be privileged.

6.4.3 Management by "clans"

This type of management is seen just rarely. It is probably caused by the fact that such big families exist only in a very small number. This management includes a huge participation of family members, even distant ones (uncles, nephews, cousins etc.).

Assumption for this management is a big family with a sufficient number of family members for choosing suitable management candidates. Appropriate education, skills and will to work are also important aspects.

A potential non-family job applicant has to deal with the fact that his or her career growth will be limited by the fact that he or she does not belong to family. (Koráb 2008)

II. ANALYSIS

7 RESEARCH

Every Family business is unique and differs in many aspects such as size, structure, branch, ownership, length of existence etc.. But the most important aspect is definitely the family influence on business and vice versa.

My research is focused on three Czech family businesses, each of these companies operates in a different business branch. All these businesses fit to SMALL and MEDIUM ENTERPRISE category.

Because of the uniqueness and complexity of family businesses, the research was done through questionnaire with open questions in order to cover all aspect in more detail. In two cases the questions were posed directly to the heads of the family who were also heads of the company. In the third case the questions were posed to one of the successors who recently (together with his siblings) inherited the business.

The research also includes general information about the companies, their history/background, business branch, structure of management and ownership, values, company culture, relations, future plans and approach to regional development.

The questionnaire does not provide any possibility of covering the issues in more detail.

The questionnaire includes:

- What values does your company represent?
- What do you consider as the main advantages and disadvantages of a family-owned business?
- In your company do you have clearly divided competence of individual family members (do they sometimes exceed their competence)?
- Do you deal with business issues at home?
- Do family issues influence the business?
- Have you clearly indicated the border between company's property and family's property?
- What importance do you attach to passing on the company to your siblings?
- Are you satisfied with governmental support?
- Is regional development important for your company?
- Do you contribute in any way to regional development?

- What are your future plans for the company?
- Does a lack of respect sometimes appear among the family members when dealing with business issues?

7.1 Restaurace U Staňků

The business branch of this company is hospitality. The “Restaurace U Staňků” is located in a city district of Zlín, Kostelec. It is situated next to a park, health resort and bicycle path. Another advantage of its location is nearby ZOO Lešná.

The restaurant was built in the 19th Century and serves exclusively guests of the neighbouring spa. In the nineties the restaurant was bought by Staněk's wife and husband, who developed small restaurant into a big and prosperous one.

Today, the restaurant is a very prosperous and renowned enterprise, and has also become a well-known place for organizing weddings and celebrations.

In the spring of 2013 the Staněk family opened a small sweet-shop next to their restaurant.

7.1.1 Structure of Business

At the end of 2012 the founders, Marie and Josef Staněk, decided to pass the business to their two sons Peter (interviewee) and Michal and their daughter Ivona. Since that time, each sibling owns one third of the business. Peter and Michal play the roles of operating managers and each of them manage a different part of business. Peter manages all issues concerning the kitchen and Michal's responsibility is to care about restaurant. In addition Peter works in the restaurant as a chef and his brother as a waiter. When organizing weddings and celebrations, the brothers cooperate. Their younger sister Ivona is on maternity leave so she hasn't participated in the business yet. Peter's and Michal's wife works as waitresses. There are also two non-family employees: a cleaning woman and cook. The business is run through an association of entrepreneurs.

7.1.2 Results Processing

Peter claims, that the company recognizes values concerning mainly customer's satisfaction, maintaining the good name of the family and tradition. Since the father's retirement the company culture changes from paternalistic to liberal.

As an advantage of family business the owner designates the trust among the siblings which makes their work easier, because they don't have to worry that somebody steals

from them, so they don't have to do inventory-taking often. A disadvantage is that the family members are together all the time which irritates them from time to time.

Although competence among family members is given, Peter admits that sometimes a little interference to competence shows up. But he adds that this is nothing serious for them.

From time to time struggles among family members have a negative impact on their business. He sees the biggest problem in communication after some argument, because this business requires a lot of communication every day especially when preparing a wedding or celebration. They also deal with business issues at home.

The property of the family and property of the company is strictly divided as the founder taught them.

