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**Article**

## Family Business as Source of Municipality Development in the Czech Republic

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FAMILY BUSINESS AS SOURCE OF MUNICIPALITY DEVELOPMENT  
IN THE CZECH REPUBLIC

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**Abstract**

The article is focused on the family businesses in the Czech Republic. The main aim is to answer the question of whether the family entrepreneurship can be seen as an instrument of municipality development. First, the term family entrepreneurship based on foreign and domestic sources is defined. The sources are complemented by a legal viewpoint under the new Civil Code of the Czech Republic. Furthermore, a regional definition of a municipality and the country is specified. Then, a result of the research investigation focused on the link between the family entrepreneurship and economic development of communities is presented. Finally, the next steps of the team at the Faculty of Economics, Technical University of Liberec in the given area are unveiled. The novel idea is to use such a tool that allows its residents to find the meaning of life in the country and accept a certain level of inequality associated with it. Just at this moment, regional disparities can be removed and support for the development of rural areas can be successfully implemented. Also, family businesses can be a source of developing business environment, especially in small municipalities in rural areas.

**Keywords:** family business, entrepreneurship, business environment, municipality in a wider area, evaluating indicators, factors of development, balanced socio-economic development

**JEL Classification:** M10, M13, K20

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**Introduction**

The article aims to present the results of the research aimed at finding out whether the family business can be seen as a tool for development of municipalities in the country. Based on this, it will then be recommended as a useful tool to target regional business support, especially for those based in the region. The intention of the present research was

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defined based on the results of previous projects in basic and applied research carried out in the years 2007 to 2015) at the Faculty of Economics, Technical University of Liberec (further EF TUL).

### 1. Definition of terms

At the beginning, it is necessary to specify the basic concepts which include primarily the term "family business, enterprise". The starting point was the study of I. Mandl (2008) which contains data from a survey of 28 European countries. The criteria used for the definition of family businesses abroad (without considering the weight of criteria, there was only filed its frequency of occurrence) are summarized in table no. 1-A and 1-B.

The dominant criteria in **business ownership** can be seen in the below tables no. 1-A and 1-B. Of these, the most common criterion is the majority ownership share within the family. Some countries, e. g. the USA, require that the owner regards his business as the family business. In Europe, the kin is proved by at least two generations doing business, or the business must be owned by at least two members of one family (sufficient only for the relatives of the ancestry). The second important factor is **strategic management of the firm in the hands of the family**. Most often it is claimed that at least one family member must have significant influence over the management. The third criterion is closely related to the second one, however it is sometimes not separated, and that is, the role of the family in **control**. The fourth criterion which was emphasized in a study of 28 countries was the issue of **employment of family members in the business**. For example, in the case of Great Britain, family members help informally; in the case of Italy, it is stated that family members with a high degree of affinity work in a firm. In the case of the Czech Republic, strong dependence of family members on the resources of the business is mentioned. Similar definition is given in the case of Poland. In Finland, we find the criterion that at least two members of the family work in the business. In the case of Croatia, it even shows that members of the household may legally work in a firm without a contract. (Mandl, 2008)

In 2007, the group of experts of the EU Member States within the framework of Final Report specified the so-called European definition of family businesses (EC, 2009). The definition has been adopted by the European Commission as follows: A firm of any size is a family business, if: (1) The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs. (2) The majority of decision-making rights are direct or indirect. (3) At least one representative of the family or kin is formally involved in the governance of the firm. (4) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.

Works of authors from Switzerland may be considered important studies in the field of family business as there is a system of education for family business (see e. g. The Centre for Family Business HSG in St. Gallen, Switzerland). In studies, especially from Goehler, family business was defined on the basis of two main indicators, family controlled equity and a number of family members of the statutory body from the family (Korab, 2008).

