

Alena Hanzelkova

Re-Establishing Traditional
Czech Family Businesses

A Multiple Case Study
on the Present Challenges

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UNIVERSITY OF JYVÄSKYLÄ

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Alena Hanzelkova

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UNIVERSITY OF JYVÄSKYLÄ

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ABSTRACT

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Finnish summary

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After virtually 50 years of expropriation and state ownership, a large number of Czech traditional family businesses were returned to their original owners. Despite the volatile and risky socio-economical and political conditions of the early 90's, many businesses have been re-established by their former family owners and have carried out their activities with varying degrees of success until now.

The main goal of this study is to monitor the challenges that family businesses face today and to investigate whether some of these might be facilitated through well suited business education and counseling.

The study is a non-positivistic study - a multiple case study performed in the Czech Republic 10 years after the renewal of such family firms.

The results of the empirical part of the study revealed that all three cases do indeed face a vast array of challenges falling into the three specific categories researched - those connected to business management, specific family business issues and challenges related to entrepreneurial management. The study argues that the number of challenges the traditional Czech re-established family firms face might be potentially wider than in case of other types of organization such as newly established companies or non-family firms. Business education and counseling might certainly be an important method of helping the family business to overcome these issues.

Apart from these results the study revealed yet another important aspect. Traditional family firms not only face such a wide array of challenges, but also possess certain unique skills related to family factors in addition to certain entrepreneurial skills and attributes. If managed, developed and utilized properly, these might become sources of their competitiveness and could help in overcoming the current problems.

Key words: Czech Republic, family firms, nationalization, restitutions, business management, entrepreneurship

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TABLE OF CONTENTS

ABSTRACT

ACKNOWLEDGEMENTS

1	INTRODUCTION	13
1.1	Research background	13
1.2	Aims and rationale of study	14
1.3	Boundaries	18
1.4	Methodological approach	19
1.5	Course of research	22
2	ECONOMIC TRANSFORMATION IN THE CZECH REPUBLIC	25
2.1	Historical background	25
2.2	Privatization	28
2.3	Economic transformation and its challenges	30
2.4	A look at family firms in the Czech economy	33
3	TOWARDS UNDERSTANDING FAMILY BUSINESS	36
3.1	Family business definition	36
3.2	Importance of family firms	39
3.3	Family firm: a special species in the world of business	41
3.4	Family, business and relations	44
3.5	Values and culture	50
3.6	Strategic management and corporate governance	54
3.7	Critical time in family firm's life – succession	58
3.8	Family business and finance	63
3.9	Family firms as socially responsible actors	65
3.10	Entrepreneurial thinking in family business	67
4	MANAGING BUSINESS PROFESSIONALLY - A GENERAL AND FUNCTIONAL LOOK AT MANAGEMENT	70
4.1	Strategic management	70
4.2	Marketing management	73
4.3	Management of finance	75
4.4	Human resource management	77
4.5	Production and operations management	78
4.6	Management of information	80
4.7	Logistics and distribution	82
4.8	Entrepreneurial management	85
5	SYNTHESES OF LITERATURE: WHAT CHALLENGES DO RESTITUTED CZECH FAMILY FIRMS POTENTIALLY FACE?	88
5.1	What is a challenge?	88

5.2	Greatest challenges related to the family involvement in business	89
5.3	Business challenges	92
5.4	Integrated framework	96
6	INTRODUCTION INTO EMPIRICAL RESEARCH	99
6.1	Sharpening the research questions.....	99
6.2	Methods employed and data	99
6.2.1	Qualitative research methods	99
6.2.2	Case study approach.....	101
6.2.3	Research sample.....	104
6.2.4	Data collecting methods	104
6.3	Overview of interviews and questionnaires.....	107
6.4	Data Analysis	109
6.5	Interpretation.....	110
6.6	Thoughts on Validity and Reliability.....	110
6.6.1	Reliability and validity defined.....	111
6.6.2	Reliability, validity and qualitative research approach	114
7	DESCRIBING THE CASES	117
7.1	Case A - The soft drink producer	117
7.2	Case B - The piano producer	126
7.3	Case C - The producer of traditional kitchen appliances.....	136
8	ANALYZING THE INTERVIEWS	146
8.1	Analysis of case A - The soft drink producer.....	146
8.1.1	External challenges.....	146
8.1.2	Internal challenges.....	150
8.1.3	Family business challenges	163
8.1.4	Entrepreneurial challenges.....	166
8.2	Analysis of case B - The piano producer	170
8.2.1	External challenges.....	170
8.2.2	Internal challenges.....	177
8.2.3	Family challenges	185
8.2.4	Entrepreneurial challenges.....	188
8.3	Analysis of Case C - The producer of traditional kitchen appliances	188
8.3.1	External challenges.....	189
8.3.2	Internal challenges.....	201
8.3.3	Family business challenges	217
8.3.4	Challenges related to entrepreneurial skills	223
9	TRIANGULATING THE CASES AND REVIEWING THE RESULTS IN LIGHT OF LITERATURE	226
9.1	External challenges	226

