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Family businesses in the Czech Republic: Does business plan determinate market success?

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Abstract

Family businesses represent dynamic and significant part of market, national economy respectively. They are drivers of economic growth as well as innovations; moreover, they are a specific form of social relationships. Regarding this, it is important to reveal, what are the main determinants of their market success. In this paper, we focus on the relevance of business plan existence for market success of family businesses. It was interviewed approximately one thousand family business registered by Association of Small and Medium-Sized Enterprises and Crafts and we revealed that business plan existence is positively associated with success, expressed by growth of revenues and productivity.

Keywords: family business, business plan, market success, economy

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1. Family business, their success and relationship to business plan existence

Family business – why we should pay attention to their existence, growth, and development? Considering constantly changing economic and social environment, uncertainty and risks, innovation needs, performance and quality pressures, flexibility, and complexity, it is important to search for such business structures and arrangements, that are viable, strong, reactive and provide certain level of stability (Mazzarol et al., 2009). Family business could be one type of such economic structure that could be able to find win-win growth and survival strategies.

According to Mazzarol et al. (2009), family business is specific entity because it is not unambiguously possible to separate business entity and its management and owner (or founder), neither their goals nor interests. Nordqvist et al. (2013) define family business as entity owned by two or more members of one household or biologically related persons; in family business is possible to identify interconnections and interdependencies between persons, family, and business entity.

Essence of family business (perceived as economic entity) is embedded in its main interests (or focus) – these interests summarizes Hubler (1999) in code B.O.S.S. which means Business (what is necessary for its success and survival); Others (what business owner wants for other family members and what others want; this point is crucial for strategic vision formulation – also in Craig & Moores, 2013 who claim that vision and goals are complex in case of family business); Self (owner of business and his skills, abilities, competencies, opinions and needs); Stakeholders (internal and external subjects with relation to business activities). Craig & Moores (2013) or LeCounte (2020) stress that family businesses are traditionally more internally-, value- and relationship-oriented (which provide more convenient organizational culture and could be perceived as competitive advantage) but they need pay more attention to professionalization of management systems and techniques as well as to growth-orientation of their business strategies (which should be in accord with their strong values). Very important is also leadership or managerial style. LeCounte (2020) claims that strategic focus is in case of family businesses embedded in three dimensions – firstly it is growth and performance of business; secondly it is participation of family members and their decision power; thirdly it is building and empowerment of relationships, emotional and non-economic values.

Other, relatively significant, characteristic of family businesses is a strong position and power of a founder (or founder generation) who determines routines, processes, knowledgebase as well as future orientation of a business (Craig & Moores, 2013). There is also very strong bond between business entity and family.

Let us deal now with a question proposed in LeCounte (2020) or Nordqvist et al. (2013)– what is success of family business, what are its perspectives? Success of a business is related to its overall performance, effectiveness, and efficiency, grasping market opportunity as well as power preservation, sustainability, value building and goals reaching. For the purposes of evaluation, they are traditionally employed measurable internal and external indicators (LeCounte, 2020), very often these have economic character. Gibson & Cassar (2005) link success and growth with increase in number of employees and sales but point at problem of specific indicator formulation. Indicators, according to Gibson & Cassar (2005) or Mazzarol et al. (2009), could be categorized as follows:

- Financial (economic) – productivity (inputs vs. outputs); turnover; income (before and after taxation); return of assets; sales; revenues; equity etc.
- Non-financial – number of employees, revenue or sales per employee, personal costs and their share on revenues, introduction and success of new products, market share, shifts in business´ life cycle etc.
- Subjective (evaluated by owner, manager or other stakeholder from his viewpoint, based on self-assessment) – overall effectivity, quality of product and its success at market, clients´ retention, R&D, quality of governance, community development and CSR etc.

Success of a business is important not only for the entity itself, respectively interested stakeholders, but also for economy, employment, human resources, and wellbeing of societies and their culture (see, e. g. LeCounte, 2020 for the thesis about importance of businesses for socio-economic growth and development). Important are also personal characteristics (Nordqvist et al., 2013) of owners (family members) – Mazzarol et al. (2009) distinguish two types of owners, firstly managerial (oriented on status quo), secondly leadership (oriented on innovations and change, risk-taking and ambitious). Regardless the type, it is important affinity of owners to learn, as well as ability to ensure resources, ability to deal with legal and financial frameworks for success.