Considering the time, money and effort, which Peter and his family invested to their business during the last 20 years, he could not imagine the company belonging to someone else. It is very important for him and his family to pass on the business to the younger generation.

As to governmental support, Peter is quiet satisfied, because recently he managed to gain some grant for a new parking-lot. On the other hand the process was very long a full of paperwork and bureaucracy. However the grant was approved rather because of the branch of business than the type of business.

A crucial aspect for the Staněk' family entrepreneurship is regional development. The greatest benefit for this business was the building of a cycling-path which leads right around the restaurant and sweet-shop. Also people, who pass their business when driving to the nearby ZOO, often stop to have some food or ice cream. So Peter is very glad that this ZOO is a very popular place to visit and the city contributes to its budget on order to keep its development in process. Also the revitalization of the adjacent spa is in process so he sees new possible clients for the future when the spa opens. The Staněk' family also contributes to this regional development by increasing of social cohesion. The family organise through its business various events for the local community such as carnivals, Halloween parties, Children's Day etc. Peter is also a member of the local council.

As the main plan for the future he designates a renovation of equipment and of the whole building. He also plans to hire five non-family employees, but not for any management positions.

7.2 Navláčil Stavební Firma s.r.o

Navláčil Building CO. Ltd. does its business in the field of construction. The company is mainly oriented on realization of buildings or their reconstructions. The firm has also rich experience with realization of all kinds of building, from family houses to factories, warehouses, office buildings and biogas stations. The firm offers its customers a complex range of services for realization of buildings including entire groundwork and a guarantee service in connection with regular quality inspection. It usually plays the role of general contractor in the course of entire realization. (Navláčil)

The beginning of the company is dated to 1992 when Martin Navláčil, after long experience in the field, started his business as an individual.

In 1996 the company transformed to a limited company by the entry of new partners, Mr. Navláčil's wife Jaroslava and his two sons Jakub and Pavel. Mr. Navláčil and his wife own 60% and each of the sons 20%. The third son Martin Jr. has no formal share of the ownership yet.

During its life, the company has been awarded many awards (Building Company of the Year 2011, Vodafone Company of the Year- 2nd place etc.).

7.2.1 Structure of Business

The company gained its new form in 1996. It was necessary to determine the positions of the individual family members. Its founder became the director, son Pavel manger of logistics, son Jakub manager of the technical department and the youngest son Martin became a manager of the sales division. Jaroslava Navláčilová doesn't participate in business management at all. Company management also includes two non-family members, manager of the production department and manager of the economic and human resources division.

In addition to these managers, the company employs another 130 people including a construction manager, construction technicians, masons, plasterers, tinsmiths, construction workers, machinists and drivers. Average age of the company employees is 38 years and average length of employment is about 5 years.

In order to improve employee care, the company applied British Standard Investor in People.

7.2.2 Results processing

Mr. Navláčil states that values represented by the company rest on tradition, family' name, the good relationships between the company and customers, quality and mainly customers' satisfaction. He also describes the firm's culture as a liberal one, but in the past it has some paternalistic characteristics.

According to the founder, the main advantage of running a family business is trust among family members, enthusiasm to work in the company's development and family member's effort to keep the good name of the family. On the other hand, the biggest disadvantage he sees in the communication among family members, which is sometimes a problem because of the family members' stubbornness. Simply said, sometimes they are just not able to come to an agreement. He also see lack of respect among siblings but never towards him.

Mr. Navláčil also claims that the competence division is very important to running his family business, especially because of its size and huge amount of job duties, so top managers do not intrude into each other's responsibilities.

As there are so many duties connected to this business branch, the family members have to deal with business issues practically every day. The founder's wife does not have any problem with it because she knows how difficult and time consuming this business is, but he also adds that his sons' wives, who are not involved in their business have a big problem with it. This is also the main source of problems and arguments in the family. On the other hand he states that these struggles in family have no influence on the business and all business issues are resolved rationally without emotions.

The border between family's and company' property Mr Navláčil marks as matter of course regarding legal form of his company.

As to the succession planning he says, that this planning is already in process and he attaches a huge importance to this. The founder claims that he set up the company mainly for the purpose of long term family support which should continue for a generation. He also adds that he won't change his opinion on this under any circumstances.

