

## **THE UTILIZATION OF FORMAL HUMAN RESOURCES PROCESSES IN FAMILY FIRMS IN THE CZECH REPUBLIC**

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### **Abstract**

*The aim of this paper is the presentation of the family firm data survey, to present their attitude to human resources management and the utilization of formal method of HRM represented by personal strategy plan. Family firms in the Czech republic is increasing, but have to face the same problems as in other European countries with more developed family business, as succession, bivalent family influence for business, etc. In the empirical part of the paper authors compare their findings with the conclusions of other scholars and recommend the measures to help family business leaders with the implementation of human resources management in the common practice.*

*Keywords: Family business, human resources, personal strategy plan, advantages and disadvantages*

### **INTRODUCTION**

In previous years we provided the research in Moravian-Silesian companies. The part of the questions involves the attitude of the leaders or responsible persons to human resources management. Huge amount of companies claims high importance of human resources and HR management. One question examines the creation of personal strategic plan in the company.

Only third of questioned companies replied, they have created personal strategic plan (Němcová et al., 2016). Last year we provided similar survey focused on family firms in the Czech Republic. The purpose of this paper is to present the actual situation of family business human resources management focused on the Czech Republic.

The paper was prepared on the basis of general theoretical methods, particularly analysis, synthesis, analogy and comparison. For analysing the research data the descriptive statistic methods were used.

The aim of the paper is to make implications to improve the understanding the family firms and their approach to human resources management (HRM), including the utilization of personal strategic plan as a tool of HRM.

## **FAMILY BUSINESS AND ITS ROLE IN THE CZECH ECONOMY**

Before 1948 there was a big participation of family business in the Czech economy. A lot of well-known big companies, like Baťa, Petřof, ČKD (Osud rodinných firem u nás, vid. 15.10.2017, online, dostupné z: <http://www.majitefirem.cz/osud-rodinnych-firem-u-nas/>) and of course small and medium enterprises and freelancers have to stop their business to the state administration. At the moment their existence stopped. Most of them were family firms. Their „new“ history started after 1989. After virtually 50 years of expropriation and state ownership, a large number of Czech traditional family businesses were returned to their original owners. Despite the volatile and risky socio-economical and political conditions of the early 90's, many businesses have been re-established by their former family owners and have carried out their activities with varying degrees of success until now (Hanzelková, 2004). Nowadays the family business topic is frequented, because it is the time of succession, when firms have to change their leaders, often owners in one person. The problem of succession is very actual not only in the Czech Republic.

The interruption of the post-war development in the Czech Republic in comparison with western Europe, USA or other countries, caused the different conditions, results and of course socio-economical influence in the frame of the national economies. Family firms are crucially important, because of their contribution to GDP, employment and entrepreneurial culture, especially in Europe, where some family firms in Italy, Spain and Switzerland has long history. In the global economy the family firms have a key role (Anderson, Reeb, 2003). The ratio of family firms in the national economies can be seen in Table 1.

Table 1: Ratio of family firms in the national economies

Country	Ratio of family firms in the national economy	Contribution to GDP	Contribution to employment
USA	96	40	60
Italy	95	75	82
France	60	60	45
Finland	80	40-45	-
Germany	60	55	58
Poland	50-80	35	-
Spain	75	65	-
Australia	75	50	50

Source: International Family Enterprise Research Academy. (2008). cit. Odlehlová, P. *Přednosti a meze rodinného podnikání*. (2011). Brno: Masarykova univerzita, Ekonomicko-správní fakulta.

The Czech family business sector has a smaller share in the economy, GDP and employment, as well. Because there is not an institutional database of family business, the research by the Association of Small and Medium-Sized Enterprises and Craft is used, and it claims the share of family firms about one third of enterprises, mostly small and medium-sized.

