

CURRENT TRENDS IN FAMILY BUSINESS IN SLOVAKIA AND EUROPE

Silvia Lenčėšová¹, Mária Šajbidorová², Zuzana Lušňáková³,
Zuzana Brúnaiová⁴

Slovak University of Agriculture in Nitra^{1,2,3,4}

Faculty of Economics and Management, Department of Management

Tr. A. Hlinku 2

Nitra, Slovak Republic

e-mail^{1,2,3,4}: lencesova.silvia@gmail.com, maria.sajbidorova@uniag.sk, zuzana.lusnakova@uniag.sk, zuzana.brunaiova@uniag.sk

Abstract

The submitted scientific paper deals with the characteristics of the family business, its types and legal forms of family business. We determined roles in family business and described them through a three-circle model. We also describe the individual advantages and disadvantages of the family business and also ways to eliminate the disadvantages and conflicts arising in this type of business. The research that we came out was implemented by company KPMG Slovensko spol. s r.o. The research was attended by 1,122 respondents from 26 European countries. Further, we drew attention to current trends in family business in Europe, including the Slovak Republic and current trends in Slovak family businesses too. At the end, we summarized the seven key pillars of the success of the family business.

Keywords: *Entrepreneurship, Family Business, Family Firm*

JEL classification: *F23, M29*

1 Introduction

The aim of this paper is to highlight the current trends in family business in Slovakia and in Europe. However, we need to pay attention to the definition of a family business, to its forms and to the advantages and disadvantages of the family business.

1.1 Characteristic of family business and its forms

Family business can be defined as an enterprise that fulfills at least one of the following criteria: (Strážovská 2008, pg. 10)

- the owner considers his business as a family business,
- the owner intends to transfer his business to a close relative,
- in addition to the owner, another member of the family, family members who are part of the day-to-day management process of the business.

Poza and Daugherty create theoretical definition of a family business, that focuses on the vision, intentions, and behaviors, vis-à-vis strategy, management, succession, and continuity of the owners' control. Ownership structure aside, what differentiates family businesses from management-controlled businesses are often the intentions, values, and strategy-influencing interactions of owners who are members of the same family. The result is a unique blending of family, management, and ownership subsystems to form an idiosyncratic family-business system. This family-management-ownership interaction can produce significant adaptive capacity and competitive advantage. Or it can be the source of significant vulnerability in the face of generational or competitive change. (Poza & Daugherty 2014, pg. 6)

Based on experience from practice, three types of family businesses can be distinguished: (Markovičová 2014)

- parental family business – where one parent occupies the dominant position of the owner and the boss at the same time. Father is the most common on this position.
- the family business of a married couple – joint family business is created by a married couple. In this type there are several relationships between the partners:
 - both partners have an equal position in the enterprise
 - one of the partners manages the enterprise and the other provides additional service
 - one of the partners join the enterprise for economic reasons - cost reduction.
- family business of relatives – in the business works siblings, married partner or other relatives.

Legislation in the Slovak Republic does not define a family business. The term "business" is defined in the Slovak Republic in the Commercial Code and the

Trades Licensing Act. These two legal norms regulate the basic legal conditions of business of natural and legal persons in the Slovak Republic.

The family business is distinguished from "non-family" business by the fact that the closest family members are in the family business in the position of the owners, co-owners, first associate or assisting persons. In setting up, establishing and operating have family businesses the same business conditions as for other business entities. (Markovičová 2014)

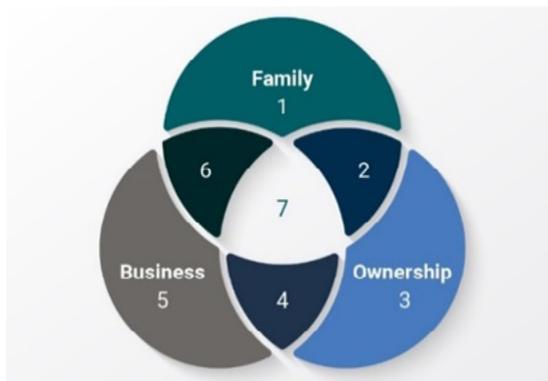
There are two specific forms of family business in the Slovak Republic: (Strážovská 2008, str. 12)

