

WILLINGNESS OF YOUNG PEOPLE TO WORK IN THE FAMILY BUSINESS: PILOT SURVEY

Zuzana Horčíčková¹

¹ Ing. Zuzana Horčíčková, Technical University of Liberec, Faculty of Economics, zuzana.horcickova@tul.cz

Abstract: This article discusses issues related to family businesses in which young people work (and subsequently are likely to become the owners) as they have ties both to the business and to the municipality in which the business operates, see sections 1 and 2. An important question concerning the transfer of the business to the younger generation is the issue of family business succession. The pilot showed that 30% of respondents have a family business in their family. The larger percentage of respondents living in a rural-type municipality has a family business in the family compared to respondents living in urban-type municipalities. The survey also showed that a large percentage of respondents do not plan to work in their family business (the percentage is larger in case of respondents from rural areas). The most common reason is interest in a different field. This fact can have fatal consequences for the family business. It is necessary to educate potential successors on family business, among other things in order to better manage the process of succession. Many respondents whose family operates a business do not plan to be involved in it after completing their studies, rather they want to be employed. This also evidences the need to foster the entrepreneurial spirit in young people.

Keywords: Family Business, Young People

JEL Classification: O10

INTRODUCTION

Family business is a significant contemporary phenomenon. Even more so in the Czech Republic, where the development of the business environment was stopped by a totalitarian regime after the Second World War and did not resume until the 'Velvet Revolution' that marked the fall of that regime (Koráb, 2008; Odehnalová, 2011). The basis for each family business research is first to answer the question: What is family business? Each economy has its own specifics, and if it defines this type of business, the family business category slightly varies. (Mandl, 2008) The definition of a family business is addressed in section 1. However, a general specific feature of a family business is – among other things – its transgenerational (across generations) orientation, i.e. the business is passed on to successors most often coming from the family. (Zellweger, 2017) Bednaříková et al. (2016), who researched the migration of young people from rural areas in Russian Siberia, state, that for children from successful self-employed families, the desire to follow in the family footsteps tends to be a key factor in their decision to stay at home. In the Czech Republic, the period for this first transfer of businesses between generations has already started, i.e. the first (older) generation passes the business on to the second (younger) generation (Bednařík, Mikulka, 2014).

The definition of a young person varies depending on both time and place, and it depends on socio-cultural, institutional, political and economic conditions. In Nepal, any person between the age of 16 and 40 is considered young, the United Nations defines a young person as a person from 15 to 24 years of age, but most often a young person is considered to be a person up to the age of 29 (Swatos, William, 1998; Knerr, 2017). In the Czech Republic, the Ministry of Education, Youth and Sports of the Czech Republic (2017) defines a young person as a person aged 15 to 29. The migration of young people away from rural areas is influenced by several factors, such as personal background including gender, age and education. For gender, migration depends on the region. Women more often leave rural municipalities for

cities in order to escape rural life. The highest rate of mobility from rural areas to cities was found among people aged 16 to 29 years. Highly educated people are more cosmopolitan and more often tend to leave rural communities, as their ties to these communities are not so deep (Bednařiková et al., 2016).

1. FAMILY BUSINESS

The most common criteria for classifying a business as a family business are: ownership of the business, strategic management of the company is in the hands of the family, the business is controlled by the family and family members are employed in the business. (Rydvalová et al., 2016). According to the European Commission, a business is a family business if: (a) the majority of voting rights are in the possession of the natural person(s) who established the firm through providing its registered capital, or in the possession of their spouses, parents, children of other direct heirs; (b) the majority of voting rights are (directly or indirectly) held by the family; (c) at least one representative of the family or kin is formally involved in the governance of the business. Based on a primary survey in Liberec MEP (municipality with extended powers), the Czech Republic, a team from the Department of Business Administration and Management, Faculty of Economics, Technical University of Liberec (also FE TUL) proposed the following definition of family business (Rydvalová et al., 2015): "A family business is an economic entity with a long-standing tradition, where family members are not only employees but also have a decisive influence on its management." Other conditions for classifying a business as a family business include, for example, the willingness of the current owner to pass the business to the next generation (Mandl, 2008) or the actual perception of the business as a family business by its very owner (Rydvalová et al., 2016)