Hubler (1999) introduces a list of potential obstacles or problems that could negatively influence success of family business. These are insufficient and unclear needs or opinions expression and poor communication; increased frustration and lack of confidence; ignoring of different opinions and poor differences acceptation (its perception as problems instead of opportunities); lack of creativity and innovativeness in process management; unjustifiable rights entitlement of other family members; lack of sources (material as well as emotional); poor roles, competencies and responsibilities specification and understanding; ignoring the importance of learning and adherence to the past; rigidity and disability or aversion to change; poor relationships and lack of appreciation or trust.

Strategic business planning could be understood as determination of main goals of business entity, policies and practices which lead to acquisition utilization, consumption and desired allocation of sources that all will allow goals realization (similarly in Eddleston et al., 2013). It includes goals formulation, evaluation of alternatives, formulation of action plans of realization. According to LeCounte (2020), strategic business planning and success of family business is dominantly founders´ (owners´, CEOs´) responsibility. Gibson & Cassar (2005) add that strategic business planning and alternatives evaluation is a basis for decision-making.

Strategic business planning and its importance is highlighted in current research (see, e. g. Craig and Moores, 2013; Eddleston et al., 2013; LeCounte, 2020; Mazzarol et al., 2009). Application of strategic planning is related to faster growth, better financial results, higher engagement of stakeholders, success on global markets, higher capital sensitivity, legitimacy, lower mortality etc. (LeCounte, 2020; Gibson & Cassar 2005; Mazzarol et al., 2009). Gibson & Cassar (2005) or Mazzarol et al. (2009) highlight the importance of formal written strategic plans. Positive impacts of strategic business planning is possible to summarize as follows (Eddleston et al., 2013; LeCounte, 2020; Gibson & Cassar, 2005; Mazzarol et al., 2009):

- Gaining competitive advantage and innovations
- Capitalization of market opportunities and sales growth
- Effectiveness in goals realization
- Development and sharing of tacit knowledge and better human resources
- Fluent competencies and responsibilities distribution between stakeholders or generations
- Effective management, business economy and processes realization
- Flexibility and reactiveness to changes
- Transparency and trust building
- Loyalty, engagement and proactivity of stakeholders, community building
- Clear goal-orientation and pro-growth behaviour and decision-making
- Effective leadership and cooperation, partnership, continuity

On the other hand, Craig & Moores (2013) or Eddleston et al. (2013) point that family businesses often lack strategic planning and evaluation (similarly LeCounte, 2020 who stress the importance of strategic business planning), omit plans updating and adjusting (Ginson & Cassar, 2005); with later generations of owners, affinity to strategic planning, to investments and overall engagement is decreasing (Eddleston et al., 2013). Gibson & Cassar (2005) mention that smaller, family businesses often start strategic business planning after the initial growth rather than before (at the very beginning) what could limit their growth potential. Moreover, there is a risk that sceptic businesses are forced to formulate strategic business plan from external subjects (e. g. banks or investors) just pro forma, such business plan is not accepted and applicable (see Gibson & Cassar, 2005 for the thesis). Some researchers claim that evidence about situation and positives of strategic business planning in family businesses is rather scarce and success of family business as explained variable is not usually used (Eddleston et al., 2013; Debicki et al., 2009).

Adequate business strategic planning could prevent and overcome above-mentioned problems (or threats), prevent failures and losses or even death of the business (see Giarmarco, 2013; Eddleston et al., 2013 for such thesis; Gibson & Cassar, 2005 also highlight strategic planning to be suitable managerial technique). Craig & Moores (2005) or Mazzarol et al. (2009) stress that all applied tools or techniques of strategic business planning should be performance- or growth-oriented, measurable, evaluable and be in accord with overall goals of the family business – this is the way to success. Strategic business planning follows commonly used methodologies and processes that are formal and sophisticated (Gibson & Cassar, 2005). Mazzarol et al. (2009) think that formal approach is characteristic mainly for bigger businesses with more complicated organizational structure, business that grow faster, are better at communication and knowledge sharing, are innovative and competitive. However, it could be beneficiary to modify tools and techniques for family businesses specific needs (e. g. Gibson & Cassar, 2005) – Eddleston et al. (2013) or Gibson & Cassar (2005) point at importance and benefit of informal and more intuitive techniques and processes employment (Mazzarol et al., 2009 relate this approach to smaller businesses with less skilled managers but they don´t refuse idea about mixture of formal and informal practices); Craig & Moores (2013) e. g. add the viewpoint of "familyness" between traditional dimensions of financial perspective, internal processes, innovations and learning perspective, client perspective of strategic business planning. Family businesses´ strategic business plans are usually more quality-oriented than costs-oriented. According to Eddleston et al. (2013) differs nature of strategic pro-growth business planning in different life stages of family business and it has the most significant impacts in first generation of founders, from third generation, positive effects decrease.