- an individual enterprise of a natural person – it is a business of a natural person registered or not registered in the business register. Besides the entrepreneur = the owner of the enterprise, also there work other members of the family, or strangers can work there too. In practice it is a self-employed person.
- a family business company – it is a company based on family members and it is governed by the provisions of the Commercial Code. In practice, is the most common Limited company.

1.2 The roles of family business

The three-circle model of family business was originally introduced by Hoy and Verser in 1994. This model has received wide acceptance in practice. It identifies seven types of roles that an individual can play in a family business system. It is displayed in Figure 1.

Figure 1 **The three-circle model of family business**



Source: Zellweger 2017, own processing.

Roles and their motives in the three-circle model are following: (Zellweger 2017, pg. 17-18)

1. Family members who are neither shareholders nor business managers – motives: harmony, mutual support, long-term survival of the firm
2. Family members who hold shares but are not involved in management – motives: return on equity dividends, information access
3. Shareholders who are neither family members nor managers – motives: return on equity, dividends, value of the ownership stake
4. Nonfamily members holding shares – motives: opportunity to benefit from firm performance and increase in value, managerial discretion
5. Employees or managers who are neither family members nor shareholders – motives: job security, salary, stimulating work environment, promotion opportunities, opportunity to become owner
6. Family members involved in operations without shares – motives: get to know the firm, career path inside the firm, ways to eventually become owner
7. Family managers holding shares – motives: trying to be successful in all three systems: family (togetherness), business (commercial and entrepreneurial success), ownership (financial success)

1.3 The advantages and disadvantages of family business

The advantages of family business: (Markovičová 2014)

- a family business provides fulfillment of family members life dreams and wider possibilities for self-realization,
- the ability to build a long-term stable business for next generation of followers, to build a tradition in business,
- a family business provides more work motivation because a person works for himself,
- cohesiveness and mutual substitutability of family members, trust, co-responsibility,
- taking advantage of generational differences – the wisdom and knowledge of the older generation and the energy of the younger generation
- economic factors - cost savings
- there is no such strong psychological pressure from the employer because the employer is a family.

The disadvantages of family business: (Markovičová 2014)

- business is time-consuming. Working time is never-ending. Disappears the difference between private and working life.
- job conflicts are transferred to the private life,

- failure in business can cause a failure in family relationships,
- family members tend to "override" over other employees of the company and tend to have more competency than other employees,
- family members are often favored in assessing work, filling of jobs and remuneration, which is sensitively received by other employees,
- there may be disputes and unhealthy rivalry between family members,
- there are conflicts between business interests and family interests.

To eliminate the disadvantages and potential conflicts, it is necessary: (Markovičová 2014)

- to clearly define the competencies, duties, and responsibilities of individual members of the family in the company,
- to closely objectively evaluate the abilities of the family members and according to this place them in the working place,
- to remunerate them as other employees.
- at the start of the business, you need to arrange "game rules" and follow them,
- the founder of a family business must determine his "successor" and think in detail when and how to hand over to him a family business.
- it is recommended to make the greatest effort to separate work and family.

2 Data and Methods

2.1 The research

The research was realized by company KPMG Slovensko spol.s r.o. and it is called European family business barometer. The results of the research are based on 1,122 respondents from family businesses in 26 European countries, including Slovakia. The survey was conducted in the form of an online questionnaire in the months of May - August 2017. It records the current trends among European family businesses.

