Advantages and Disadvantages of Family Entrepreneurship and How to Prevent Distress: Evidence from the Czech Republic

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***Abstract*—**The relationship between family control and financial performance of firms has been subject to numerous studies in the past literature. However, the academic literature has been particularly silent on family business issues in the countries of the former Eastern Bloc in Europe. This study aims to fill the gap in the past quantitative research focused on Czech family business firms and reflects the need for reasons explaining the differences between family and non-family firms. Based on a review of literature and semi-structured interviews with family firm founders and employees, we summarize the main advantages and disadvantages of family control over firms in the Czech Republic and propose measures to prevent failure of family firms including succession issues. We also identified multiple gaps in contemporary family business research.

***Keywords*—**Family business, advantages, disadvantages, succession, interviews, Czech Republic

I. Introduction

Family firms, their particularities and differences from non-family businesses have received considerable academic attention especially in the last three decades. According to various estimates, they represent a major part of economies in developed as well as developing countries. Family business research has been focused on family business definition, performance gaps between family and non-family firms, but also on social and psychological aspects of family firms. However, the academic literature has been particularly silent on family business issues in the countries of the former Eastern Bloc in Europe (Czech Republic, Slovakia, Poland, Hungary, among others).

Several quantitative studies have already been carried out, finding differences between family and non-family firms. However, it is also necessary to ask the "why" and "how" questions. Such kind of empirical investigation requires adopting a qualitative approach.

This article is based on semi-structures interviews with family firm founders and employees, including the family and non-family ones. The research questions we ask are: What are the main advantages and disadvantages of family control over a firm? What measures can be proposed to avoid distress of family firms? At what are the main challenges for future research?

The article is organized in the following manner: first, a review of related literature is carried out. Then, we introduce the methods we use to explore the above-mentioned research questions. Subsequently, a discussion is presented to explain the major findings and provide concluding remarks.

II. Literature Review

The importance of family business as an academic discipline is due to the high number of family firms, which account for a major share of economies around the world [1]. The literature review presented in this article is focused on the following topics: the definition of family firms, differences between family and non-family firms, and current empirical findings on family firms in the Czech Republic.

A. Definition of Family Firms

A whole lot of possible definitions can be found in the past literature. They can be divided into "essence" and "involvement" criteria [2].

The "essence" approach includes the "intention for succession", self-identification as a family business, or behavioural aspects ("familiness") as distinguishing factors of family firms ([3]; [4]) .Obviously, it is quite difficult to treat such definitions in a quantitative manner. Perhaps this is one of the reasons that the other class of definitions, "involvement criteria", are prevailing in the academic literature [2]. Such criteria deal with the involvement of family in different areas of control over a company.

Despite the fact that there is no consensus on what defines a family firm, almost all "involvement" criteria include three dimensions of family control [2]:

1. one or several families hold a significant part of the share capital;
2. family members retain significant control over the company, which depends on the distribution of capital and voting rights among nonfamily shareholders, with possible statutory or legal restrictions;
3. family members hold top management and/or supervisory

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board positions.

The debate on whether "involvement" criteria are sufficient or they should be accompanied by "essence" criteria is still open and will deserve academic attention in the future. It should also be noted that neither the "essence" nor the "involvement" define what actually constitutes a family. It is still not clear whether the family includes the nuclear family, extended family or segment of the extended family. In Table 1, we present the overview of De Massis et al. [2] of recurring criteria used to define a family business in past studies (until 2012). Obviously, the "involvement" criteria have been by far more prevalent than other criteria.

Table 1: Criteria used to define a family business

Definitional criterion	**Frequency (%)**
Ownership	79%
Management	53%
Directorship	28%
Self-identification	15%
Multiple generations	9%
Intra-family succession intention	7%

Source: Adopted from De Massis et al. [2].

B. Differences between Family and Non-Family Firms

The past research recognizes that firm-value maximization is not the only goal of family companies [5]. There exists a number of other, family-centered goals [6], such as wealth creation, maintaining socio-emotional wealth [7] and family harmony, as well as providing employment to family members. Besides having different goals, family firms have also been found to be different in terms of long-term orientation (the intention of family business owners to preserve the family inheritance for its transmission to following generations [8].

While a large number of past studies found superior financial performance of family businesses compared to non-family ones (e.g. [9]), other authors, such as O'Boyle et al. [10] found no significant main effects. According to a recent study, there exists an economically weak, albeit statistically significant, superior performance compared to non-family firms [11]. Besides different goals, performance differences are often explained by agency costs reduction. Since the interests of owners and hired managers are different, managers may act in order to maximize their own utilities instead of those of the shareholders [12]. This ambiguity can be mitigated in the case of family firms. However, other authors suggest that with family altruism and conflict between majority and minority shareholders, principal conflict can exist, offsetting advantages.