By the report of the European Commission (2009), family firms are important, not only cause they make an essential contribution to the economy, but also because of the long-term stability they bring, the specific commitment they show to local communities, the responsibility they feel as owners and the values they stand for. European Commission appreciated the family firms for diminishing the impact of the world economical crisis because their main feature is sustainability. Family businesses make up more than 60 % of all European companies, encompassing a vast range of firms of different sizes and from different sectors. Most SMEs (especially micro and small enterprises) are family businesses and a large majority of family companies are SMEs.

## DEFINITION OF FAMILY BUSINESS

The important part of family business research area is defining the family entrepreneurship. All the researchers agree that family firms are businesses in which a family has influence, but exact definition of the family business was not widely accepted (Lindow, 2013).

There are many definitions which vary by involvement criteria (based on family involvement in business) and essence criteria (based on the fundamental features of family business). These rigid categories are represented by the amount of family members in statutory

bodies in proportion to the authorized capital of the family firm and the share of family capital in the firm property and there are many approaches to define family business.

### **Approaches to define family business**

*The components-of-involvement approach* defines family firms operationally by the components of a family's involvement in the business: ownership, management, supervision, and succession within the family (Chrisman et al., 2005). Accordingly, the criteria used to define family firms include, for example, the percentage of ownership, involvement of multiple generations, active management by family members, and others. Fundamentally, the components of involvement approach holds that the family's involvement in the business is a sufficient condition for considering a business to be a family firm. (Lindow, 2013, p. 10)

*The essence approach* was created because the components-of-involvement approach was not sufficient for family entrepreneurship. Using only the components of involvement does not reliably define a family firm. Instead, what distinguishes family and non-family firms is the fact that family involvement makes the firms behave as family firms. The essence approach aims to provide a theoretical basis for explaining why and how the components matter. Chua et al. (1999, p. 24) said, „*family involvement must be focused and directed toward behaviors that produce distinctiveness before the firm can be classified as a family firm*“. In the summary, however, there are essential features for a family firm (Lindow, 2013, p. 10):

- family influence over the strategic direction of a firm,
- intention of the family to keep control,
- family firm behavior,
- unique, inseparable, synergistic resources and capabilities arising from family involvement and interactions.

The appropriate tool for to resolve the family firms is F-PEC scale by Astrachan, Klein and Smyrnios (2002) which describes three factors - power, experience and culture. The strength of the factors shows the measurement of the family involvement in the firm.

Summarizing empirical family business research articles published between 2002 and 2011 in the five leading family business research journals, scholars Steiger, Duller and Heibll in 2015 detected definitions used in the literature, by the features of underlying approach to family business. Most definitions can be classified as being rooted in the components-of-involvement approach (44% of 238 evaluated articles), in the essence approach (21%), or in a combination of the two (33%). To illustrate, from 1989 to 1999, a minimum 44 different definitions have been adopted (Chua et. al, 1999).

All the scholars have to accept the exact definition before they start their research. Because the definitions differ, it is very complicated to compare the results.

The fact is often criticized not only by scholars who are interested in family business, but of course by businessmen and policymakers. The common single definition of family business is the base to create specified support and legal frame for family entrepreneurship.

### **Definition of family business in the Czech Republic**

Czech family business scholars mention many different definitions. Koráb et al. (2008) accepted Spanish definition (Family Business Institution, 1991): „Family firms are the firms with the biggest or at least important capital share held by members of one family, if they participate in direction and management in firm statutory bodies in whatever economical activity they act.“

The substantial problem of Czech family business research is absence of the regular database of family firms. It is connected with definition of family business. The most scholars use the database owned by marketing companies or associations, some of them (for example Machek and Pokorný) have created their own database based on general database of firms selected by the surnames of members in the statutory bodies, management or owners. Many scholars use sample selection. That is why the results are not representative, but probabilistic. In some studies (Mašek et al, 2015) the researchers use the secondary data by Forbes.cz.

From the point of view of the corporate law, 85% of the family firms in the Czech Republic are limited partnerships, small amount are public or limited commercial partnerships and corporations (Koráb, 2008). Only a few of them are stock companies.

