

Selected Characteristics of Family Business in the Construction Industry of the Czech Republic

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Abstract

The aim of this paper is to identify and outline the characteristics that distinguish family businesses from non-family businesses in the construction industry of the Czech Republic. The paper presents the results of the research that was carried out in the construction market of the Czech Republic in the years 2007–2011 and that indicated some connections with the current knowledge from the field of family business. Characteristics that distinguish family businesses from non-family businesses were defined by means of literary sources – Orientation to maintaining the business; Tendency to centralization; Orientation to local markets, Customer Orientation, Applied Business Strategy and Number of employees. In accordance with the theoretical concept, it was found out that family businesses have on average a smaller number of separate establishments than non-family businesses. It was found out that the observed family businesses slightly better manage to adapt their offer to customer requirements and also that they pay more care to customers, which supports the hypothesis of higher orientation of family businesses to customers. Business strategies of family businesses are focused on the strategy of differentiation. The tendency to employ a lower number of employees was also confirmed at both family and non-family businesses. In contrast, quality of production was slightly lower in family businesses.

Keywords: family business, strategy, centralization, customer orientation, employees

Introduction

Family business is an important part of business activities with impacts on the national economy. Family businesses contribute significantly to GDP, for example, International Enterprise Research Academy states in 2008 that family businesses make up 85% of all enterprises in the EU. The most famous researchers in the field of family business (Koiranen 2007) describe family businesses as “the backbone of the European economy.” In geographical terms,

the largest share of family businesses is in Italy, where 95% of all enterprises are based on family businesses. In the Czech Republic the issue of family businesses is currently presented on the basis of issues related to small and medium-sized enterprises (SMEs). It is particularly because of the defined support of the state itself as well as representatives of public authorities. It turns out that there are differences among regions in drawing of subsidies related to the support of SMEs and thus family businesses (Váchal et al. 2010). This can lead to negative consequences that affect family businesses mainly in times of economic instability. Some surveys suggest that small business owners know the business environment; however, their preparation to solve the problems linked to the external environment (financial crisis of 2009) is insufficient (Mikušová 2010).

With regard to the described facts, it would be interesting to find out how family businesses behave in confrontation with the effects of the crisis, coming from the external environment. Is it possible to confirm some findings related to the essential characteristics of family businesses? Conducted surveys (Strážovská 2004; Hanzelková 2006; Koráb et al. 1998) indicate that family businesses do not concentrate on short-term profit, but they concentrate on the future; it is rather the question of long-term sustainability. Far more than non-family businesses they are able to sacrifice profits to further running of the company, becoming thus more resistant to critical situations. Family businesses are then becoming relatively reliable business partners. Also progressivity of family businesses lies in the fact that they provide jobs for risk groups of population.

The aim of this paper is to find out whether the identified characteristics related to family business in the developed world also apply to family businesses in the Czech Republic. As the aim of the survey is to find out how family businesses behave when influenced by external negative factors (financial crisis), it is the construction sector from which family businesses are deliberately chosen. Basic characteristics are examined on a sample with the character of family and non-family businesses and their mutual comparison between the years 2007 and 2011.

Theoretical Foundations

Characteristics that distinguish family businesses from non-family businesses can be defined on the basis of available literature sources. With regard to the scope of the conducted research and the possibilities of interpretation of the results the following characteristics are chosen based on their frequency in the literature.

Orientation to the long-term existence of the business

A long-term plan or long-term orientation is one of the strengths of family businesses, which represents a substantial competitive advantage (Kets de Vries 1996). Orientation to maintaining the business instead of maximizing profit is typical for family businesses. It is closely related to risk aversion and confidence.

Particularly, risk aversion, which was confirmed by the surveys on Swedish family businesses conducted in 2007 by Naldi et al, can be considered as one of the characteristics that allowed family businesses to survive the economic crisis between the years 2008 and 2013. Confidence seen in family businesses reinforces the belief of stakeholders that liabilities of family businesses will be met. The more intimate environment in the family business is, the longer term prospects the family business has (Sundaramurthy 2008). Confidence also reinforces mutual cooperation, relations among people, reduces the risk of conflict, reduces transaction costs, facilitates the effective solving of conflicts and supports the running of the business (Sundaramurthy 2008; according to Rousseau et al. 1998), for example in terms of sales achieved.

The long-term prospects of family businesses are particularly true when shares of profits obtained from the business meet needs of the family and there is no reason for further business growth (Koráb 2005). The stability of the business has priority over maximum profit, which is not the case of non-family businesses. The long-term vision of family businesses is particularly reflected in setting long-term goals. Plans of long-term goals in family business tend to be more efficient (Koráb et al. 1998) and can lead to maintaining businesses in difficult economic conditions.