**Table no. 1-A: The most common criteria used for the definition of family business abroad**

Criteria for the definition of family business	Belgium	Bulgaria	Czech Rep.	Denmark	Finland	France	Croatia	Ireland	Lithuania	Latvia	Luxembourg	Hungary	Malta	Germany
<b>Ownership</b>														
Business property shares within a family up to generation branches	1		1		1			1	1		1		1	
Owned by a family, reached at least the second generation of owners		1		1	1	1		1						
Majority business share in a family *		1		1		1				1				1
At least 2 family members own the business **					1				1			1		
<b>Management</b>														
At least 2 directors have the same surname	1													
At least 1 family member has a managerial position (has a significant influence on the business management)	1	1	1		1	1	1	1	1					1
More than 1 generation in business – active participation	1	1				1								
<b>Control</b>														
Prevailing control over the business (at least one family member)		1	1	1	1	1		1	1		1		1	1
<b>Employment of family members</b>														
At least 1 family member is involved in a direct business activities ***	1				1							1		
At least the second generation works in the business or is preparing for it								1						
Dependence of family members on the source of income from the business ****			1				1		1					
<b>Branch of business</b>														
Agriculture, Services							1					1		

Source: Adapted after Mandl, 2008

Note: Data were not found for Estonia, and Cyprus.

\* In Latvia and Germany the entire property ownership of a family member with the possibility of taking over as an inheritance.

\*\* In Lithuania, a requirement for starting a business owned by spouses.

\*\*\* In Hungary, in addition to a farmer, there must be employed another family member, full time.

\*\*\*\* In Croatia, it is specified that the members of the household may legally work in a family business without a contract.

**Table no. 1-B: The most common criteria used for the definition of family business abroad**

Criteria for the definition of family business	Italy	Netherlands	Poland	Portugal	Austria	Romania	Greece	Slovakia	Slovenia	Great Britain	Spain	Sweden	TOTAL
<b>Ownership</b>													
Business property shares within a family up to generation branches	1	1	1	1									11
Owned by a family, reached at least the second generation of owners		1	1	1		1						1	10
Majority business share in a family *			1		1	1	1	1	1	1	1	1	14
At least 2 family members own the business **	1												4
<b>Management</b>													
At least 2 directors have the same surname													1
At least 1 family member has a managerial position (has a significant influence on the business management)	1	1	1	1	1	1		1	1	1	1	1	19
More than 1 generation in business – active participation				1									4
<b>Control</b>													
Prevailing control over the business (at least one family member)		1		1			1	1	1	1	1		17
<b>Employment of family members</b>													
At least 1 family member is involved in a direct business activities ***					1						1	1	6
At least the second generation works in the business or is preparing for it		1											2
Dependence of family members on the source of income from the business ****	1		1		1				1				7
<b>Branch of business</b>													
Agriculture, Services					1								3

Source: Adapted from Mandl, 2008

Although many experts deal with the issue of family business, it must be said that there is no unified definition and a determination of the phenomenon of family business. Based on extensive research realization (AMSP, Ayranci, Caspar, EC, Goehler, Kachaner, Korab, Mandl, Michael-Tsabari, Odehnalova, Rivers, Ruda, etc.) the following facts can be defined: (1) Family businesses are an important component of the regional economy, e.g. their share in GDP of the United States is 64% and employ 62% of the population (Rivers, 2012). (2) The strength of family businesses is in stable value they provide and their ability

to respond rapidly to change (Odehnalova, 2011). (3) Employees highly confide in the business, the company has a strong corporate culture (Caspar, 2010). (4) Family businesses tend not to move their headquarters outside the family home, e. g. to a tax haven. (5) Family businesses tend to look at the development of the company in the long run (Kachaner, 2012). (6) Loyalty of family members and harmonious relations within the family positively influence satisfaction of management with the financial performance of the business (the ability to create added value, adequate leverage and optimal capital structure) (Ayranci, 2014). As reported Strýčková (2015), the answer to the essential question, whether the final capital structure of a company is the result of its own decision making, or rather a result of various external factors, thus tends rather to the predominance of the internal factors. (7) A large part of family business owners are worried that a successor would not be ready to take over the family business (Rivers, 2009). (8) Help for the development of family businesses at the level of governmental organizations would both simplify the tax aspect of succession and financial incentives not only for starting family businesses, but also for those businesses developing innovatively (EC, 2009). (9) Where there are "controlled network of mentors for family businesses" are more significant results of their business (PWC, 2012). (10) Family businesses have a specific business risk factors compared to non-family-owned businesses. These factors should be reviewed as part of the rating process specific to family businesses (Ruda, 2005). (11) Based on the research of Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic (hereinafter, Czech acronym AMSP CR), it can be said that in the long term, family businesses believe its capabilities, products and personnel. The positive news is that companies do not head for a turnover, but profitability which they associate with quality employees (AMSP, 2015). (12) It may be noted that in the literature, there is a gap on the issue of the role of the family in business behaviour.