Family businesses are also characterized by socioemotional wealth, which sets them apart from non-family businesses. Socioemotional wealth (hereinafter also SEW) refers to a versatile approach that includes the family members' relationship to the business and its surroundings, i.e. it refers to the non-financial objectives of family businesses. (Zellweger, 2017; Berrone, Cruz, Gomez-Mejia, 2012) In addition to strong social ties, identification with the company, reputation and strong emotions, SEW also includes intergenerational control, i.e. keeping the business in the hands of the family across generations. (Zellweger, 2017) In the Czech Republic, there are currently a large number of family businesses that are managed by the first or second generation of the family and that are in a phase where it is necessary to address the issue of succession. (Bednařik, Mikulka, 2014) The results of the initial primary survey carried out within the Northeast NUTS2 unit showed that, for most respondents, family businesses do not consider passing the business to the next generation their primary objective, so they are not currently considering succession. (Horčíčková, 2017) This is viewed as a problem, because the issue of succession is critical for family businesses, and statistics show that unfortunately more than 70 % of family businesses do not survive the first passing-on process. Ninety per cent of these businesses do not overcome the passing-on of the business to the third generation. (Luan et al., 2017)

2. MUNICIPALITY CONTEXT

According to Backman and Palmberg (2015), a distinction needs to be made between the urban and rural context within the business environment. The authors examined the advantages of each area for family and non-family businesses. To distinguish between the areas, they used division into three categories: (a) **large city** where there is a high standard and diversity of services and inputs that are provided to both individuals and businesses, i.e. not only within the municipality but also in neighboring municipalities; (b) **town** which is defined as the center of a region outside metropolitan cities and their suburbs; (c) **countryside** which includes municipalities that do not fall into either of the above categories and in which the number of services available is limited.

As part of a research project for the Ministry of Regional Development of the Czech Republic, GaREP, spol. s r. o. (2009) mentioned mainly the following approaches in the context of defining rural areas:

- **the size category of the municipality** (the number of permanent residents), where the most common threshold is a population of 2 000 or 3 000;

- **population density** (or possibly population per built-up area) that usually is 100 or 150 inhabitants per km².

However, these indicators have their limitations, namely: (a) they are greatly affected by the area of the municipality's cadaster; (b) they do not take into account temporary residents and commuting of the population.

Backman and Palmberg (2015) argue that, in **cities**, businesses have an advantage in a higher standard and a wider range of usable resources. Another advantage in the city is the existence of "knowledge spillovers", i.e. the formation of an environment in which ideas and knowledge rapidly spread among individuals and companies. The spreading of such knowledge across businesses and industries is known as "Jacobian externalities"¹. By contrast, the disadvantage of urban environment is high competition.