Giarmarco (2013) distinguishes three levels of successful family business planning which are:

- Management - note that managerial bodies and ownership is not necessary the same and owners of family business must be able to delegate part of their power and decision-making competencies, on the other hand strategic planning is still mainly in hands of owners. It is important to fluently share and build professional managerial competencies and ensure substitutability of key actors. Part of this level of family business planning is also clear job position specifications and plans, various loyalty engagements or possibility of stock sharing.
- Ownership – who are key actors and who will be continuators are key questions. It is important to clearly specify rights, responsibilities and processes related to business success, survival (similarly also Craig & Moores, 20123). Business plan should be in accord with strategic goals related to family business future as well as new generations and goals of family (how to ensure wealth of family members; how will be the power and decision-making devolved).
- Sources protection – family business planning should focus on sources protection and ensure sufficient sources for success, growth, and survival. Thus, resource-based as well as quality-oriented approach is recommended.

Based on Eddleston et al. (2013), the main obstacles or problems of effective strategic business planning in family businesses are (again) rigidity, prejudices (concerning time and resource costliness, energy waste and preference of actual value-bringing activities instead of planning), disability of flexible reaction and low affinity to change strategic business plan reflecting current circumstances (thus, strategic business plan is not a viable document). These obstacles or problems could result in loss of stability and clear future orientation or vision, decrease of sales or overall performance, loss of loyalty and engagement of stakeholders.

3. Methodology of survey

Methodology of our survey is based on questionnaire interviews (realized between November 2021 and February 2022) between family business operating in the Czech Republic. It was identified and addressed approximately one thousand subjects registered by Association of Small and Medium-Sized Enterprises and Crafts („*AMSP ČR – Asociace malých a středních podniků a živnostníků ČR*“). AMSP ČR is an apolitical open platform and among other manages publicly accessible registry of family businesses.

Subject of our survey is defined as family business operating on the Czech market, regardless sector of economy. Family business is understood as (based on Government resolution no. 899):

- a business entity registered in abovementioned registry,
- having in their decision-making structures members of one family (and their decision-making power is more than a half),
- at least one family member is a member of statutory body.

We also add our understanding of a family – members of one family are together working married couples or partners or at least one of them together with relatives to fourth grade, relatives in straight line or siblings (based on Government resolution no. 899).

Dependent variable is formulated as market success of family business. Success is expressed via two sub-indicators:

- Firstly, it is growth of revenues in last two years at least of 20 per cent. It was compared current revenues in the moment of survey and revenues before two years (t – 2). Source of information was questionnaire survey when we asked respondents to answer the question. For evaluation, the sub-indicator has dummy-variable character (0 = no – growth at least 20 per cent unreached; 1 = yes - growth at least 20 per cent reached).
- Secondly, it is growth of productivity in last two years at least of 10 per cent. Productivity is measured by relationship (Klečka et al., 2011):

$$total\ output\ (value\ of\ production) \Big/ total\ input\ (value\ of\ resources)$$

It was compared current productivity in the moment of survey and productivity before two years (t – 2). Source of information was questionnaire survey when we asked respondents to answer the question. For evaluation, the sub-indicator has dummy-variable character (0 = no – growth at least 10 per cent unreached; 1 = yes - growth at least 10 per cent reached).

To be categorized as successful, the family business had to fulfil at least one of the sub-indicators – growth of revenues or growth of productivity.

Explanatory variable is expressed via existence of formally written and regularly updated business plan (or likewise strategic document). Source of information was questionnaire survey when we asked respondents to answer the question. For evaluation, the variable has dummy character (0 = no – business plan is not formally written nor regularly updated; 1 = yes - business plan is formally written and regularly updated).

