

## NON-FAMILY MANAGER IN FAMILY BUSINESSES: EVIDENCE FROM THE CZECH REPUBLIC

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**Abstract:** This article presents selected results of a pilot survey of the project “The Business Processes in Relation to Selected Aspects of The Business Environment“. This project is focused on the processes in a company and looks at a company from three selected aspects: an organizational structure, ownership and a relationship to the environment. This article concerns the ownership aspect, concretely family ownership in the relation with an organizational structure of the company. In framework of these aspects, the article shows the difference between family and non-family companies. Next, it describes presence of an external manager in the family firm and how this fact influences selected variables. The results show that there is the difference between family firms with an external manager and these with only family members in the management.

**Keywords:** family business, organizational structure, external (non-family) manager, Czech Republic

**JEL Classification:** G320, M12

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### INTRODUCTION

Family businesses have a significant economic contribution. Family-business statistics say that in most countries around the world family firms are 60–90% of non-governmental GDP (European Family Businesses, 2012). In Italy, for example, family companies account for 75% of GDP (Rydvalová et al., 2015). Then, they are 50–80% of all private sector jobs. Further, family business represent more than 75% of net job growth in the Unites States. Finally, that in most countries around the world, family businesses are between 70 and 95% of all business entities (European Family Businesses, 2012).

Family businesses have not a long tradition in the recent history of the Czech Republic (Hesková et al., 2008). One estimation of contribution of family firms to national economic is 30% of GDP (Svobodová, 2015). Next estimation states that 30% of all enterprises in the Czech Republic are family businesses. (Koráb, 2008). These are some reasons why the topic of family business is very actual nowadays in the Czech Republic.

This kind of business has own specifics (Koráb, 2008). One of these specifics is the necessity to do this decision: choose employee for a managerial position from family members or finding somebody else outside the family? This article discusses differences between the family and non-family manager in a family company in the context of chosen aspects, particularly in the context of the organization structure.

### 1. THEORETICAL BACKGROUND

Clayton et al. (2008) state that an organizational structure is very important in the company. There are significant links between a structure, strategy, culture of the company. Miller (1989) mentions a relationship between a structure and strategy. McMillan (2004) also says that if the structure is not in tune of the purpose of the organization, there is a danger of a failure.

As Martin et al. (2016) discuss, an organizational structure represents a type of internal context. There are made decisions and taken actions. Structural conditions in an organization can foster or impede managerial

processes. In authority relationships, for example, hierarchy or reporting requirements can curb processes of forwarding information. It can slow down information processing or prevent organization members from getting information that might be useful for effective decision making (Tushman and Nadler, 1978). Therefore, management should define the structure in tune of the purpose and needs of the organization. If it is not defined, there is the risk of misunderstanding and mistakes which cause problems in the organization.

One of the typical characteristics of family-firm structures is a small size. In compare with non-family businesses, it is harder to achieve the significant sales volume and increase the amount of employees for family companies. There are many factors bring about this fact. One of them is the necessity to develop and professionalize departments of the company if the enterprise grows. The growth problem is not at the beginning when the firm is small and is managed and controlled by one person – by a founder. The coordination problem appears due to the growth. Then, it is necessary to decentralize competences, responsibilities and decision-making process (Koráb, 2008).

Management of family businesses is different from the management of non-family ones. The management style and form depend on two factors: firstly, on a size and a phase of the company; secondly, on participation of family members in management (Koráb, 2008). Family businesses are characterized by risk aversion. Mostly at the beginning, they averse to employ non-family employees (especially to middle and top management). They tried to employ family members. These facts can cause many problems, e.g., nepotism, paternalism, narcissism or spoiled-child syndrome (Odehnalová, 2011).

Mandl (2008) in the Overview of Family Business Relevant Issues mentions that family businesses are characterised by the dominance of management within the family across Europe. For example, in Austria, 75% of the craft companies have only one manager. 80% of family firms with more managers have these managers from the same family. In Cyprus, it is 75%. In Slovak Republic, 66% of family firms

employ only family members in the managerial positions.

On the one hand, the disadvantage of non-family manager is agency costs. On the other hand, there is a principal-principal agency problem; the family-member manager can use his/her superior position and knowledge to exploit less careful owners and benefit only themselves at the expense of the company, i.e., using the business to serve personal interests through free riding and using firm resources to personal issues (Miller, 2013).