2.2 Respondents' profiles

Regarding ownership, in 45% is 1st generation currently managing the business, in 40% it's 2nd or 3rd generation and only in 11% it is 4th generation. Regarding governance, in 40% is 1st generation currently managing the family business, in 42% it is 2nd and 3rd generation and same 11% it is 4th generation. Most respondents (45%) has been operating with family ownership between 20 and 50 years. 34% respondents have been operating with family ownership for over 50 years and 19% respondents for less than 20 years. 39% of respondent employ less than 50

people for full-time, 32% employ between 50 and 249 employees, 16% respondents employ between 250 and 1000 employees and 11% employees over 1000 people. Approximate annual turnover of the business is in 40% less than 10mln. €, in 25% between 10mln. € and 50mln. €, in 17% between 50mln. € and 200mln. € and in 12% it is more than 200mln. €.

3 Results and Discussion

3.1 Current trends in family business in Europe (including Slovakia)

From research carried out, we found that in the following 12 months the respondents had the following plan: 22% want to leave the management of the business to the next generation, 13% want to leave the governance (ultimate control) of the business to the next generation, 13% want to leave the ownership of the business to the next generation, 10% want to appoint a non-family CEO retaining ownership/control within the family, 6% want to sell off the business to a third party, 2% want to sell off the business to current employees, 1% want to sell of the business to another family member and 1% want initial public offering.

European family businesses consider preparing and training a successor before leadership succession in 60% very important, in 25% important, in 8% not important, in 3% not important at all and in 4% no answer was given. In general, successful family businesses are investing an increasing level of resources, time and energy into building their leadership from within the family to ensure the long-term continuity of the business. More than 50% of respondents indicated that they have a member of the next generation in management roles within the company which will allow them to prepare for succession planning. However, clarity around ownership is another critical issue. Agreements need to clearly define who is entitled to be an owner or shareholder. Family business owners must consider the role of non-bloodline family members such as adopted children or spouses.

Family business priorities for the next 2 years in European family businesses are: in 64% to improve profitability, in 45% to increase turnover, in 37% to become more innovative, in 32% to attract new talent, in 28% to diversify into new products or services, in 27% to move or export into new markets and in 23% educate and train new staff. We can conclude, that business decisions of European family businesses are focused on sustaining benefits for generations of family members.

Major worries of European family businesses for today are: in 43% war for talent/recruiting skilled staff, in 37% increased competition, in 36% declining

profitability, in 32% increased cost of labour, in 30% political uncertainties, in 28% changes in regulation, in 17% declining turnover, in 16% unstable currency, in 10% increased tax rates, in 7% limited access to finance, in 6% rising energy costs and in 8% something other. Because of unemployment is dropping in the EU, family businesses are beginning to find it more difficult to attract the talent they need. Although family businesses are fortunate in their ability to retain talent, they are now finding themselves in the position of having to fight to attract a workforce with the skills they require. In an effort to improve recruitment efforts, family businesses are increasingly focused on building and communicating their unique value proposition and they also offer loyalty, long-term investment, commitment, higher retention rates to employees and longer employee tenures than other businesses.

European family businesses have the following mechanisms and practices in place: formal board of directors (70%), shareholders agreement (45%), family council (33%), a family constitution or code of conduct (32%), a policy for selection remuneration and promotion of non-family management (31%), succession for other senior positions (23%), succession plans for the CEO (22%), estate plans for family members who have a stake in the business (16%), a policy for selection, remuneration and promotion of family employees (15%) and processing for welcoming, educating and inducting family members into the family business (9%).

3.2 Current trends in family business in Slovakia

Up to 86% of Slovak family businesses participating in research believe that the next 12 months will bring positive news for the company. Nearly half of respondents said they had increased their turnover over the past year and these funds plan to invest back into their business. The most asked respondents (40%) plan to invest in infrastructure, manufacturing and marketing, more than a quarter of companies invest in recruiting new employees and education.

More than eight out of ten Slovak family businesses in 2017 have increased or maintained employment. A very positive trend was also observed in the business activities of Slovak family companies abroad.

At the top of the list of major worries was war for talent. Slovak family businesses have fear of being able to attract and retain enough talented and qualified professionals. More than half of Slovak family business representatives have also identified problematic increases in labour costs.