Other scholars in the last decade emphasise the problem of succession, underestimated not only in the Czech Republic, but in traditional family business countries, such as Switzerland, Spain, France, and particularly in Germany, where lack of successors became a great complication of sustainability of family firms. It is projected in the definition by Hnátek (2013), which joins multigenerational involvement of family members.

In the legal frame a great progress has been done in the new Civil Code of the Czech Republic in 2014, which defined the family firm as „a business controlled and owned by the family or selected members thereof on the assumption that the company will be handed over to the next generation in future“(Petlín, Koráb, 2015). The particular definition includes the involvement of spouses or with one of them his/her relatives in the direct line or in the step line, who work together and they together own the company (§700 par. 1 of new Civil Code). The significant feature, however, is the fact, that family firm by the Civil Code is not a corporate body, there is no evidence of the family firms and it is founded automatically. By this law the

involved relatives share the profit, they are preemptive and have decision competences (Marková, 2016).

The attribute of succession is mentioned even in the Civil Code, and it has become the real problem in Czech family firms. It has been solved by Czech scholars, politics, businessman and managers in last years and it turns the attention to human resources in family firms.

## HUMAN RESOURCES IN FAMILY FIRMS

The important scientific goal of family business scholars is to understand the advantage of family firms over other family or non-family firms. Sharma (2004) explained it on the interpersonal level, through social capital. Strong position of obligations, expectations and social norms is described by Chua et al (1999), others have explained it by the construct of families (Sharma, 2004). All of them focus on the relatives and the relationships between them.

A study by Taughiri and Davis (1999) resumes the relationship in family firms in three overlapped circles of family, ownership and management groups a resumes keys attributes which are the source of benefits and disadvantages of owning families, non-family employees, and family employees. In the following Table 2 the bivalent attributes are described with both disadvantages and advantages they cause. For managers in family companies it is important to recognize *not to eliminate the attributes, but to maximize their positive, and minimize their negative consequences* (Taughiri, Davis, 1999, p. 206).

Table 2: Bivalent Attributes of the Family Firm

<b>Disadvantages</b>	<b>Attribute</b>	<b>Advantages</b>
Norm confusion and anxiety. Family business and ownership issues can get mixed up. Lack of business objectivity.	Simultaneous Roles.	Heightened family and company loyalty. Quick and effective decision-making.
A stifling sense of being overwatched. Resentment toward family and business.	Shared Identity.	Heightened family and company loyalty. A strong sense of mission. More objective decision.
Family members can point out weaknesses. Early dissapointments can reduce trust in work interaction	Lifelong Common History.	Relatives can draw out relatives' strengths and complement their weaknesses. A strong foundation can encourage a family to weather adversity.

Table 2...

Lack of objectivity in communication. Resentment and guilt can omplicate work interaction. Covert hostility an appear.	Emotional Involvement and Ambivalence.	Expression of positive feelings creates loyalty and promotes trust.
Can trigger sensitive reactions that can distort communication and encourage conditions for conflict.	Private language.	Allows for more efficient communication with greater privacy.
Can lead relatives to feel overwatched and trapped.	Mutual Awarness and Privacy.	Improved communication and business decisions that support the business, owners, and family.
Fierce rivalries can develop between realitves.	Meaning of the Family Company.	Company symbolism can develop a strong sense if mission for employees.

Source: Taguiri, R., Davis. J. (1996). *Bivalent Attributes of the Family Firm*.

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Human resources management practices and problems are the most important for small and growing family firms. Since most of Czech family businesses are small or in the phase of growing, they must solve this problem too.

In the Table 2, a lot of disadvantages are connected with emotional family conflict. To prevent the conflict the family can use a formal strategies and processes, which help them to avoid bivalence in the ownership and management of family business. For the management of the family business is important, that the family and the firm can function as separated systems (Ibrahim, Ellis, 1994), where family and its aims are oriented for natural needs and social norms and the aims of the firms are oriented for performance and profit. The most important recommendation for coexistence of these two systems is the model of separation with the obvious definition of lines.