Considering the governmental support, Mr. Navláčil doesn't see any.

Regional development is a very important issue for the company. The director's opinion is that bigger development means more business opportunities for the company and it also brings a better future for his children.

That is also a reason why the company invests millions of Czech crowns in this regional development and organises meeting with councils in various cities and villages in which the company operates. Every year the firm also organizes a workshop aimed at environmental protection.

The company also supports these organizations and activities:

- Earth Day
- MaJa- Summer camp for children
- Aerobic competition in Tlumačov
- Football club in Nevšová
- Nezbeda- magazine for children
- RR49- students organization in Zlín

As the main plans for the future, Mr. Navláčil designates: maintain the competitiveness, constant company's development and to maintain the production process.

7.3 Hanák Nářadí s.r.o

Hanák Nářadí Ltd. is a company which trades hardware, professional tools, work clothing and tools for engineering. Its founder, Petr Hanák started his business in 1990 as an individual with five employees. By the year 1995 he transferred the form of his business to a limited company, involved his wife in ownership and employed his daughter and son-in-law. In the same year he also built a new headquarter for his company and hire 8 new employees including two for management positions. Nowadays, Hanák Nářadí Co. Ltd.. is a relatively prosperous company which employs 35 people.

The company also trades with foreign countries, especially Germany and Austria.

7.3.1 Structure of Business

Its owner Petr Hanák holds the position of company's director. His wife doesn't have any defined position, but she usually deals with administration work. The founder's daughter works in the company as a wage accountant. His son-in-law who is also supposed to be a successor of this business works as vice-director. As the owner's family members didn't have necessary knowledge and language skills, which this company requires, Mr. Hanák hired two non-family managers. One deals with trade within the Czech Republic and the

other deals with trades with foreign countries. The rest of the employees comprised mainly salesmen and sales representatives.

7.3.2 Results Processing

Values to which the founder attaches big importance are mainly: customers' satisfaction, competitiveness, good relationships with customers and suppliers. Company's culture is liberal, but sometime some characteristics of participative culture show up. This is probably because of the fact that half of the management in the whole company is composed of non-family managers.

According to Mr. Hanák the biggest advantage of family business is trust among family members and the feeling that every success of the company is also success of the family. On the other hand he adds that as the whole family is financially dependent on one business, possible failure of the company could have a destructive impact on family capital. Individual family members' business competences are clearly divided, but the owner admits that at the beginning of his entrepreneurship, the overlapping of competences were quite often.

Although the family members try to avoid dealing with business at home, they often do, especially when they don't manage to meet each other in the company. According to the owner, family issues do not influence the business at all and family members respect each other.

Mr. Hanák also says, that family's and company's property is strictly separated. Firstly, the owner wanted to sell the company after his retirement, because there was no competent successor, but when his daughter got married he found the successor in his son-in-law. He also adds that he is very glad that the company will remain in the hands of his family.

The owner assumes that the governmental is inefficient.

Peter Hanák claims, that although the regional development is not very important for the company itself, he personally feels a need to be part of this development and also contributes to it. For this reason he contributes to development of the region by sponsoring of the local school, sports activities and other events.

Company's plans for the future are clear according Mr. Hanák: to keep its position on the market, to keep business relationships with foreign countries and maintain stable development of the company.

7.4 Research Summary

My research has dealt with three Czech family-owned companies. These companies differ in their branch, size and structure.

It has turned out that family business really is a specific kind of business. The biggest difference between family and non-family business is obviously the involvement of the family which has a crucial impact on whole family-owned entrepreneurship. A very specific feature of family business is that the name of a particular family is usually reflected in the name of a particular company. This specificity also plays a role of a strong motivation factor, since my research showed that family members really care about keeping the good reputation of the family name.

Although such type of entrepreneurship is much more influenced by emotions and family cohesion than the non-family one, Mr. Hanák's company proved that the head of the family is sometimes able to prioritize non-family employees in top management positions before less competent family ones. This has definitely a good impact on business, but could cause problems in the family. On the other hand, family members in management positions in the rest of companies fulfil all the required skills and experience.