Family businesses rather employ managers who avoid the international businesses and the integration (which is connected with close relations with other companies). This is caused by the fact that family firms operate mainly on the local market (they are engaged in the international business less than non-family businesses). If the company wants to follow the new trend of the 21st century, it has to deal with the issue of size. Markets are still more globalized thus if a firm wants to survive, it has to be big enough. This includes expansion of the company (associated with various organization structures) (Koráb, 2008).

## **2. RESEARCH METHODOLOGY**

The pilot survey is based on primary data which was collected in the form of three collections from the end of June 2016 to the middle of September 2016. Respondents were companies listed in the Bisnode MagnusWeb database. The questionnaire survey was conducted in NUTS II Severovýchod, i.e., within Liberec region, Hradec Králové region and Pardubice region. The respondents were small, medium sized and large companies which are on the market at least 5 years and their e-mail address is available.

It was used only electronic questioning to simplify communication. Respondents could choose to fill the questionnaire created in MS Word or directly within a web interface where the questionnaire was created in the online software MonkeySurvey. Respondents received an e-mail with the attached MS Word document and also with the link to the web interface (the link was created extra for each respondent). Return of these questionnaires was 3.25%.

Throughout, the pilot survey questionnaire was divided into three parts of business processes, i.e., organizational structure aspects, aspects of ownership (family or non-family character) and environmental aspects. Respondents chose from offered questions and could respond additionally (the open option: others).

Obtained data was evaluated by using descriptive statistics in MS Excel. An analysis between selected variables was performed by means of Statgraphics XVII (SGP). In case of missing data pairwise method was used. Dependence analysis was used for confirmation of four hypotheses (see in the section 3: Results of the Survey). In the dependence analysis, where an independent variable was numerical and a dependent variable was nominal (an alternative variable), the logarithmic regression method was used. The files were tested on standard normal distribution, but because of the negative outcome it was not possible to use the ANOVA method. In analyses where ordinal variables occurred together with alternative nominal variables, chi-square test was used (namely an association table with the Pearson's coefficient of dependence).

### **3. RESULTS OF THE SURVEY**

The questionnaire survey was carried out in 117 companies, of which 56 companies identified themselves as family businesses and 47 as non-family ones. 14 companies did not express their status of the ownership structure. 54.70% of respondents were small enterprises, 42.74% of them were medium-sized companies and only 2.56% were large companies. Most of these small companies were family businesses (53.12%). In case of medium-sized companies,

44.00% of them were family firms. No family firm was a large company.

Dependence analysis was focused on the **non-family manager** in the family firm. The examined hypotheses concern:

- Documentation of an organizational structure:
  - At first, the difference in existence of the organizational structure documentation in family and non-family businesses was examined;
  - Next it was examined if the presence of an external manager influences this existence;
- Close relations of family businesses with other companies;
- Turnover of family businesses.

#### **3.1 Documentation of organizational structure vs. type of ownership**

The following hypothesis was examined: family firms do not document the organization structure. It is based on the nature of family businesses where the company operates on the basis of family ties (especially in the first generation). Dependence evaluation was done using a contingency (association) table. Fig. 1 shows a mosaic graph depicting the ratio distribution of individual responses. The first narrow line indicates no organizational documentation in the firm. The bottom line indicates documentation of organizational structure in the company. The white colour (right part of the graph) identifies family companies (FB). Grey colour (left part of the graph), on the other hand, indicates non family businesses (NFB).

Fig. 1 – Documentation of Organizational Structure vs. Type of Ownership



Source: Own (processed in the programme SGP)

There is weak evidence of an indirect correlation between the above mentioned parameters. Pearson's coefficient has a value of -0.2895. As you can see at the Fig. 1, the bottom line part is much bigger than the upper line. This indicates that most of respondents were companies with the documented organization structure. The results also show that more non-family type businesses have the organizational structure documentation. You can see this fact in the upper line at the Fig. 1, where white (family businesses) part is bigger than the gray part.

### 3.2 Documentation of organizational structure vs. presence of external manager

The following hypothesis was examined: *family firms with the external manager have the*

*organizational structure more documented than these without the external manager (who is not a family member).* The evaluation was done using a contingency (association) table. Fig. 2 shows a mosaic graph depicting the ratio distribution of individual responses. The first upper line indicates, that the family firm does not have the organization structure documentation. The bottom line indicates an opposite, i.e., the family firm has the documentation. The white colour (right part of the graph) labels presence of an external manager (EM) in the family owned company. Grey colour (left part of the graph) labels a family manager in the family firm (FM).