In last decade a lot of studies were realized to investigate human resources management in family firms. Important questions are connected not only with the direction and realization of their visions, but of course for their ability of susceptibility and succesion (Chiung et al., 2016). Human resources management in family firms is the important factor for their success and performance, but talent management, personal strategies and developement

successor strategy plans have the fundamental influence for the retention of status of the family firm in the future (Marková, 2016).

By Arquera (1979) mentioned definition of family business interpreted by Petlina, Koráb (2016, p. 36) as follows *the family business is the one being in hands of a group of people in a family relationship*, the cooperation in family business is based on the type of family ties. On the basis of previous studies in the Czech Republic (Koráb, 2012, Petlina, Koráb, 2015), three main family ties in Czech family firms are:

- husband versus wife,
- one or both parents versus one of several children,
- both parents or one of them versus a child or more children or, relationship to grandparents.

By some studies family ties are often the basis of conflicts in family firms (Chiung, Dana, Smyrniotis). To avoid them some scholars recommend to have personal strategy plan involving hierarchy of decisions, positions and responsibility, and of course plan of succession which is very important for future existence in the concept of family firm with fundamental values.

In the following text the authors are focused on the utilization of the importance of human resources and formal personal strategy plans in family firms in the context of family ties based on the research in family firms in the Czech Republic realized from October 2016 to April 2017.

## **THE PRACTISE OF HRM IN THE CZECH FAMILY FIRMS**

The research was realized in the Czech family firms. The study is focused on human resources management, especially in the context of alternative (flexible) forms of work and succession. The research was realized from October 2016 to April 2017 in the area of the Czech Republic.

The important problems solved in the preparational part, was the definition of family business for respondents to espouse with. After discussion this definition was chosen:

*„A family firm is the firm with the biggest, or at least the most important share of fund held in hands of owners of one family, who share the management and direction in statutory bodies, regardless the business they function in.“*

This definition corresponds to *the components-of-involvement approach* because it stresses the elements of family members involvement.

To presentation in this paper where separated the data connected with the attitude of family business managers to human resources and to the formal personal strategy plans in the context of family ties in the questioned entrepreneurship.



## Explorational method

In the view of the aim of the research the short-term research of the primary data survey was realized. For data collection the random sampling method was used. Family business owners and top managers of selected firms were questioned by oral questioning or by electronic questionnaire. Oral structured form of questioning was done by educated questioners, who visited selected firms. For electronic questioning the on-line platform Survio.com was used.

From 19 questions, two were used to identify the firm (business by NACE CZ and size measured by the amount of employees by EU legal), 17 of them were specific. The questions in the questionnaire were opened, closed and scales (Likert-type scale). For the research the owners and managers were asked for answering, questioned personally orally, or by e-mail direct correspondence electronically. Finally 164 questionnaires filled by owners or managers of the Czech family firms were processed. Descriptive statistics of the survey sample are presented in the Table 3.

Table 3: Descriptive statistics of the survey sample

	Standard deviation	Median	Modus	Minimum	Maximum
Size	638,50	8	1 – micro-enterprise	1	8000
Business	5,76	7,50	7 – G: wholesale trade, retail trade, repairs and maintenance of vehicles	2	19