**In the Czech Republic** (hereinafter CR), the definition of the concept of family business can be based both on legislation of the new Civil Code, with effect from 1 January 2014, and further on studies by several organizations dealing with the topic. This is, for example, a team of V. Koráb at the Brno University of Technology in cooperation with GaREP, Ltd. See the project's output of Ministry of Regional Development of the CR (hereinafter MRD CR) available in a central project repository (hereinafter CEP) under the name of WD-01/07/39. Further, the study of KPMG or a survey of AMSP CR (2013, 2014, and 2015) defines an enterprise as a family, when most of the ownership rights to this entity or a control and decision-making on running the family business is under the supervision of the family. Another significant element according to the Association is the fact that at least one of the family members is involved in running the business. The main connecting factor is **ownership**. By this characteristic, the given definition differentiates from the more general concept of an enterprise.

The issue of family businesses was, up to the effectiveness of the new Civil Code (hereinafter CC), insufficiently regulated by the law. Only after 1 January 2014, i.e. when the CC came into force and significantly affected the Czech private law, there comes a change. This issue is laid down in the CC as a new institute of "family enterprise" (Obcansky zakonik, 2012). The issue is dealt with in Sections § 700 to § 707 CC. Thus, the new concept of an enterprise – a family enterprise is laid down in legislation. Another concept related to the new institute which was recodified in the CC is the concept of an entrepreneur (prior arrangement is in the now invalid Act. No. 5213/1991 Col., Commercial Code). According to the recodification in Section § 420 CC an entrepreneur is considered a

person who on his own account and responsibility, independently carries out a gainful activity in the form of a trade or in a similar manner with the intention to do so consistently for profit. However, it must be emphasized that with regard, in particular, to consumer protection, an entrepreneur is also considered every person that enters into contracts related to his own commercial, production or similar activities, or within his trade, business or profession, or a person acting in the name or on the account of an entrepreneur. In this respect, it is crucial, inter alia, to mention Section § 421 of CC which states that in addition to the above, an entrepreneur is also considered a person registered in the commercial register. Related to this is the fact that the entrepreneur is registered under a particular name. This name, then, under Section § 423 of CC, is a corporate name. CC further specifies what is an enterprise and this term is still viewed as an organised set of assets and liabilities created by an entrepreneur who, based on his will, are used to pursue his activities. It is understood that an enterprise is presumed to comprise everything that is typically used for its operation. Section § 700 paragraph 1 of CC provides that a family enterprise is considered to be an enterprise in which the spouses, or at least one of the spouses with their relatives up to the third degree or persons in an in-law relationship with the spouses up to the second degree work together and which is owned by one of these persons. An essential feature is that the enterprise is owned by some of these persons. Those of them who constantly work for the family or for the family enterprise are considered to be family members participating in the operation of the family enterprise.

As stated by Kyselova (2013), a family enterprise can be characterized as a special type of business enterprise (statutory definition of a business enterprise says it is "an organised set of assets and liabilities created by an entrepreneur who, based on his will, are used to pursue his activities"). Given the above, it is not possible to consider a family enterprise a legal entity, however, according to a legal theory, it is considered to be a collective thing. The key concepts here are kinship, ownership of the enterprise, a set of assets, and permanent work for a family enterprise. As indicated in Kraftová and Prášílová (2013, p. 7), *"The company is not and cannot be taken out of the environment in which it operates; an entrepreneur must perceive the surrounding space, "their region".*" In the course of its development, the firm overcomes various crises in which it may find support in its region or municipality. As stated by the study issued by GaREP (Binek et al., 2011), in the Czech Republic, about 99% of enterprises are characterized as small and medium-sized enterprises. Based on the expert estimates, 50% to 60% of them are family businesses. The municipality can help with appropriate conditions develop business in the first three phases of its development: the establishment, in the phase called survival and in the growth phase of the firm. According to the above study (Binek et al. 2011, p. 18), there can be stated two primary sources of ideas for starting their own enterprise: (1) *"The first sources of impulses originate from a cultural and family environment in which we live. Especially the family and its patterns and traditions are a powerful incentive to start a business."* (2) *"The second sources of impulses to the foundation of the company come from the business environment."*