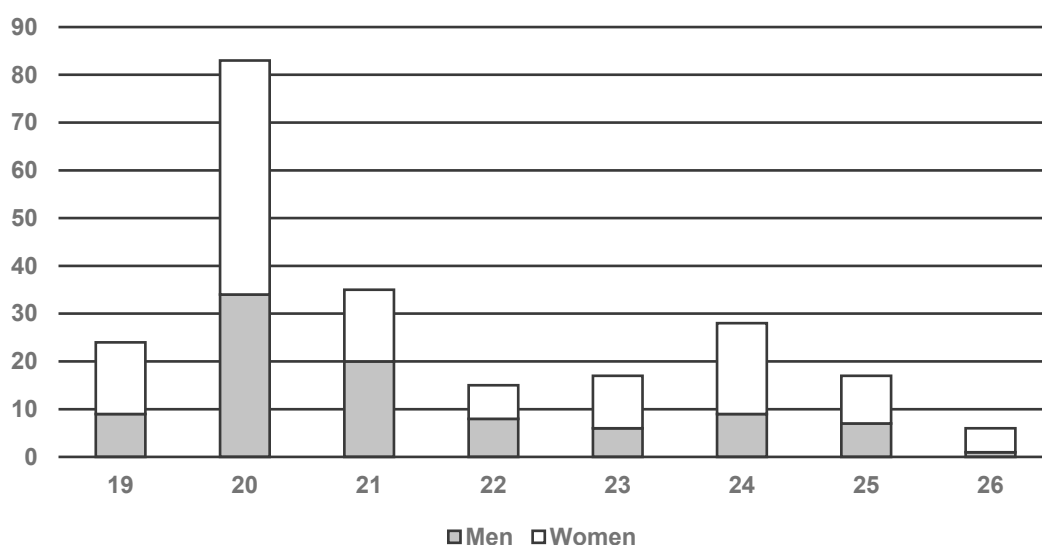
Unlike urban environment, **rural** environment is characterized by limited availability of resources to businesses (especially high-quality resources). In addition, knowledge externalities are also limited. Rural businesses are more likely to survive, among other things due to lower competition. In the countryside, the performance of a small business depends on human and social capital. Rural family businesses show a higher rate of growth than non-family businesses operating in the countryside. Family businesses tend to be rooted in rural areas because of their historical, social and cultural ties to the given place. These ties, in turn, are their competitive advantage where family-type businesses are capable of creating, developing and allocating tangible and intangible resources. (Backman, Palmberg, 2015)

3. RESEARCH METHODS

This part contains the results of a pilot initial survey at the Faculty of Economics, Technical University of Liberec in 2017. Specifically, first-year and fifth-year students of the Business Administration and Management specialisation were approached. The total number of respondents was 226 (100% of respondents answered the questionnaire). The students were asked whether their family owned a family business (based on their own perception of a family business), and what their relationship to the business was.

These students meet the definition of a young person (Ministry of Education, Youth and Sports of the Czech Republic, 2017). Figure 1 shows the age and gender structure of the respondents. 58.41 % of the respondents were women and 41.59% were men. 82.30 % of the respondents lived in towns and cities, 17.7% in rural-type municipalities, i.e. in municipalities with up to 2 000 inhabitants.

Fig. 1: Age and gender structure of respondents



Source: own processing

¹ According to Jacobs, J. (1969). *The economy of cities*. New York, NY: Random House

4. RESULTS

This part contains the results of descriptive statistics. The results are shown in Table 1. The first column indicates a type of the question/answer, the second column describes number of answers. The third one shows how many percent are divided between the answers. Next columns called Rural-type/Urban-type (% of the answers) contain proportions of respondents living in a rural/urban area in the framework of the answer. The last two columns called Rural-type/Urban-type (% of rural-type/urban-type) indicate proportion of the answers in the sample of the respondents' municipalities (rural/urban-type of municipality).

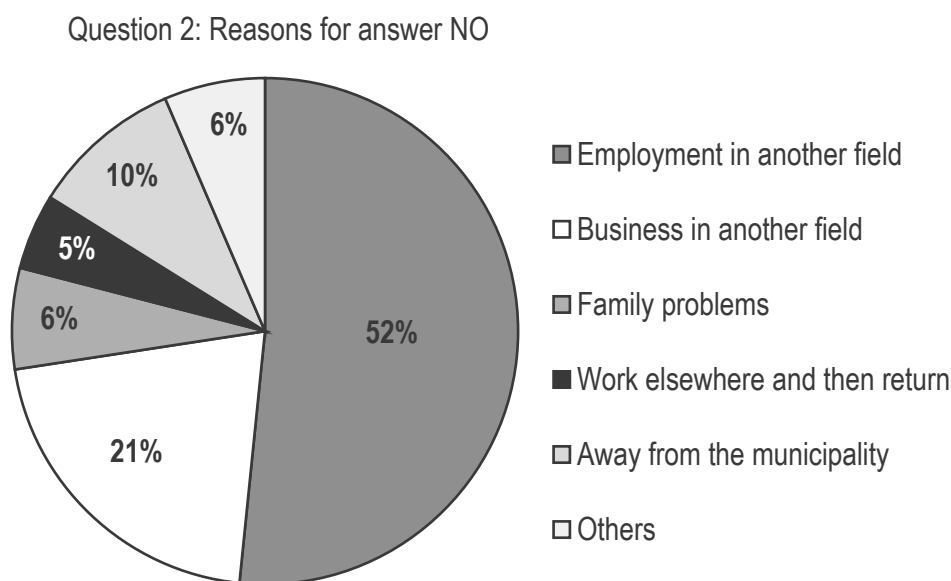
Tab. 1: Results of descriptive statistics