Source: authors' own research

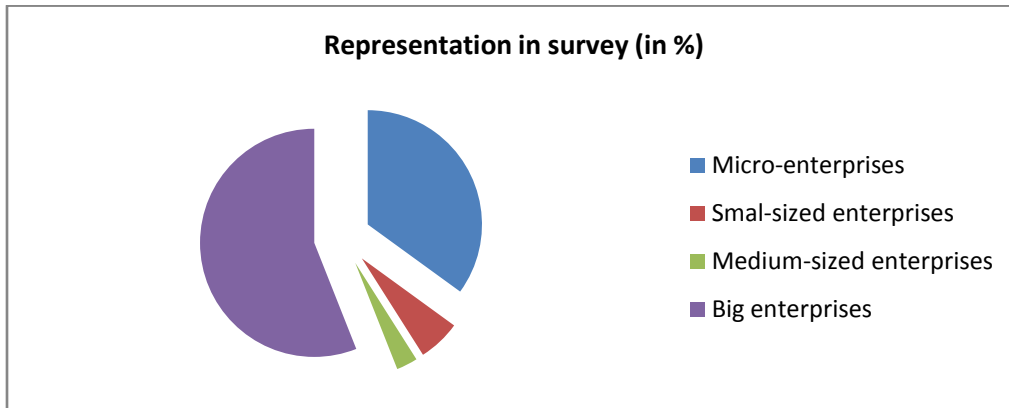
## FINDINGS

By studies of Koráb (2008, 2012) and Mašek (2015), and by data of foreign surveys most family firms are micro- and small-sized enterprises. The same data were detected in the survey and are presented in Table 4 and illustrated in Graph 1.

Table 4: Categories of enterprises sizes in the survey

Category of enterprise size	Representation in survey (in %)
Micro-enterprises	35
Small-sized enterprises	6
Medium-sized enterprises	3
Big enterprises	56

Graph 1: Categories of enterprises sizes in the survey



Source: authors' own research

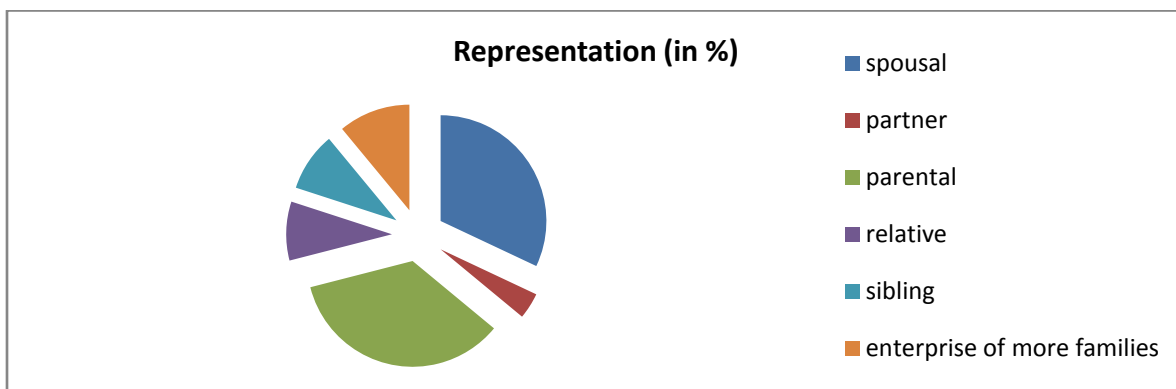
In the survey the family ties were detected and family firms were divided into groups according to the type of the family firm (Table 5):

Table 5: Type of the family firm

Type of the family firm	Representation (in %)
spousal	32
partner	4
parental	35
relative	9
sibling	9
enterprise of more families	11

Source: authors' own research

Graph 2: Type of the family firm



Source: authors' own research

According to the data of previous surveys, the most common type of the family firm in this survey is parental and spousal family firm. Some scholars claim that these types are most often affected by family conflict. The important prevention of conflicts is to have formal strategy which make the exact lines of hierarchy and responsibility, so in the survey the questions about the perception of the importance of human resources processes and personal strategy plan were asked. Personal strategy plan is the formal expression of the frame of human resources strategy and has a significant role for firm performance.