C. Family Businesses in the Czech Republic

The history of Czech family firms has never been summarized in detail. The industrial revolution resulted in the emergence of many manufacturing firms that remained in the control of family after the death of the founder, such as the manufacturing firms of herbal liquor Becher, furniture manufacturer Thonet, piano manufacturer Petrof, or shoe manufacturer Baťa. After the collapse of the Austro-Hungarian Empire, Czech family firms started to develop rapidly [13] and became the backbone of the Czech economy. After the World War II, the leadership was taken over by the communist party, which resulted in nationalization of Czech family firms, and liquidation of entrepreneurship and private ownership in general. 40 years later, the fall of the Iron Curtain in 1989 represented an important milestone, since private ownership was re-established and restituted. However, family firms had to deal with issued related to economic transformation: economic crime, bad legal environment, inefficient financial sector, bad work ethic, insufficient competitiveness and obsolete technologies.

Czech family businesses have been recently getting a topic of interest especially due to "succession issues". While by the beginning of nineties we could hardly speak of any family businesses, more than 25 years later it is quite common that owners already have transferred their businesses to their heirs or have at least started considering it. From this viewpoint, the situation in the Czech Republic is no different from the situation of family businesses in other developed European countries.

Czech family businesses have received academic attention only recently and deeper understanding of their nature and significance is still missing. There are no official statistics and only few educational programs and consulting services for family firms.

Family businesses been addressed especially by non-academic press. In 2008, Czech authors Koráb et al. [14] published a book focused on family business. An overview of 50 largest Czech family firms has been published by Forbes in 2014 [15]. According to a recent survey, Czech family firms are seen positively and are associated with tradition and quality [16].

It is estimated that Czech family firms do not differ significantly from non-family firms in terms of industry affiliation [17]. Most of them operate in the manufacturing sector where they have been found to be better performing than non-family firms [18]. A matched-pair investigation of Czech family and non-family businesses has been carried out with a sample of large and medium-sized companies [19] finding that Czech family firms were performing better in terms of profitability. They have also found to carry less debt and to keep more short-term capital [20]. These recent studies, rather quantitative in nature, however lack the answers to the "why" and "how" questions. This represents a research gap, which is the subject of interest of this article.

III. METHODS

In order to explore the main advantages and disadvantages of family firms, and to propose measures to avoid distress of family firms, we adopted a qualitative approach. We used semi-structured individual and group interviews with family firm founders and employees, including non-family members. Such approach enables searching for explanations in an open and confidential way. The interviews had the format of open questions, which allows for asking of follow up questions to dig more into detail. The research has been carried out in six Czech family firms [21]. The questions were focused on the following issues:

- What advantages and disadvantages of family firms do the respondents see?
- Will family firm owners prefer family employees over non-family employees?
- What are the main threats of family control?
- Is there any particular need of government support?

While six managers were interviewed individually, the regular employees (14 of them, including family and non-family members) have been interviewed in groups. We decided to choose family firms from various industries (accounting, auditing, tax advisory, wholesale, entertainment, and travel) in order to gain a broader view on the topic of interest. While it is clear that the qualitative research does not allow for generalizing the results, it is necessary to collect and develop ideas and explanations that cannot be provided by quantitative surveys.

IV. Results and Discussion

Since the record of interviews is long, we do not state the full answers, but instead we provide the main findings from the interviews and confront them with prior research in the domain of family business.

A. Advantages of Family Firms

Based on the interviews, it seems that family firms are long-term oriented and care about the future. This is supported by prior research [1]. This is associated with a possible greater stability: even in the bad times, family ties keep their firm running, which can be seen as a “pillow” that non-family firms lack. Stability of family firms in a more general perspective, especially in terms of income and revenue stability, has been reported by multiple researches such as Lee [23]. However, stability and change are sometimes considered to be in a trade-off relationship [24]. Aversion to change can possibly limit the opportunities of growth, which has been reported by some researchers [25].

Another aspect of stability mentioned by the respondents was a lower fluctuation of employees. This is also consistent with prior literature, which reports lower rotation of employees, positive employment atmosphere and unwillingness to fire employees during the times of crisis. A better working environment was also reported by the respondents in our interviews, even by nonfamily employees.

Terms such as trust and friendship have been frequently mentioned. While they contribute to a better working atmosphere, they are also associated with another advantage of family firms mentioned by the interviewees, which is the fact that family ties reduce delinquency and crime. This is also consistent with prior research [26].

Another advantage of family firms mentioned by the respondents is the fact that family owners are more willing to share knowledge and know-how with their employees. This can be seen as a better dissemination of knowledge (both formal and tacit knowledge) within family firms. This advantage is obvious but has not received much academic attention so far.

Family films also enjoy a positive reputation in terms of quality and tradition [16], which can positively affect the demand for their products and services.

B. Disadvantages of Family Firms

Conflicts seem to be one of the major drawbacks of family entrepreneurship. While all companies have to deal with interpersonal dynamics, family involvement introduces an additional source of complexity [27]. Conflicts can emerge between husband and wife, as well as between parents and children, between siblings, or between family and non-family employees.

The first kind of conflicts can emerge between parents and their ancestors, and perhaps even often between fathers and sons. In particular, parents and children can have different opinions about leadership and operational tasks (they are supposed to have different opinions and attitudes in general). According to our interviews, children may consider their parents old-fashioned, while parents must be ready to admit that their children can perform better, have a better knowledge of current trends in technology, fashion, society, etc. The respondents also mentioned that parents may have too high expectations: children will possibly not be as good as their parents expect them to be. Indeed, control by heirs has been often associated by a lower profitability or growth in the past literature [28].