9.2	Internal challenges.....	233
9.3	Family business challenges	241
9.4	Entrepreneurial challenges.....	246
10	CONCLUSIONS AND DISCUSSION.....	252
10.1	Main conclusions	252
10.2	Recommendations	259
10.3	Theoretical and empirical contributions	262
10.4	Suggestions for further research.....	262
	TIIVISTELMÄ	264
	LIST OF USED LITERATURE.....	265
	APPENDICES	280

LIST OF FIGURES

FIGURE 1	Abductive reasoning.....	20
FIGURE 2	Research process and abductive reasoning.....	21
FIGURE 3	Progress of year 1	23
FIGURE 4	Progress of years 2, 3 and 4.....	24
FIGURE 5	Export structure for commodities, Czechoslovakia, 1920-1937	25
FIGURE 6	Czechoslovakia's economic and political milestones	27
FIGURE 7	Volume of state property privatized by different methods	29
FIGURE 8	Overview of coupon privatization.....	30
FIGURE 9	Types of family business in the Czech Republic	34
FIGURE 10	Classification of researched cases A, B and C	35
FIGURE 11	The F-PEC scale of family influence	38
FIGURE 12	Level of experience as a function of the number of successions	39
FIGURE 13	Family enterprises as an estimated percentage of companies	40
FIGURE 14	Three-circle model.....	42
FIGURE 15	Bivalent attributes of family firms	43
FIGURE 16	Developmental life stages	44
FIGURE 17	Family business strategic management model.....	56
FIGURE 18	Parallel Planning Process model	57
FIGURE 19	Strategies for mobilizing the stakeholders	60
FIGURE 20	Strategic management as a permanent process	71
FIGURE 21	Hierarchy of company's strategies.....	73
FIGURE 22	Scope of activities covered by financial management	76
FIGURE 23	Internal and external meaning of goals and criteria of production	79
FIGURE 24	Enterprising skills, attributes and behaviors.....	86
FIGURE 25	Review of family business challenges	90
FIGURE 26	Review of family business challenges (continued figure 25)....	91
FIGURE 27	Challenges related to internal management	93
FIGURE 28	Challenges related to internal management (continued figure 27)	94
FIGURE 29	Challenges related to entrepreneurial management.....	95
FIGURE 30	Challenges related to external environment	96
FIGURE 31	Potential challenges faced by Czech restituted family firms	98
FIGURE 32	Strengths and weaknesses of case studies.....	103
FIGURE 33	Review of interviews and questionnaires.....	108
FIGURE 34	Family tree of case A.....	123
FIGURE 35	Development of production volumes of company A	125
FIGURE 36	Organizational structure of company A	126

FIGURE 37	Overview of family members - case B.....	131
FIGURE 38	Development of revenues of company B.....	133
FIGURE 39	Organizational structure of company B.....	134
FIGURE 40	Family tree of company B	135
FIGURE 41	Family tree of company C.....	143
FIGURE 42	Development of exports of company C	144
FIGURE 43	Organizational structure of company C	145
FIGURE 44	Findings related to the individual cases	146
FIGURE 45	Financial challenges of company C	209
FIGURE 46	Triangulating the cases and literature - external challenges.	232
FIGURE 47	Triangulating the cases and literature - internal challenges	240
FIGURE 48	Triangulating the cases and literature - family business challenges.....	245
FIGURE 49	Triangulating the cases and literature - entrepreneurship.....	251
FIGURE 50	Final model	258
FIGURE 51	SWOT model.....	261

1 INTRODUCTION

1.1 Research background

The roots of this study can be traced far back to the pre-war history of the former Czechoslovakia. In this era Czechoslovakia was among the most developed countries in the world. Its political system was based on a strong democratic tradition and its market economy was open and stable with a well-developed private sector made up of numerous large and small firms. Czechoslovakia's production made an important contribution to many industries, from light-industrial products such as textiles, clothing and shoes to machinery, appliances, fuels, groceries and glass.