A municipality can help both directly and indirectly. Correspondingly, the pursuit of education for entrepreneurial activities in cooperation with education and involvement of businesses in the strategic planning of the municipality are also important factors. Based on that, research questions were raised: How is the term "family business" perceived in the Czech business environment? Are family businesses seen as an important element of the regional economy?

## 2. The methodology of the research in the field of family business

To answer the research questions, a mass method, namely a mixed research method using both qualitative and quantitative data collection was chosen.

At first, project outputs of the topics "actors and tools of community development" and "family entrepreneurship" that were implemented in the Czech Republic, were monitored. Specifically, this project was assigned by the Ministry of Regional Development of the Czech Republic - WD program implemented by the GaREP Agency cooperating with the University of Technology in Brno, projects of EF TUL within the specification of the Ministry of Regional Development of the Czech Republic - WD and TA CR - Omega program and AMSP CR project - Situation of family businesses in the Czech Republic etc.

Furthermore, there was implemented a research project at the EF TUL (institutional research) in the area of family entrepreneurship within the selected region at the administrative district of municipality with extended powers (hereinafter AD MEP). The AD MEP Liberec region, for which a team of EF TUL made a contract research of study of the economic pillar within the updates of spatial analytical data (hereinafter, Czech acronym UAP) in 2014, was selected.

- First, Liberec was specified as a target region at the AD MEP level (it was defined by 28 municipalities). In the context of the economic study of UAP, there was done a survey conducted among major employers in the municipalities of AD MEP Liberec. These employers were chosen by mayors of the municipalities. In the case of the Liberec city, it was the Deputy of Development Department at the Municipal Authority of Liberec. The main criterion was the largest number of employees. For the companies concerned, there were completed identification data, identified contact persons, and further, these were accompanied by basic information from the business register. In January 2015, the companies were sent a questionnaire (electronically and in writing by mail) in order to find answers to the importance of family businesses to the given municipality. See the second phase of research.

- In the second phase, there was conducted primary research aimed at identifying the family business and its importance to the municipality in selected AD MEP Liberec. Both major employers of municipalities AD MEP Liberec as well as local governments of municipalities of AD MEP Liberec were addressed (out of which 146 commercial entities and 28 municipalities). Evaluation of the results included descriptive statistics and evaluation of dependencies of selected variables using the Statgraphics software program for data analysis, however, only in the group of respondents from the commercial sector.

- The third phase included the collection and evaluation of secondary data in relation to the identified family businesses (about 70 businesses). The aim of the secondary survey was to determine the characteristics of these businesses in the following structure: age of the company (before the transformation of legal form of entrepreneurship); current legal form of entrepreneurship (as of 31 March 2015); existence of more family members in the management or control of the company according to identical surnames; number of employees (as of 31 March 2015); core business (specifications according to CZSO); existence of business within R&D; cooperation with municipalities; ability to receive subsidies for the development of companies; leading provider of subsidies for the companies being investigated.



- The final phase summarized findings, specified formulation of a family business in the Czech Republic conditions and developed a proposal to proceed with the subsequent application of research results in practice.

For the preparation of the proposal of the subsequent applied research, there was subsequently defined a target group and specified outputs. Within the municipalities in the Liberec Region, there was determined correlation between selected parameters, such as the unemployment rate, the number of economically active inhabitants, business entities and the population in the village.