We evaluated both – the questionnaire survey and the dependency relationship between dependent and explanatory variable. The methodology is briefly introduced as follows:

- Questionnaire survey was evaluated using basic descriptive statistics. We asked 1 300 family business from registry and collected 946 questionnaires that entered our evaluation. The rest of questionnaires was not satisfactorily fulfilled or the respondents didn´t reply. The results are introduced in the next section of the paper.
- Dependency between dependent and explanatory variable was evaluated using basic statistic dependency test - chi-square test. This test works with null hypothesis about independency between two values (in our case – existence of formal business plan and market success of family business); we compare measured and anticipated random frequencies. The chi-square test equation is as follows (see, e.g., Institute of Biostatistics and Analyses):

$$\chi 2 = \sum_{i=1}^{r} \sum_{j=1}^{c} \frac{(n_{ij} - e_{ij})2}{e_{ij}}$$

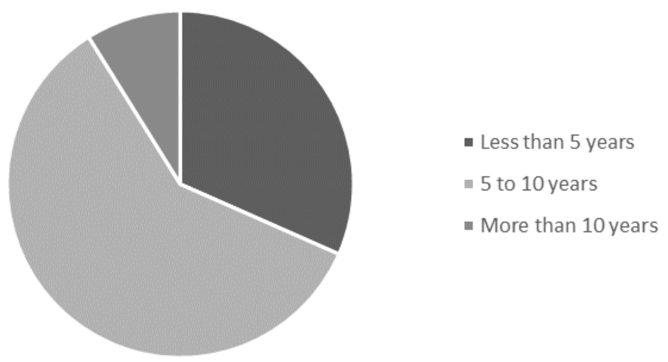
The results are introduced in the next section of the paper.

We hypothesize that there is positive relationship between existence of formally written and regularly updated business plan and success of the entity at market.

3. Empirical results and discussion

Firstly, let us introduce results of realized questionnaire survey. As mentioned above, it was applied basic descriptive statistics to evaluate results. 946 family businesses entered the evaluation, most of them in age between five to ten years (more than half of respondents), less than one third in age less than five years and less than one hundred older than ten years (see figure 1). Thus, we could conclude that the majority of family businesses are in stable (maturity) phase of their lifecycles and is relevant to evaluate the impact of business plan existence on their market success.

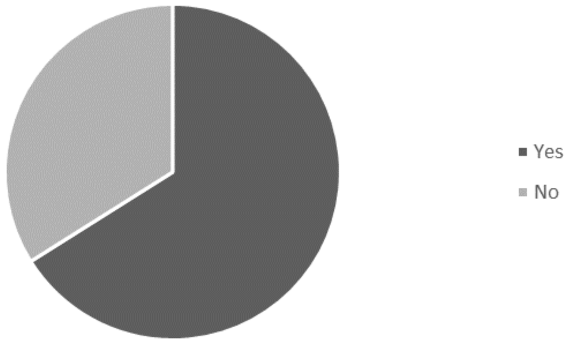
Figure 1: Decomposition of respondents according to age



Source: Own survey

In the next two questions of survey, we focused on existence of business plan or similar strategic concept document that is formally written and accepted by management as well as employees (or other relevant stakeholders); respectively on regular update of such document. Keeping business plan updated is important for its viability and actual applicability. Only updated document could bring required benefits for business growth and development. Over six hundred of respondents have formally written business plan (or similar strategic concept document) – the situation is illustrated in figure 2. It is possible to say that majority of family businesses understand the importance of such document and is aware of its benefits when adequately applied.