As a major business priority for the next two years, nearly two-thirds of Slovak respondents have improved their profitability. On the second and third place was placed an increase in turnover and innovation. Fourth, the issue of

the indispensable need to attract talented employees was included. On the fourth place has placed the issue of the need to attract talented employees.

The factors that inhibit the growth of Slovak family businesses are high levy rates, administrative burdens and labour market regulation. 70% of respondents would appreciate a tax advantage in transferring ownership to direct family members.

Current survey results show that the next generation of family businesses in Slovakia has already been given the opportunity to show what they can do. The successor generation is currently in managerial positions in more than three quarters (79%) of family businesses. The founding generation is in the ownership structure of around 80% Slovakian family businesses and shifting ownership to the next generation is preparing only 11% of the respondents during next year. More than half (57%) of respondents already have a selected successor of the owner who is currently working in the company, either full-time or in the form of a brigade.

4 Conclusion

From the realized researched, we can summarize factors, that makes family businesses in Slovakia and also in Europe successful. Every company is unique. What makes one company successful does not have to guarantee success for the other company. However, KPMG Enterprise identified in general seven key pillars of success in family business:

- succession and following generations – the transition of the family business to the next generation is a challenge because less than half of family businesses will survive the transition from one generation to the next.
- business management - managing a family business requires setting family and business goals in time.
- growth - a long-term growth and profitability is the basic component of sustained success in business.
- risk management – family business can create opportunities also by managing internal and external risks. Establishing controls, finding new sources of funding, as well as effective tax management, and optimization can positively affect business profitability.
- exit strategy - in some cases, when there is no successor generation of family members ready, willing or able to continue in family business, it is rather necessary to have an exit strategy as a succession plan.
- preserving wealth - money is undoubtedly the most common cause of conflict in family businesses. It is often the case that many of the members of the fa-

mily, especially the following generation, misunderstand the long-term view of preserving wealth. It is for this reason that this element of family business requires careful planning. Family members need to learn how to handle their responsibilities, to resist the emotional impact of wealth, and to prepare themselves to protect the property of their own business.

- charity – it is an important element in the management of wealth, which consists of charitable goals and the transfer of wealth through the charitable donation.

The magazine Forbes created the chart of Top 20 Slovak Family Businesses in June 2017. There are companies like Niké, Matador Group, 101 Drogerie, CBA Slovakia, Ryba Žilina, Minit Slovakia, Mäspoma and others. These companies show us, that even a family business can be successful.

Acknowledgements

This paper was created within the project GA SPU *New trends in the theory and practice of human resources management*. Project registration number 04-GA SPU-17

References

1. *European Family Business Barometer*. (2017) Retrieved (January 17, 2018) from <https://home.kpmg.com/xx/en/home/insights/2017/11/european-family-business-barometer-confidence-in-unity-sixth-edition.html>.
2. JURINOVÁ, M. (2017 June). *Top 20 Family Businesses*. Forbes Slovakia. 51-55 p., ISSN 1338-2527.
3. MARKOVIČOVÁ, M. (2014). Family Business in Slovakia. In *Current Problems of the Corporate Sector 2014*. 307. pgs., Bratislava: Ekonóm, 2014, 563 p. ISBN 978-80-225-3867-1
4. POZA, E. J., DAUGHERTY, M. S. (2014). *Family Business*. USA: South-Western Cengage Learning, 2014, 461 p. ISBN 978-1-285-05682-1
5. STRÁŽOVSKÁ, L., STRÁŽOVSKÁ, H., KROŠLÁKOVÁ, M. (2008). *Podnikanie formou rodinných podnikov*. Bratislava : Sprint dva., 2008. 240 p. ISBN 978-0-69927-0-6.
6. ZELLWEGER, T. (2017). *Managing the Family Business: Theory and Practice*. UK: Edward Elgar Publishing Limited, 2017, 527 p. ISBN 978-1-78347-071-6