At first, the region at the NUTS 3 level was specified. In relation to the ongoing studies the Liberec Region was chosen. In the Liberec Region, there are 88% rural municipalities with a population up to 2000. In terms of the functional definition of the region, there can be stated 39 sub-regional centres and higher regional units (Zizka, Rydvalova, 2013). It must be emphasized that also smaller municipalities with a population up to 2000 are sub-centres with significant volume of travel to amenities and economic activities in the region. In relation to the present issue of the framework for support (both direct and indirect) of economic and social community development, on the level of municipalities, regional government office, employment office or government ministries from the Czech Republic, administrative definition of regions was selected. Specifically, it was a region, AD MEP and a municipality. Afterwards, the set hypotheses of dependence between the unemployment and the number of residents in a municipality were tested, etc.

### **3. Results of the research "Family Entrepreneurship as a Tool for the Development of the Municipality"**

For the survey, the region, where in 2014 a study team realized the study of economic development of municipalities for economic pillar of spatial analytical data, for AD MEP Liberec, was selected; see the methodology section.

#### **3.1 Description of the investigated region**

The natural economic centre of the region is the city of Liberec which is also the main source of job opportunities for other municipalities of AD MEP. The regional city also has a network of educational and health facilities for which the inhabitants of the surrounding municipalities commute. Educational structure of the population in the regional capital is significantly better than in other municipalities of AD MEP (the only exception is Straz nad Nisou which is of course closely related to Liberec). Liberec, the administration district of a municipality with extended powers, brings together 28 municipalities, out of which seven municipalities have a town status (see Public Database of the Czech Statistical Office). A list of municipalities is given in table no. 2. The area of AD MEP Liberec can be generally characterized as an area with strong positions in the manufacturing industry. In the southern and south-western parts of AD MEP, agriculture has still a strong position. As stated in the 2009 report: The combination of the strong position of the manufacturing industry (the secondary sector) and agriculture (primary sector) brings with it the threat of structural unemployment. In accordance with the general development of the sectoral structure of the economy in Western Europe, it can be expected that the share of manufacturing and agriculture in total employment will decline. In absolute values,

therefore, further growth of these two sectors cannot be expected. Opportunities for job creation have to be found in the tertiary sector, which means, in the area of services. It can be stated that municipalities in AD MEP Liberec have the share of people employed in the primary and secondary sectors in the range of about 40 to 50% (Jaksch et al., 2014).

**Table no. 2: Selection from descriptive statistics of the questionnaire – the view of companies and municipalities**

<b>Question: What do you think a term “family business“ means?</b>	<b>Municipalities Count</b>	<b>Share %</b>	<b>Commercial enterprises Count</b>	<b>Share %</b>
Family members have decisive influence on the company's management.	12	35	36	35
The business has a long tradition and involves generational family development.	10	29	35	34
Workers are mainly family members.	9	26	13	13
The business has a small number of employees.	2	6	9	9
These are mainly businesses of self-employed people (hereinafter, Czech acronym OSVC?)	1	3	4	4
These are mainly Ltd. businesses	0	0	7	7
<b>Question: How are family businesses perceived by the public?</b>	<b>Municipalities Count</b>	<b>Share %</b>	<b>Commercial enterprises Count</b>	<b>Share %</b>
In a positive way.	9	60	18	38
Not possible to say.	6	40	28	58
In a negative way.	0	0	2	4
	15		48	
<b>Question: Do you think that family entrepreneurship is a significant factor for the development of a municipality?</b>	<b>Municipalities Count</b>	<b>Share %</b>	<b>Commercial enterprises Count</b>	<b>Share %</b>
YES	13	87	37	77
NO	2	13	11	23
<b>If your answer was YES, where do you see a significance of a family business for a municipality?</b>	<b>Municipalities Count</b>	<b>Share %</b>	<b>Commercial enterprises Count</b>	<b>Share %</b>
These are key employers in a municipality.	1	4	16	19
They influence social events in a municipality.	8	32	19	22
They look after the environment.	0	0	5	6
They influence and complete the image of a municipality.	9	36	21	25
They implement activities supporting the community development.	7	28	24	28

In terms of the structure of the economic base, it can be stated that almost a third of businesses are engaged in industrial production, about 15% of them in the construction business and about 2% is devoted to agricultural production. From 2001, there was a decline in agricultural activities, while to stabilize these activities have taken place since 2011. Over 50% of economic entities are involved in services, whether public or commercial. In the long term, the statutory city of Liberec has a share of almost 75% of the total number of businesses, which demonstrates its dominant position within the AD MEP.