Centralization of management

Centralization towards the family results probably from the awareness of business ownership (Koiranen 2007). Directors of the company are thus very reluctant to give up power over the company that they built. They want to know everything that is going on in the company, and often quite a long time after they left their leading post to their successor. The low autonomy of family businesses is also mentioned in works of (Huovinen and Tihula 2008). They justify centralization of the management of family businesses in the hands of families by the fear of losing control over the business and also losing independence of other managers. The centralization of decision-making towards the family is also supported by demonstrated nepotism and paternalism, through which the power is concentrated into the hands of the family. Distribution of power in the family business expects that the business owner surrenders a certain degree of responsibility in favour of a new employee – manager. This step, however, requires a certain degree of confidence. A typical feature of paternalism seen in the management of the family business is for example the tendency to autocracy, strong need for control, distrust of other co-workers, the need for recognition and the inability of the delegation (Kets de Vries 1996; Hanzelková 2004).

Orientation to local markets

Orientation of family businesses to local markets and higher customer care was proved by the research which was carried out by Gallo and Sveen in 1991. Such strategies of family businesses may be hard to change because of the influence of the family on business. The founders of family businesses try to build

good relationships with their stakeholders through values transferred to business. Good relationships with stakeholders are closely related to the quality of work and attitudes of staff and families. Kets de Vries (1996) even states that the management of the family business often identifies itself with products, and that is why they pursue high quality of the products. In family businesses, family values are transmitted on business environment which has a positive impact on the quality of the product (Schein 1995; Taguiri and Davis 1996). Good relations maintained by the founders of family businesses require responsible and solid approach, which is time-consuming. Therefore, family businesses focus more on local markets, where such relationships are easy to maintain with relatively low transaction costs. The result is that far fewer family businesses expand abroad than non-family businesses (Gallo and Sveen 1991). This fact also results from their conservatism and poor orientation to growth (Doncles and Fröhlich 1991), even in sectors that are otherwise quite dynamic. It may also relate to orientation of family businesses to maintaining the business and aversion to risk (Doncles and Fröhlich 1991). Penetrating foreign markets is linked with uncertainty, which is in conflict with the strategy of maintaining the business.

Customer orientation

Customer orientation is related to the emphasis on tradition and quality that characterize family businesses. For family businesses, customers are one of the most important stakeholders (Pricewaterhouse Coopers 2007; Strážovská 2002); therefore they try to get their utmost satisfaction.

Business strategy

The results of empirical surveys (Odehnalová 2008) show that family businesses apply more the strategy of differentiation i.e. focusing on the specific nature of products with the option to demand higher prices, combined with a wide range of products and a wide range of customers.

Number of employees

A typical feature of family businesses is also a small number of employees (IFERA Fact and Figures 1996; the National Study of Family Business 1997; Lussier 2004). A small increase in the number of employees is related to paternalistic behaviour of the founder (Dyer 1988; Dyer, Hilburt – Davis 2003), as well as to characteristic directive management, hierarchical relationships, centralization of management and distrust of other workers. It is particularly the paternalistic behaviour with the aim of keeping the business in the “founder’s own hands” that leads the reluctance of the founder to employ more employees. A higher number of employees requires a more professional approach, in particular formalization of procedures and delegation of management. Through delegation of tasks, the responsibility for the company is partly transferred to lower level employees. Founders of companies, however, are well aware

of the fact that managers can't play the role of entrepreneurs, because of other preferences and the low level of responsibility associated with the risk of possible failure (Říkovský 2002).

Methodology

The database of the survey "Competitiveness of Enterprises", which was carried out between the years 2007 and 2011 (Blažek et al. 2007), was used for investigation of the different characteristics of family and non-family businesses.

421 companies from manufacturing and construction industries took part in the survey of Masaryk University. Within this group, 81 companies were identified that fall according to the sectoral classification CZ – NACE in category F – the construction industry. What year? And what economic results – until when?

In this category, 21 family businesses were found, defined on the basis of the assumption: "Family business is an enterprise in which at least two members of one family work and who have a direct influence on the management of the company" (by Odehnalová 2011; Lukeš, Nový et al. 2005; Sten 2007; Taguiri and Davis 1996). The remaining 60 companies can be considered as businesses that do not meet the basic definition of family business.