However, in 1948 its favorable development was interrupted by the communist regime that, for 45 years, placed Czechoslovakia into a group of states where culturally, politically and economically it never belonged – the Eastern block. Its democratic system was replaced by a communist dictatorship and its flourishing private economic sector was almost entirely nationalized – taken away from their private owners and set under the ownership and control of the state. A large number of these nationalized businesses were former traditional Czechoslovak family firms run by famous names such as Bata, Kolben, Petrof, Porkert, Jelinek and many others.

For the majority of these family owners, nationalization represented a true human and economic tragedy. Losing their businesses meant not only being deprived of their livelihoods, but also the progress made by their predecessors, often over many generations. To make the tragedy worse, political persecutions and imprisonments of the former family business owners and their family members followed, often for one to two generations hence.

In 1989, the “Velvet Revolution” created new chances for the re-establishment of a traditional democratic system and Czechoslovakia's market economy. Amongst the many political, social and economical changes of the early 90's one was of a particular importance for the former family business

owners – the restitution and privatization process that enabled the return of their former family businesses back in to their ownership.

After the initial jubilation of having their family firms returned, the hard work really began for these business families. Most such companies were in an extremely poor condition with the machinery being obsolete and almost written off. Practically no investment had been made in this machinery over the previous fifty years. The family firms were also heavily in debt and their original production programs were often scattered through many other state enterprises, with little chance of recovery. Also, the prevailing economic and political conditions were volatile as a result of economic transformation that had been taking place. The “old-new” business owners themselves often lacked important skills and education to manage their companies.

Yet against all the odds and despite the tremendous problems, especially through the initial post-revolutionary years, the majority of the family owners managed to re-establish their firms. Nowadays they are developing their business heritages with varying degrees of success, and invariably with great dedication.

1.2 Aims and rationale of study

The unique conditions relating to the Czech economic transformation, and privatization in particular, have represented a very special environment for economic research. In particular, the fields of entrepreneurship and family businesses were those with the greatest potential of offering unique new insights. Pistrui, Welsh, Wintermantel, Liao and Pohl (Pistrui, Welsh, Wintermantel, Liao and Pohl, 2000) correctly referred to transformation economies as “once-in-a-lifetime living laboratories”. Therefore, the Czech family business restitutions can be regarded as “once-in-a-lifetime family business living laboratories”, providing a unique opportunity for the scrutiny of such phenomena. For simplicity, the fifty years of lasting expropriation and the subsequent re-establishment of family firms may be viewed as an unusual real life test of family (and family business) relations, cultures and values, their roles in assuring business continuity, succession and the inherent strengths family firms are claimed to possess.

Apart from the uniqueness and research potential created by the Czech economic transformation and restitutions, evidence suggests that research focused on family businesses in transitional economies might indeed be of significant importance. It was Gibb (1993), Welsch, Hills and Hoy (1995), Achremenko (1999) Pistrui, Welsch and Roberts (1997) or Neubauer and Lank (1998) who stated that in transitional economies family firms played, or have the potential to play, important economic, business and social roles.

Contrary to western economies however, a search for any Czech sources on family businesses yielded fairly unsatisfactory results. Despite their real or

potential importance, the concept of Czech family business turned out to be practically unrecognized by Czech business practitioners, advisers, academics or governmental bodies.

It was therefore a combination of my interest in family firms and of my will to capture the unique changes my country was going through – particularly in an area that seemed to be important for its ongoing development but had been seriously overlooked up to that point – that influenced my decision to focus this research in the area of Czech family business. The subsequent choice of specific research topic within this field was then influenced by two important circumstances.