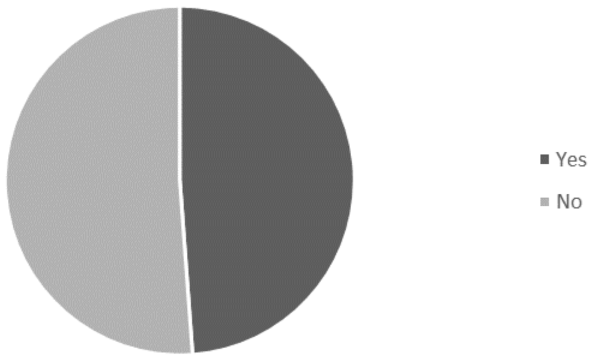
Figure 2: Existence of formally written business plan



Source: Own survey

Slightly less than a half of respondents indicated that they do not regularly update their business plan (se figure 3). Such situation could be perceived to be considerable regarding changing environment in economy of today world. Family businesses that do not update their business plans could face inefficiency and it exists risk that they will not fully exploit all the opportunities. In additional commentaries n survey part of respondents mentioned that they do not feel significant need of updating because they formulate their business plans for demanded period and consequently, they formulate the new one.

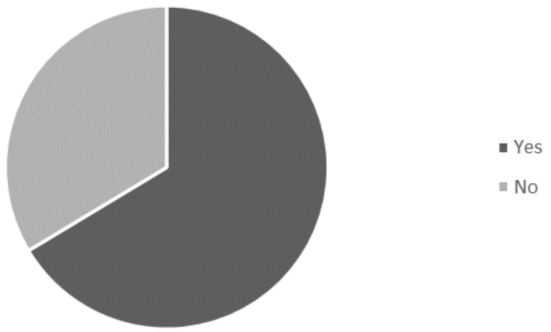
Figure 3: Regular update of business plan



Source: Own survey

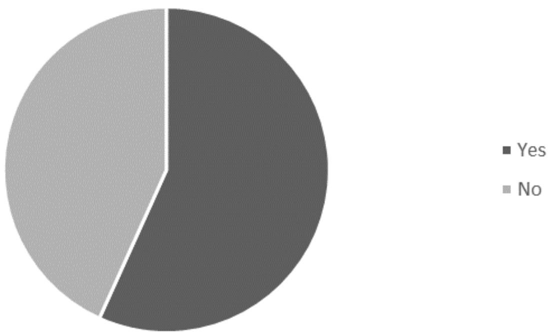
Last set of questions was oriented on the success, respectively performance, of family business in last two years. As introduced in methodological part of this paper, success is understood in terms of revenues (figure 4) and productivity growth (figure 5) in last two years. More than six hundred of respondents confirmed growth of revenues about at least 20 per cent, regardless complicated COVID-19 situation. Similarly, more than five hundred of respondents indicated growth of productivity about at least 10 per cent. We could conclude that it is very satisfactory fact. Family business seem to be stable even in crisis periods, what is convenient for economy. This stability could be related to higher commitment of managerial and decision-making bodies and their closer bond to the business, as well as to closer and more intimate relationships between family stakeholders.

Figure 4: Growth of revenues at least 20 per cent



Source: Own survey

Figure 5: Growth of productivity at least 10 per cent



Source: Own survey

Based on findings of questionnaire survey introduced above we consequently tried to reveal hypothesized relationship between family business success and existence of formally written and regularly updated business plan. For this purpose, we employed basic statistical chi-square test that shows the following:

- It exists statistically significant difference between group of successful and unsuccessful family business with or without written business plan. According to chi-square test, the *p-value* is 0,000. The value of chi -square test is 69.757.

- As presented in table 1, real decomposition of all four groups of family businesses – successful, unsuccessful, with or without business plan indicates positive relationship between existence of formally written and regularly updated business plan existence and success of the entity at market.
- Hypothesis formulated in methodological part of this paper could be labelled as confirmed, using basic statistical chi-square test.

Table 1: Decomposition of family business into evaluated groups

Real decomposition				**Anticipated decomposition according to values in categories**			
		Existence of business plan				**Existence of business plan**	
		Yes	No			Yes	No
Successful family business	Yes	256	120	**Successful family business**	Yes	193	183
	No	230	340		No	293	277

Source: Own elaboration

Considering global exceptional crisis in economy related to pandemic COVID-19, it seems that existence of business plan could help to overcome complicated and unfavourable periods due to strategic and systematic thinking. Family businesses that are successful at market and perform growth are obviously aware of the importance of strategic business planning. They do not agree with arguments about pointlessness of written business plan formulation, wasting of time, energy, and sources. On the contrary it seems that successful family businesses with clear and effective business plans inspire others and overcome partial difficulties more fluently, without severe negative impacts. These entities are able to reach growth and development more effectively and are more viable than business without formulated and updated business plans.

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