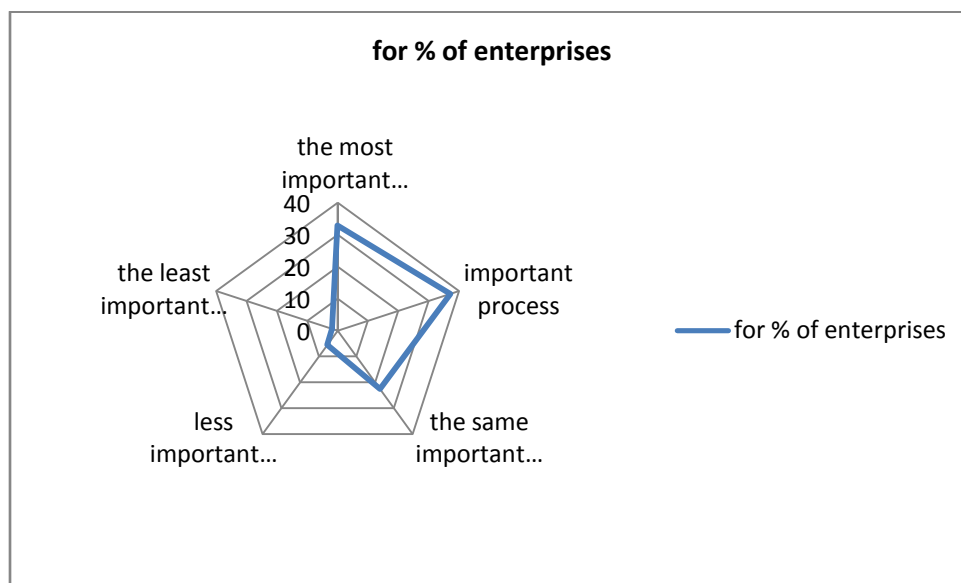
The perception of importance of human resources processes in the family firms is presented in below mentioned Table 6.

Table 6: The perception of importance of human resources processes

<b>Perception of Importance of human resources process</b>	<b>for % of enterprises</b>
the most important process	32,9
important process	37,2
the same important as others	22,6
less important process	5,5
the least important process	1,8

Source: authors' own research

Graph 6: The perception of importance of human resources processes



Source: authors' own research

From the point of view of the type of family firm is interesting, that the most serious attitude to human resources management is detected in relation and partner firms, less important is human resources management for parental, spousal and sibling family firms. The possible explanation of this phenomenon is that in relation and partner firms the family ties are not so strong and management use more formal, less intuitive methods of proceeding.

The size of the family firm was not detected as important for their perception of importance. For micro and small enterprises is importance of human resources processes the same significant as for medium and big.

Most of questioned family firms in this survey expressed their serious attitude to human resources processes. The importance of HR processes, confirmed by studies of Dawson (2012) and other scholars, is supported by formal document – personal strategy plan. In the survey only 30 % of family firms have created the personal strategy plan and systematically give attention to HR processes. When the statistic relevancy was examined, the most important is the influence of the firm size. Big and medium size enterprises have created personal strategy plans frequently than micro-enterprises. It support the opinion of some scholars as Armstrong, Dawson or Olson, that human resources management in micro and small firm is more intuitive than in big and medium. It can be explained by multi-level relations and complexity of processes in the second group of firms.

## CONCLUSION

Although the *post-revolution* history of family business in the Czech Republic is not long, Czech family firms face the same problems as family firms in western Europe, America and other countries. This form of entrepreneurship is represented mostly by micro- and small type of the enterprises, but their share in economy is big not only in GDP, but of course in employment. As family businesses declare their positive attitude to human resources processes, not many of them use the HRM methods in their practise. Personal strategy plans are not common used instrument for family business leaders.

The reasons of this contradiction will be questioned in the next level of survey, in the qualitative research, including the barriers of the formal approach to human resources management and utilization of the personal strategy plans.

An interesting question for further research is observing the developement of human resources management in family business, in medium and long-time term and comparing it with non-family business. The utilization of progressive methods of human resources management is defined as a great contribution of obtaining the competitive advantage, and personal strategy plans are its important part.

In previous research (Němcová et al, 2016) the reasons of the contradiction was examined and one of the reason is demandingness of the implementation of human resources processes and personal strategy plans are not considered necessary. This explanation can be connected with the low level of education of managers, owners and leaders in the area of human resources processes and their implementation in family firms. There is a solution, which is connected with the aspiration for the widely accepted definition of family business in the Czech Republic supported by Association of Small and Medium-Sized Enterprises and Craft and other institutions. The legal frame of the family busines allow the government to invest directly to the developement of family business managers to increase their knowledge of processes which can help them to solve human resources problems and implement modern management methods to assure sustainability of their family business.

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