In terms of legal forms, physical persons prevail among economic entities doing business under trade or other license whose share in the total number of entities has been stable since 2007, that is more than 77%. These are mostly small businesses with no employees working in the services sector and small craft. Another significant group is businesses with a share of more than 13% (in 2013). Since 2001 there has been an increase of about 10%. Although small enterprises of physical persons prevail in terms of the total number of business entities, it should be noted that in terms of the impact on total employment and value added, large enterprises are crucial for the region which generally take the form of a legal person. Within the AD MEP Liberec, the increase in the number of businesses, mostly in the category of individuals, was noted between 2009 and 2012. Here, it can be assumed that it was a phenomenon of "hidden unemployment" as a result of the economic crisis. This phenomenon means that dismissed workers establish their businesses as self-employed individuals. In 2013, there was a decline in the number of businesses at the level of 2008. The development of the unemployment rate in municipalities with dominant manufacturing industry follows the economic cycle. The highest unemployment rates were recorded around 2003 and 2009. Registered unemployment rate, however, can be assessed only up to the year 2011. For the years 2012 and 2013, there are no existing data for the calculation of this indicator because of problems with information systems at the Ministry of Labour and Social Affairs of the Czech Republic (MoLSA). In addition, the CZSO proceeded to a change in methodology in calculating unemployment indicator. Newly, the indicator of "share of unemployment" has been monitored. At the time of processing the study, data were available only for the first quarter of 2014. These are presented by the CZSO as an output of the year 2013.

### **3.2 Description of Implemented Primary Research in the Field of Family Entrepreneurship**

The aim of this text is not an analysis of the results of the entire survey, but a focus on the link between the family business and the development of environment in municipalities. The questionnaire was attended by 15 out of the 28 surveyed municipalities (mayors or selected departments of municipalities) of AD MEP Liberec and 48 companies out of 146 surveyed commercial entities (addressed to the management of the company). They were marked as significant employers of the given municipality. The return rate of questionnaires in the case of municipalities was 54%, in case of commercial entities, it was 33%. As far as responses of local government municipalities in AD MEP Liberec are concerned, any generalization cannot be made due to the small number of respondents. However, it is possible to compare the result with the opinion of representatives of the commercial sector. Table nr. 2 gives a selection of descriptive statistics in relation to the orientation of the text. In the answers, management of commercial enterprises and municipal governments reached a fair agreement with the exception of opinions on how

family businesses are perceived by the public. In the commercial sector, the prevailing view is that the public has no clear perception of family businesses, and at municipalities positive perceptions outweigh. Representatives of the municipal governments, then, see a greater influence of the family business on social events and the image of a municipality than a management of commercial enterprises. Nevertheless, both groups agreed on the same key areas of importance of family businesses for a municipality.

Further, using the Statgraphics software program, the analysis of dependence of selected variables in the group of respondents from the commercial sector was carried out. Even here, it is necessary to draw attention to the low number of respondents. The following is a selection of the studied dependence in relation to the topic of this contribution.

- *Dependence of family businesses as a key employer on the size of a municipality*

The following hypothesis was set: the smaller the municipality, the more the family business is considered a key employer there. The evaluation of dependence was done using logarithmic regression.

1) H0: independence of the family business as a key employer on the size of a municipality (by population); H1: non H0

2) P-Value = 0.0088

3) P-value <0.05 we reject H0, we accept H1

Only 12.53% of the variation is explained by the regression model. However, a weak relationship between the above parameters was proved. We can assume that the smaller the community, the more the family business is considered a key employer (particularly in terms of family businesses).

- *Dependence of perception of a "family business" in relation to their own definition of their company as a family business*

The following hypothesis was set: Family businesses positively perceive this kind of business. Evaluation of dependence was made using contingency - association tables.