Firstly, as already mentioned, there was a very unique group of family firms in the Czech Republic. Traditional family firms with a long history, often in excess of 100 years, expropriated from their family owners in 1948 and re-established by them in the mid 90's after almost a 50-year break in ownership. Apart from these, one could identify another type of family firm in the Czech Republic – young businesses that emerged after 1990. These two groups were considerably different from the family business research perspective. Using the Astrachan, Klein and Smyrnios's F-PEC scale (Astrachan, Klein and Smyrnios, 2002, for more see chapter 3.1), it was highly likely for new firms to fall at the lower end of the "familiness" scale, whereas for the traditional family businesses at the high end. It was clear that, due to their relatively short history, the newly emerged family firms tended to possess only some of the unique family business traits and would therefore fall somewhere in between the family and non-family group of businesses. It was also this assumption, confirmed by results yielded in similar conditions in Poland by Welsch, Hills and Hoy (1995), that persuaded me to focus my research on restituted old and traditional family firms that would most likely display the special traits of family firms.

Secondly, through the late 90's it became apparent that the Czech "economic miracle" was not as miraculous as it seemed and that Czech business was going through one of the worst recessions in its post-revolutionary history. Consequently, the Czech Economic and Agrarian Chamber wrote in 1999 (Obnova, 1999):

"More than eight years of macroeconomic restrictive policy has brought the Czech economy into stagflation, i.e. a state characterized by almost zero economic growth, high inflation and growing unemployment. This means, that the pursued goal of the Czech transformation has not been reached ... High inflation and practically zero business profitability cause gradual doom for Czech producers, banks as well as retailers ... The Czech private sector is heading to bankruptcy. ... The causes are numerous, from underestimating the importance of law enforcement, through hurried privatization to naive openness of the Czech market. Another very important cause is also the theoretically and practically wrong macroeconomic policy ..."

Numerous other articles on the subject by different authors were delivering the same message – transformation failed and the Czech private sector was facing serious macro and microeconomic problems (see for example Neveselo, 1999, Recese, 1999 etc.). Czech businesses struggled with rising inflation and

restrictive macroeconomic policy that caused a decline in consumption. Furthermore, at the micro level there were numerous problems - economic crime was increasing and the law was weak and poorly enforced. Additionally, the law was constantly changing, the financial sector was inefficient and state administration and bureaucracy flourished. The tax system was discriminatory to small firms, industries were changing rapidly and so was the competition. Companies also had to cope with various legacy issues; low employee morale, reduced competitiveness as a result of poor labor productivity, obsolete machinery and a lack of new technology. Business owners did not possess the skills or experience necessary to manage their businesses professionally - strategic management was practically non-existent and access to information was poor (Heczko, 1999, Korab at al, 1998, Blazek, 1998, Kerkovsky and Bird, 1998, Evaluation, 2002, www.mpo.cz).

This set of circumstances, the existence of the very special group of family firms in the Czech Republic and the severe economic recession that heavily impacted the private sector then became the main focus of my research. These two conditions have caused me to ruminate about how the restituted traditional family firms would cope in this difficult economic environment. There were good reasons to suppose that this group might find themselves in a more difficult situation than both newly emerged family firms and non-family companies. Compared to newly established family firms, traditional businesses had the disadvantage of carrying the burden of 50 years of communism on their shoulders - both economically and from a human perspective. Their businesses were in debt and machinery, as well as the production programs, was obsolete. The old-new owners also had to cope with the "socialistic" mindsets and morale of the employees that they inherited as a part of their business. The initial Czech economic conditions were generally making it easier to establish new businesses than to develop old ones (see for example Albertina, database of economic articles). Compared to non-family firms, it was likely that traditional family firms had to cope with dual challenges - those resulting from the transformation process and those specific to family firms such as succession, family dynamics etc. However, there was also an alternative assumption that traditional family businesses could cope better with environmental ups and downs due to their unique strengths and competitive advantages (as described later, see chapter 3).

This thinking finally led me to ask a simple set of pragmatic questions. How are the restituted family businesses doing now, almost 10 years after their re-establishment? Have they been successful in their renewal process? Do they face any particular challenges? And, would there be ways of helping them in overcoming these? Providing the answers to these questions has become the primary aim of this research (the detailed research questions will be specified later in chapter 6).

Who is the research good for?

To perform an investigation into the current state of the Czech firms is important for several reasons and for numerous stakeholders.