All three companies have very similar values including mainly customer's satisfaction, good family' name and tradition. All the companies are represented by a liberal culture but, all of them, in their early days, showed elements of other cultures, which were eliminated with further company development.

Owners of all companies consider trust among family members as the biggest advantage of such a business. Disadvantages are individual.

Competences among family members are in all three companies clearly divided, but two companies admit small overlapping.

Every researched families deal with business issues in their personal life, but only the Staněk's say that family issues influence their business through bad communication after some arguments.

Family' and company property is clearly separated in all three cases.

As to the succession, it turned out that all founders are keen on passing on the business to the younger generation and they all want their company to become a source of family support.

Considering governmental support none of the entrepreneurs see sufficient support of family businesses.

Important issue for all researched companies is regional development, to which all companies contribute. For the Staněk' family it is a crucial factor, for Navláčil it is not that crucial but still very important. Mr. Hanák doesn't consider this regional development as very important for his business, but rather for him and his need to contribute to the region. All the companies have different plans for the future but maintenance of tradition and company's development could be considered as common goals for all three companies.

An interesting fact is that except for these three named companies, three other companies asked to take part in my research, refused to talk about the connection between their family and their business, probably in order to protect their privacy.

CONCLUSION

Family business represents a specific kind of business that comprises of many characteristic features. These companies usually represent a set of highly regarded culture and values. There are two systems in the family business, which overlap: family and business. The connection of these two systems creates a unique competitive advantage in comparison to non-family ones. Family members' motivation to work on the development of the company, which carries the same name as the family, is remarkable. The relationships within a family play crucial role in a family business management, while a family culture also provides the foundation for the company culture.

The theoretical part described a family business with all the unique characteristic features, which are typical for this form of entrepreneurship. As no official definition concerning family business has been carried out, this theoretical part provided three possible definitions, which characterise this kind of business from various points of view. The rest of the theoretical part described the interconnection between family and business considering its impact on management of such companies.

The analytical part represented an exploration of three Czech family businesses. In order to provide wide coverage, the enquiry was done by a questionnaire with open questions without answer possibilities. The research was focused mainly on family and business relations, company values, company culture, succession and attitude towards regional development.

The analytical part proved that family really plays a significant role in a business, especially in its early days. It also showed that the owners of family businesses keen on their values and tradition, which motivate them to pass on a business to younger generation instead of selling it. Czech family companies showed their ability to separate a property of a family and property of a company but they also showed their disability to separate their privacy and business. All researched companies represent positive attitude towards contribution in regional development, but they also feel that there is insufficient support from the government for them.

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APENDICES

P I: questionnaire

APPENDIX P I: QUESTIONNAIRE

Historie firmy-

Právní forma podniku-

Obor podnikání-

Struktura (počet rodinných příslušníků/zaměstnanců a jejich funkce, počet nerodinných zaměstnanců)-

- 1) Jaké hodnoty firma zastává? (tradice, kvalita prosperita, zisk...)
- 2) Jaké jsou podle Vás výhody a nevýhody rodinného podnikání?
- 3) Máte ve Vašem podniku jasně rozděleny kompetence týkající se rozhodování a řízení mezi jednotlivé členy rodiny? (překračují někdy rodinní příslušníci hranice svých kompetencí)
- 4) Řešíte obchodní záležitosti i v soukromí?
- 5) Ovlivňují rodinné problémy chod firmy?
- 6) Máte pevně nastavenou hranici toho kde je majetek firmy a kde majetek rodiny?
- 7) Je pro Vás důležité, aby firma dále zůstala v rukou rodiny? Jak je pro Vás důležitá otázka dědictví?
- 8) Jste spokojeni s legislativou týkající se rodinných firem?
- 9) Je pro Vaši firmu důležitý regionální rozvoj?
- 10) Podílíte se nějak na regionálním rozvoji? (sponzoring, pořádání akcí)
- 11) Jaké jsou Vaše plány pro podnik do budoucna?
- 11) Projevuje se někdy mezi rodinnými příslušníky při řešení obchodních záležitostí nedostatek respektu?