Fig. 2 – Documentation of Organizational Structure vs. Presence of External Manager



Source: Own (processed in the programme SGP)

There is medium-strong evidence of a direct correlation between the above mentioned parameters. Pearson's coefficient has a value

of 0.4737. At the mosaic graph (Fig. 2 above) you can see that the bottom line is bigger than the upper line. This means that most of family

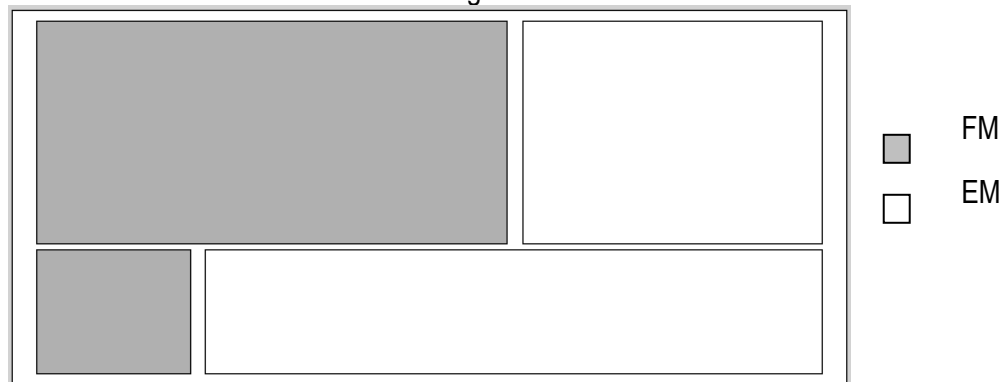
firms have documented the organizational structure. Further you can see that the white area in the bottom line is bigger than the white in the upper line. It indicates that family-type businesses with a non-family manager have documented the organizational structure more often than these without this manager.

### 3.3 Close relations vs. presence of external manager

The following hypothesis was examined: *family firms have close relation with other company if they employ the external manager*. It is based on risk aversion of family companies and their orientation on local markets (Odehnalová,

2011). Dependence evaluation was done using a contingency (association) table. Fig. 3 shows a mosaic graph depicting the ratio distribution of individual responses. The first upper line indicates, that the family firm does not have a close relations with other companies. The bottom line indicates an opposite, i. e., the family firm has close relations with other businesses. The white colour (right part of the graph) labels presence of an external manager (EM) in the family-owned company. Grey colour (left part of the graph) indicates no external manager in the family firm (FM).

Fig. 3 – Close Relations vs. Presence of External Manager



Source: Own (processed in the programme SGP)

There is weak evidence of a direct correlation between the mentioned parameters. Pearson's coefficient has a value of 0.3950. The results indicate that more family-type businesses with the external manager have close relations with other companies. Fig. 3 shows that the upper line is bigger than the bottom line. This means that most of family firms have not close relations with others companies. Further, you can see that the white area in the bottom line is bigger than the white in the upper line. It indicates that family-type businesses with the non-family manager have close relations with other firms more often than these without this manager.

### 3.4 Dependence of turnover vs. presence of external manager

The following hypothesis was examined: presence of an external manager in a family-owned firm influences turnover of the company. Sales are limited in the first generation of family businesses because of the firm size (Koráb,

2008; OECD and IFC, 2009), risk aversion and local orientation (Odehnalová, 2011).

Dependence evaluation was done using a logarithmic regression. Only 32.35% of the variations are explained by the model. There is, however, a weak relationship between the parameters demonstrated above. A family-business turnover is weakly dependent on presence of an external manager in the company. Family firms with the external manager perform better in case of turnover than their counterparts without the family manager.

## CONCLUSION

The article discusses the question about an external manager (a non-family member) in the family company and if this fact influences chosen company aspects. Results show that more non-family type businesses have the organization-structure documentation. Family businesses, mostly in the first generation, are managed by the founders and other family

members (OECD and IFC, 2009). Family relationships can cause that the organizational structure is not defined.

Further, the results show that family-type businesses with the external manager have their organizational structure more documented. This means there are clearly set relations, responsibilities, competences and managing processes.

The organizational structure has to be changed in case of integration. Odehnalová (2011) and Koráb (2008) state that local focused family businesses with risk aversion want to avoid integration and the integration is characterized by close relations. The results show that more family-type businesses with the external manager have close relations with other companies.

Last factor concerns a company turnover. It is harder for family firms achieve significant sales than for their counterparts (Koráb, 2008). The survey shows that family firms with the external manager have a higher turnover than these without him/her. An article concerning family-business performance (a continuation of this article) has been preparing. It is necessary to remind that this is a pilot survey so the relatively small number of respondents must be taken into account.

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