The construction sector was, like many other industries, hit by the economic crisis. Within the sector the first signs of the crisis appeared already in 2008, when a slight drop in building construction was seen, while a decrease in civil engineering appeared about two years later (Czech Statistical Office). Construction production index has been declining year on year since 2009; between the years 2010 and 2011 it declined by 3.5%. In 2012, construction output fell by 6.5% year on year. Building authorities issued by 8.8% fewer building permits and their orientation value declined by 6.3%. The total value of new construction orders in the Czech Republic fell by 18.4% year on year. The number of flats whose construction began was lower by 13.4% in 2012 than in 2011. The number of completed flats grew by 3.0%. One reason for this unfavourable situation in the construction sector is ongoing weak demand due to the continued careful approach of private investors, combined with limited state budget (Czech Statistical Office 2013).

In 2012 construction output declined by 6.5% year on year. Building construction recorded a decline of 3.4% year on year and civil engineering fell by 13.6%. Construction output fell by 17.0% in 2012 in comparison with the year 2008 (Czech Statistical Office 2013). Construction declined year on year for the fourth year. In the last two years it was below the level of the years 2007 and 2008, when it peaked (Czech Statistical Office 2013).

These facts have a major impact on the competitiveness and even the very existence of businesses. Many companies did not manage to overcome the critical decline in the sector of construction production and had to terminate the business. The fact whether there are differences in the behaviour of family and non-family businesses during the economic crisis was also surveyed within the examined sample of companies.

Characteristics of family businesses were surveyed on the given sample of companies by means of questionnaires. The questionnaires included the following types of questions covering the examined characteristics.

Orientation to maintaining the business: The survey that identifies businesses that survived the economic crisis lasting from the year 2008 was carried out in 2013.

Centralization of management is related to the question: "Give the number of separate establishments including the headquarters."

Orientation to local markets is related to the question: "Express in percentage opinions of customers from the region and outside the region."

Customer orientation is related to a set of questions: "What care, in comparison with competitors, is paid to customers of your company?" "How do you rate, in comparison with competitors, the ability of your company to tailor products to customer requirements?" "How do you rate, in comparison with competitors, the quality of products of your company?"

Applied business strategy of management is related to the question: "What business strategy does your company apply?"

The number of employees is related to the question: "Give the total number of employees of your company."

To identify the characteristics of the studied group of companies, the method of descriptive statistics, namely absolute and relative frequency, comparison of averages and standard deviation, with the use of software IBM SPSS Statistics 20 was used.

Results

Orientation to maintaining the business

All family businesses successfully coped with the economic crisis and their existence was also confirmed in 2013. Out of 81 family and non-family businesses, 5 non-family businesses did not survive the economic crisis.

Tab. 1: Orientation to maintaining the business

		Existence	Absence	Total
Non-family businesses	Number	55	5	60
	%	91.70%	8.30%	100%
Family businesses	Number	21	0	21
	%	100%	0%	100%

Source: author

Centralization of management

Tendency toward centralization was identified on the basis of responses to the question: "Give the number of separate establishments including the headquarters." The question was not answered by 4 non-family businesses. Family businesses report a lower number of separate establishments than non-family

businesses. The standard deviation points out the fact that non-family businesses tend to have greater decentralization in the form of autonomous units.

Tab. 2: Centralization of management

	Number of separate establishments (average)	Standard deviation	Number
Non-family businesses	2.39	3.15	56
Family businesses	1.71	1.14	21
In total	2.21	2.74	77
No answer			4

Source: author

Orientation to local markets

Orientation to local markets was measured on the basis of answers to the question: “Express in percentage opinions of customers from the region and outside the region.” The question was answered by all 81 surveyed companies. On average, family businesses reported slightly lower orientation to local markets measured by the percentage of customers from the region. The fact is in contrast to the theoretical concept mentioned in the research that was published by Gallo and Sveen (1991) and Doncles and Fröhlich (1991).

Tab. 3: Orientation to local markets

	Average percentage of customers from the region	Average percentage of customers out of the region but from the CR
Non-family businesses	58.10%	40.00%
Family businesses	57.30%	40.30%

Source: author

Customer orientation

The level of customer orientation was investigated by asking questions: “What care, in comparison with competitors, is paid to customers of your company?”, “How do you rate, in comparison with competitors, the ability of your company to tailor products to customer requirements?” and “How do you rate, in comparison with competitors, the quality of products of your company?” Respondents used a 5-point scale, where 1 meant significantly lower and 5 meant significantly higher. The first two questions were answered by all 81 surveyed companies; the question relating to the quality was not answered by 1 family business.