Question/Response	Number	Percent	Rural-type	Urban-type	Rural-type	Urban-type
			% of the answers		% of rural-type	% of urban-type
1. Does your family have a family business/farm?						
Yes	68	30.09%	23.53%	76.47%	40.00%	27.96%
No	158	69.91%	15.19%	84.81%	60.00%	72.04%
<i>Total</i>	226	100.00%	x		100.00%	100.00%
2. Do you plan to work in the family business after completing your studies?						
Yes	12	17.65%	16.67%	83.33%	12.50%	19.23%
No	52	76.47%	26.92%	73.08%	87.50%	73.08%
Did not respond	4	5.88%	0.00%	100.00%	0.00%	7.69%
<i>Total</i>	68	100.00%	x		100.00%	100.00%

Source: own processing

Thirty percent of respondents have a family business or farm in their family. Almost 24 % of these are living in a rural-type municipality, 76.47% are living in an urban-type municipality. Forty percent of respondents living in a rural area have family business in their family (60% of them do not have a family business). In the case of respondents living in an urban area – more than 70% do not have a family business (27.96% have a family business).

Fig. 2: Results of descriptive statistics – reasons



Source: own processing

More than 76% of respondents with a family business were not planning to work in their family business after completing their studies. The most common reason, see Figure 2, was the desire to be employed in a different field (52% of respondents). This points to the fact that young people prefer to be employed rather than to be entrepreneurs. Twenty-one per cent of respondents want to be entrepreneurs, but in a different field to that of their family business. For 10% of them, the reason why they are not planning to work in the family business is that they do not want to live in their current municipality. If young people – potential successors to family businesses – do not work in the business, its existence as a family business is at risk. The issue of succession is a long-term process that needs to be planned systematically and potential successors need to be prepared for managing the business. As mentioned above, more than 70% of family businesses do not survive the first passing-on process (Luan, et al., 2017). The businesses cease to exist, are sold to a strategic buyer or other persons outside the business, e.g. the business (non-family) management (Zellweger, 2017).

CONCLUSIONS

The present article deals with the issue of the rural-type vs. urban-type municipality, family business and marginally also the critical process of succession that is mainly characteristic of family businesses. Characteristically, family businesses employ family members (Rydvalová et al, 2015; Zellweger, 2017; Liu, 2015). Intergenerational cooperation is therefore considered one of the features of a family business (Koráb, 2008). In addition, family members are often closely tied to the company and they feel commitment to it (and to the family), which is considered a socially-based resource specific to family businesses. (Hatak et al., 2016) The young generation's employment in the company, the engagement of family members in the business, and the focus of family businesses on continuity due to the subsequent transfer of the business – these were the prerequisites for young people to stay in the family business.

The survey revealed that the predominant reason for not joining a family business is interest in a different field. Lack of career planning for the next (potential successor) generation may lead to an unwilling successor, which can have disastrous consequences for the family business. Even though family members work in the business, they are also able to consider their alternative career path. (Murphy, Lambrechts, 2015) The second most common reason for not joining a family business after completing their studies was their intention to do business in a different field. However, this fact does not mean that they cannot work in the family business and find self-fulfilment in a different field that will contribute to diversifying the portfolio of the family business. Most often, respondents do not want to work in the family business because they want to work in another field as employees. However, employment in a business other than their family business, in a different field (without returning to the family business), means not using the tacit knowledge or skills and social ties that constitute (according Zellweger, 2017; Koráb, 2008) one of the advantages of family business. The above has highlighted the need for education in the field of (family) business, including e.g. succession planning that – in turn – includes learning about the possibilities of successors, and also the need for fostering the entrepreneurial spirit in young people.