Conflicts may also arise between siblings (especially due to unequal emotional and material treatment), where a possible competition between siblings may occur, and between family and non-family members – in particular, non-family employees may see negatively parents who give preferential treatment to their children, or favoritism granted to relatives (nepotism).

Conflicts between spouses (husband and wife) but also between generations can be due to the lack of separation of work and family: bringing home work-related problems, lack of boundaries between work and family, and working “24h a day”. Such kind of conflicts have been frequently reported by the literature [29]. Another frequently mentioned source of conflicts is having no hiding place at home and no possibility of being alone, too much togetherness [30].

The respondents also mentioned that family firm managers cannot afford to be too strict when dealing with their children or spouses. Unpleasant things are not easy to tell when dealing with own family members. Gustaffson and Norgen [32] mentioned that too strict policies or policies that entirely prevented family ties within the company could harm the company’s way to success in the long run. Such problems can emerge in the case of autocratic leadership style of the family firm founder [33]. However, the question how to balance authority and family ties has not been much discussed in the past research.

Besides conflicts between family members and possible nepotism, there are other disadvantages seen by the interviewees. Because of emotional ties, a distress of a family firm can have a negative causal impact on the whole family.

This, together with the fear of losing control over family firm, may represent one of the sources of the large risk-aversion of family firms frequently reported in the past literature, which is usually accompanied by a reduced level of debt [20] and possibly a greater liquidity. However, according to some authors, such risk-aversion can be easily turned into risk-willing when the risk of losing control of a family over its firm is too high [31].

C. How to Prevent Distress of Family Firms

Possible government support may include, among others, introducing more flexible working hours, job sharing, but also reducing inheritance taxes, supporting start-ups, or providing easier access to long-term financing. Surprisingly, the respondents did not mention any particular need of state support. At the same time, the challenges perceived by family firm managers did not differ at all from challenges that non-family firms are currently facing (globalization, internationalization, slower economic growth, etc.) At the same time, their desires are the same as those of non-family firms (simple and stable regulatory environment, low interest rates, flexible labor market, investment in infrastructure, etc.) From this perspective, it is questionable whether the government should take any measures to favor or support family firms.

However, based on the presented discussion, opinions and suggestions of our respondents, it is possible to formulate certain managerial implications to avoid distress of family firms and improve their performance while keeping the family and company together.

Cooperation on a common goal and willingness to participate is the basic prerequisite of family business success. Parents must be ready to admit that their children can perform better, and find the right time of succession.

Succession is a critical point in a family business lifecycle. This moment should occur before the founder's death, which is a basic prerequisite of knowledge and know-how sharing. Management shouldn't be transferred directly. Instead, children should first start to work in regular positions (accounting, marketing) to learn how the business works. Ancestor have to deserve the management roles and learn enough skills prior to taking over management. Besides obtaining the necessary knowledge and skills, children also must be interested and motivated to work in the family firm. If these conditions are unmet, the performance of a family firm is likely to decrease.

Nepotism has to be avoided. Parents should be neither too tolerant nor too autocratic. Surprisingly, requirements on family members are sometimes stricter than those on non-family members. At the same time, emotional support and knowledge sharing can improve performance of both family and non-family employees.

To avoid conflicts and envy, a clear division of roles is necessary. One possible way to do so it is to divide a company into multiple units, or assign to every successor a precisely defined role. Attributing equal shares on ownership to children can also prevent envy, but requires that all children are actually willing to participate on the company management. If some children don't want to continue the business, but their siblings do, it is necessary to find a way to compensate them.

V. Conclusion

The academic literature has been particularly silent on issues of family business in the countries of the former Eastern Bloc. Despite the fact that the long-term tradition of family business in the Czech lands has been interrupted by the nationalization of private ownership after the World War II, after some 25 years after the fall of the Iron Curtain, many successful family businesses have emerged or been re-established, such as Metalimex, Kofola, Baťa, Koh-i-noor, or Petrof.

A few studies carried out in the past found that Czech family firms are financially different from their non-family counterparts. While quantitative research is suitable for investigating the differences between family and non-family firms, a qualitative approach is necessary to find the answers to "how" and "why" questions. This article was based on individual and group interviews with owners, employees and non-family members of six Czech family firms operating in various industries.

We presented the main advantages and disadvantages of family firms, and the ways how to prevent nepotism, conflicts and to prepare conditions for a successful succession of a family firm to the following generation. The findings have been confronted with existing empirical findings. Surprisingly, family firm managers didn't perceive any particular need for government support.

The research also identified research gaps, which deserve more academic attention. In particular, the future research should focus on the following question: How exactly is knowledge and know-how disseminated in family firms and how does this process differ from non-family firms? How to improve leadership in order to avoid damaging family ties while being strict enough? And how to compensate children who don't want to participate in the family firm in order to prevent envy and conflicts with their siblings?

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