Tab. 4: Customer care

	Customer care	Standard deviation	Number
Non-family businesses	3.6	0.8	60
Family businesses	3.91	0.83	21
In total	3.68	0.82	81

Source: author

Tab. 5: Ability to tailor to customer requirements

	Ability to tailor to customer requirements	Standard deviation	Number
Non-family businesses	3.79	0.9	60
Family businesses	3.6	0.65	21
In total	3.8	0.84	81

Tab. 6: Quality of product

	Quality of product	Standard deviation	Number
Non-family businesses	3.79	0.63	59
Family businesses	3.76	0.7	21
In total	3.78	0.65	80
No answer			1

Source: author

Applied Business Strategy

The question “What business strategy does your company apply?” was answered by all 81 surveyed companies. Family businesses were more focused on the strategy of differentiation, compared to non-family businesses, which more applied the strategy cost leadership.

Tab. 7: Applied business strategy

	Differentiation	Cost leadership	Dif. focus	Cost focus
Non-family businesses	35%	25%	20%	20%
Family businesses	28.80%	32.70%	25%	13.50%

Source: author

Number of employees

The size of the business and the tendency towards a higher or lower number of employees in family and non-family businesses was investigated by means of answering the question: “Give the total number of employees of your company.” The answers show a clear difference between family and non-family businesses in the average number of employees. The tendency to employ a higher number of employees in non-family businesses is demonstrated not only by the average number of employees, but also by the standard deviation of the answers.

Tab. 8. Number of employees

	Total number of employees – average	Standard deviation	Number
Non-family businesses	217.26	383.64	60
Family businesses	183	141.19	21
In total	208.37	337.8	81

Source: author

Discussion

Theoretical assumptions mentioned in the introduction of this paper were subjected to investigation in the group of 81 construction companies. On the basis of the conducted analysis, the following conclusions can be drawn. The group of family businesses was able to survive the economic crisis between the years 2008 and 2013. It happened in accordance with the assumptions on the sustainability. On the other hand, there were 5 non-family businesses that were closed down. This fact supports the theoretical concept that family businesses are more focused on sustainability, risk aversion as it is mentioned in the surveys carried out by Kets de Vries (1996), Sundaramurthy (2008), Koiranen (2007), Koráb et al. (1998), Garcia-Álvarez and Lopey-Sintas (2001). The centralization of family businesses was another area of research. In accordance with the theoretical concept, it was found out that family businesses have on average a smaller number of separate establishments than non-family businesses. The findings thus correspond with the surveys carried out by Koiranen (2007), Huovinen and Tihula (2008), Koráb et al. (2008).

The characteristic describing the orientation of family businesses to customers was surveyed by means of several variables; in particular, the care paid to customers, the ability to tailor products to customer requirements, quality of production. It was found out that the surveyed family businesses could tailor their products to customer requirements a little better and also that they pay higher attention to customer care, which supports the hypothesis of a higher orientation of family businesses to customers. The business strategy of family businesses is also in accordance with the previous theoretical findings. The strategy of differentiation is more applied by family construction companies than by non-family businesses. Non-family businesses are more focused on the strategy of cost leadership. The tendency to employ fewer employees, as it is mentioned in conclusions of many studies on family business (Romano, Tanewski and Smyrniotis 2001; Kets de Vries 1996; Lin and Hu 2007; Nelton 1998) was confirmed in the surveyed group of family and non-family businesses. By contrast, quality of production was slightly lower in family businesses. This finding is in contrast to studies carried out by Kets de Vries (1996), Doncles and Fröhlich (1991), Schein (1995), Taguiri and Davis (1996), Romano, Tanewski and Smyrniotis (2001). Similarly, the finding relating to family orientation to local markets is in contrast to the theoretical concept. The results showed that slightly fewer customers of the surveyed group of family businesses were from regions or from other parts of the country. The assump-

tion that family businesses choose more conservative strategy for their business can be drawn from the above mentioned conclusions. Their efforts to maintain long-term business may result in a lower number of employees, focusing on good customer relations, and applying the strategy of differentiation. The question remains whether the findings of the quality and orientation to local markets are influenced by the nature of the study branch, or the ownership structure.

Conclusions

The survey of the group of companies from the construction sector reveals some findings which are known in economically developed countries with a long-term development and support of family business. With regard to the limited sample of businesses and related non-representativeness, the achieved results cannot be generalized. However, there are some aspects which deserve greater attention in future surveys. The achieved results show differences in observed characteristics of family and non-family businesses in the period of the economic crisis in the construction sector, which is still going through a difficult situation caused by the external environment. On the basis of the achieved findings, it can be said that family businesses in confrontation with the effects of the crisis which comes from the external environment, behave differently in the selected characteristics. Family businesses have a lower number of establishments, pay more attention to their customers and are able to adapt better to customer requirements. In addition, they are more focused on the strategy of differentiation and tend to employ a smaller number of employees. Other characteristics such as greater emphasis on the quality and orientation to local markets were not confirmed.

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