Acknowledgement: This article was written in the Framework of SGS-EF-3300-21231 „Young Generation in Family Business in the Context of the Municipality“, Faculty of Economics, Technical University of Liberec.

REFERENCES

- Backman, M., Palmberg, J. (2015). Contextualizing small family firms: How does the urban-rural context affect firm employment growth?. *Journal of Family Business Strategy*, 6(2015), 247-258. <http://dx.doi.org/10.1016/j.jfbs.2015.10.003>.
- Bednařík, R., Mikulka, M. (2014). Nástup nové generace znamená pro rodinné firmy zlomové období: První vlna majitelů předává firmy. *Hospodářské noviny*, 228, 1.

- Bednaříková, Z., Bavorová, M., and Ponkina, E. V. (2016). Migration motivation of agriculturally educated rural youth: The case of Russian Siberia. *Journal of Rural Studies*, 45(2016), 99-111.
- Berrone, P., Cruz, C. and Gomez-Mejia, L. R. (2012). Socioemotional Wealth in Family Firms: Theoretical Dimensions, Assessment Approaches, and Agenda for Future Research. *Family Business Review*, 25(3), 258-279. doi:10.1177/0894486511435355.
- GaREP, spol. s r. o. (2009). Přístupy k vymezení venkova. Metodická podpora regionálního rozvoje. Retrieved June 5, 2017, <http://www.regionálnírozvoj.cz/index.php/home.html>.
- Hatak, I., Kautonen, T., Fink, M. and Kansikas, J. (2016). Innovativeness and family-firm performance: The moderating effect of family commitment. *Technological Forecasting and Social Change*, 102(2016), 120-131. <https://doi.org/10.1016/j.techfore.2015.02.020>
- Horčíčková, Z. (2017). Succession and Other Goals of Family Businesses: A Study of Selected Czech SMEs. *Proceedings of the 12th International Conference Liberec Economic Forum 2017*. Liberec: Technical University of Liberec, 499-505.
- Knerr, B. (2017). *International Labor Migration and Livelihood Security in Nepal: Considering the Household Level*. Kassel: Kassel University Press GmbH
- Koráb, V., Hanzelková, A. and Mihalsko, M. (2008). *Rodinné podnikání*. Brno: Computer Press.
- Liu, Ch., Eubanks, D. L. and Chater, N. (2015). The weakness of strong ties: Sampling bias, social ties, and nepotism in family business succession. *The Leadership Quarterly*, 26(3), 419-435.
- Luan, C-J., Chen, Y-Y., Huang, H-Y. and Wang, K-S. (2017). CEO succession decision in family businesses e A corporate governance perspective. *Asia Pacific Management Review*, (2017).
- Mandl, I. (2008). *Overview of Family Business Relevant Issues: Final Report*. European Commission. Retrieved December 3, 2014, from: <http://ec.europa.eu/DocsRoom/documents/10389/attachments/1/translations/en/renditions/pdf>.
- Ministry of Education, Youth and Sports of the Czech Republic. (2017). Mládež v ČR. Retrieved August 15, 2017, from: <http://www.msmt.cz/mladez/mladez-v-cr>.
- Murphy, L., Lambrechts, F. (2015). Investigating the actual career decisions of the next generations: The impact of family business involvement. *Journal of Family Business Strategy*, 6(2015), 33-44.
- Odehnalová, P. (2011). Přednosti a meze rodinného podnikání. Brno: Masarykova univerzita.
- Rydvalová, P., Kahrhanová Horynová, E., and Zbránková, M. (2016). Family Business as Source of Municipality Development in the Czech Republic. *Amfiteatru Economic*, 18(41), 168-183.
- Swatos, I., William H. (1998). *Encyclopedia of religion and society*. Walnut Creek, US: AltaMira Press.
- Zellweger, T. (2017). *Managing the Family Business: Theory and Practice*. Cheltenham, UK: Edward Elgar Publishing Limited.