1) H0: independence in perceptions of family businesses to the type of business (family or non-family business); H1: non H0

2) P-Value = 0.1530

3) P-Value > 0.05 we do not reject H0, we do not accept H1

No statistically significant correlation between these parameters, as evidenced by the Pearson coefficient with a value of 0.2166. The perception of family business does not depend on whether it is or it is not a respondent from a family business. This fact was investigated because out of 48 respondents from a commercial sector, 32 businesses stated that they were established as family businesses or they are now regarded as a family business.

### 3.3 Description of the realized secondary research in the field of family entrepreneurship

At the identified businesses, there was subsequently done a secondary survey. A set of surveyed family businesses was defined as follows: 32 companies (primary survey respondents) which identified themselves as family businesses within the investigation of major employers in the municipalities of AD MEP Liberec; 33 companies which were stated as family businesses by survey respondents of major commercial entities in the municipalities of AD MEP Liberec; 14 companies that were stated as family businesses by survey respondents from local government municipalities. In some cases, there was a duplication of stated businesses; after cleaning the file from duplicates, **67 unique family businesses** identified during the pilot survey got into the secondary survey (see section 3.2).

#### The following findings were made:

- The involvement of family members in the business activities of identified family businesses was investigated via public registers and websites of the businesses. Without a direct questioning, it was possible to control only the same surname. According to this criterion, it was not necessary to exclude any company from a further investigation. Further, the age of the business was examined. It can be stated that the average age of the family business from the investigated group was 18.5 years. The oldest family business was established in 1989, the youngest in 2014. The most common years of starting up a business were the years 1991 (21.2%) and 1992 (12.1%). The main stream of setting up businesses was up to 2008, since 2013 only three companies have been set up. The decline in the number of established family businesses in the years 2009 to 2012 could be influenced by the global economic crisis, however, this does not correspond with the findings presented in section 1.3. Rather, it can be assumed that there is a need of at least 5 years for the company to get into awareness of their surroundings through their business. Around 2016, a significant generation change (handover of a business to descendants, sales, etc.) can be expected after about 25 years of the business operation.

- Except for 7 businesses, corporate headquarters is in the municipalities of AD MEP Liberec. In terms of legal status, 42% of them started business as a natural person, then about 50% opted for change in legal form, usually for a limited liability company. In terms of legal status as of 31 March 2015 out of the surveyed companies, 67% are limited liability companies, 7% are joint stock companies, and 22% are natural persons conducting business under a trade license, one company is a public company. According to the survey, one company is in insolvency, 70% of enterprises are VAT payers. In terms of number of employees, there were three big companies with over 250 employees, 11 middle-sized companies with the number of employees from 51 to 250, 19 small companies with 11-50 employees, and 34 micro companies up to 10 employees. In terms of sector focus of the family business, there are both companies focused on the production (50%) and trade and services (also 50%). The involvement in research and development was found only in 3 companies.

- During the analysis of subsidies for the development of enterprises registered in the CEDR and CEP databases (2015) for the period of 1999-2013, there were found 28 active companies. Given that the three companies were founded in 2013 and later, 44% of the involvement of family businesses into subsidies can be claimed. In total, for the period

from 1999 to 2013, the identified 28 companies benefited from subsidies from public funds totalling CZK 186 mil. The biggest rate of subsidies was implemented through the employment offices (seventeen times) and through the Ministry of Industry and trade CR, hereinafter MIT CR (fourteen times). The third most common provider of subsidies was MoLSA CR (eight times). In terms of total financing, the largest subsidies were drawn from the MIT CR (approx. CZK 150 mil.) and through employment offices (approximately CZK 12 mil.), followed by the Ministry of Health CR (about CZK 10 mil.), the MRD CR (about CZK 5.2 mil.) and the MoLSA CR (approximately CZK 3.7 mil.).

### **3.4 Discussion - Definition of the area for further research**

Within the realized survey and data processing for the assessment of the economic pillar of spatial analytical data AD MEP Liberec, it was found, inter alia, that in smaller municipalities, there is a greater concentration of business entities. We can assume that in these municipalities, there is a lack of job opportunities, which addresses the residents for setting up their own businesses. Based on this finding, an analysis of data available from the CZSO were made with the aim to determine whether there is a correlation between the number of active business entities and a share of the unemployed in municipalities of three size groups. Municipalities in the Liberec region with up to 500 people to 2,000 people and all municipalities irrespective of number of inhabitants were tested. Significant result was found in the set hypothesis: "The more active economic entities, the lower the percentage of unemployed people in a municipality." Using linear regression (and also using analysis of variance), this hypothesis was confirmed only for a group of municipalities up to 2,000 inhabitants. In these municipalities, indirect dependency was confirmed. In the case of municipalities up to 2,000 inhabitants, it is possible to assume that the more active business entities in a municipality, the lower the proportion of the unemployed. The long-term goal of each territory should be: keep the unemployment rate at a lowest possible level. The way could be to target at the development of business activities in a municipality with efforts to enhance its good image and increase a number of social events. Further research on the influence of family business on municipality development will, therefore, be aimed at this group of municipalities that have a higher rate of active businesses. Municipalities up to 2,000 inhabitants can be considered a municipality of the so called rural type. For example, within the Liberec Region Development Strategy 2006 – 2020, the country is defined by four criteria: the number of permanent residents up to 2,000; no status of the city; the proportion of built-up area of a municipality on the total area of the municipality; number of inhabitants per 1 ha of built-up area. In the Czech literature, a number of inhabitants indicate whether a municipality is rural or not. There can be found two boundary values, either up to 2,000 residents, or 3,000. A municipality with 3,000 residents is regarded a city according to the Law on Municipalities (Zakon o obcích, 2000 Reg. § 3).

### **Conclusions**

It can be stated that there were found criteria for the definition of a family business with the specifics of the Czech environment. Based on the literature review, supplemented by Czech legislation, the results of the pilot research and monitoring of activities in the field of family business in the Czech Republic (e. g. AMSP and a competition called "Equa bank family firm of the year"), these are the following criteria: a family has a decisive influence in

business management and ownership control (up to the third degree); in the case of the self-employed, there can be proved cooperation of spouses, or at least one of the spouses cooperates with their relatives (defined circle of relatives up to the third degree); the company is at least 5 years old (assuming intended generation exchange within the family); family members have permanent employment in business (apart from the founder, at least one more family member); in terms of sector, company size etc., a typology of family businesses can be considered. Family business was specified as an important factor for the development of a municipality. It was found out that municipalities are interested in developing a family entrepreneurship. This fact will be further validated within the whole Czech Republic. Given that one of the objectives of the follow-up research will be defining options to support the development of family entrepreneurship, direct and indirect, on the level of local government municipalities, regional government office, employment offices, government ministries from the Czech Republic etc., administrative definition of regions was selected. Within the Liberec Region municipalities, there was determined a correlation between selected parameters, such as the unemployment rate, the number of economically active inhabitants, businesses and population of a municipality. Dependence was found between the number of companies and the unemployment in municipalities of up to 2,000 inhabitants, which are so-called rural-type municipalities. On this basis, the research will continue to question whether it is possible to perceive the business in the Czech Republic the family business as a key factor for economic development of rural municipalities. In the Czech Republic, there are 5,584 municipalities of a rural type with residents up to 2,000, i.e., 89%. In the Liberec Region, 88% municipalities out of 215 are of a rural type with a population up to 2,000. Thus, similar findings in defining the target segment as in the Liberec Region can be assumed. This finding is the task for a team at the EF TUL and its follow-up activities.

The aim of a further step of the team at the Faculty of Economics of the Technical University in Liberec is to examine family businesses in the context of the business environment of a municipality. The innovative idea is that family businesses can be a source of business environment, preservation and development of traditional activities. It is related to the original family businesses, and newly established businesses with the assumption of the continuation of their activities through the generations. The emphasis is placed on the business environment, especially of small municipalities of a rural type with a population of up to 2,000. The outputs are directed at the registration of family businesses, evaluating their health and setting of further education in the family entrepreneurship. The system of a controlled network of mentors for family businesses in the Czech Republic has been proposed.

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