Broadly, the study could be important for the Czech economy and society as a whole. Providing the findings confirm that the restituted family firms do indeed face serious challenges, this study might be the first step in helping these firms to overcome them. This would be important with respect to the economic roles family firms play in market and transitional economies (see chapter 3.2). However, if family firms were seen to be coping relatively well with the economical challenges then this might change our opinion of Czech family firms, since they would have the potential to become the “healthy core and engine” of our transforming economy. Further research would obviously be needed to confirm this assumption. That being the case, it would then be our priority to assist our family firms in their attempt to cope with their inherent challenges (as in the western economies) so that they may remain prosperous for the future.

Turning our attention to the particular stakeholders who might benefit from the study, the following should be considered: -

- The study might help Czech family businesses themselves. Since very little has so far been written about the nature of family firms by Czech authors and foreign literature only available with difficulty, the theoretical part of this study might be one of very few systematic bodies of knowledge available which might help business owners and their families to better understand the nature of their businesses. The empirical results may also have the potential to be used by family firms as a benchmark or comparative study in assessing their own performance. For the firms covered in the research sample the study might serve as a kind of SWOT analysis that could be utilized in their strategic planning process and for further development.
- The conclusions of this study could be important for Czech governmental bodies and other business-related institutions, especially those that provide business counseling, business support and development programs. To them, the study may indicate those areas on which to focus their attention and those areas where their expertise might be needed. The study might actually show such bodies that family firms also deserve their attention. Finally, the study might help in focusing the attention of the Czech government on this special type of business to which, until now, has received little attention.
- The study could be utilized by academics and educational institutions - particularly universities. It is possible that the outcome of the multiple case study might raise the awareness of other researchers and become a base for further research focused on the Czech Republic. This may be of great significance since academic interest in family firms as a special discipline has so far been extremely limited. Furthermore, subsequent systematic research could lead to the establishment of this field as a separate discipline within Czech educational institutions.
- Family business research has been predominantly made in the USA and Western Europe. Empirical studies in Eastern Europe are rare. The present thesis aims to bridge this gap in research literature.
- The research is also potentially important for another, more general, reason. It investigates and follows a once-in-a-lifetime process - the restitution and re-establishment of Czech traditional family firms - that may not be repeated in future. In this respect, it could capture some of the unique features of the traditional family firm's re-birth and become an interesting record of Czech

post-revolutionary business and entrepreneurial history. The results may offer interesting insights to sociologists and economic historians.

1.3 Boundaries

This study is a cross-sectional multiple case study. Its main aim is to investigate what challenges the restituted Czech family businesses face ten years after being returned to their original family owners.

This brief description allows the majority of its limitations to be addressed. Firstly, this is a multiple case study using three in-depth examples. This research method imposes the first serious constraint – that the results can only be cautiously and restrictively applied to a wider setting. However, the case study method can be justified in the context of there previously having been very little known about Czech family firms and other economic phenomena related to economic transitions. The study is therefore explorative in nature. To reach conclusions that can be applied to the wider environment, further research is needed.

Secondly, the study focuses only on a specific group of Czech family firms – those restituted in the early 1990's. The study would not consider, for reasons explained in chapter 1.2, the second group of –new family firms that emerged through the 90's. Additionally, this study focuses only on medium-sized and large family businesses, primarily since some of the investigated issues relating to the management of functional areas (see chapter 4) might not be present in small firms.

The study is time-bound, investigating the status of family firms 10 years after returning to their former owners. Its aim is not to highlight specific past developments within these firms, despite the fact that the past is recognized as a crucial factor in influencing the present. The past is clearly reflected in the owners' family culture and the company infrastructure.

Since all three cases were selected based on the same pre-defined criteria (see chapter 6), they do not allow for wider comparison with companies that have different characteristics – non-family firms, newly emerged companies and small firms in particular.

A fundamental limitation of this study is that very little information has previously been available concerning Czech family firms. For example, having no official statistics about the number of restituted family firms means that it is difficult to accurately measure how widespread this type of business is, and therefore the significance of the businesses covered by the study. In this respect the study is pioneering in its approach.

The broad nature of this study has necessitated a trade off in terms of the depth in which the individual issues were investigated, given the time and financial constraints. It should be noted that some of the issues – especially those related to entrepreneurial skills and attributes – require further, deeper analysis and that the current results should only be viewed as indicative.

Finally, during the interviews it became apparent that, compared to the other categories addressed (external and internal), the families were only ready to give rather general information about family challenges. The weakness was that the research did not allow (within the given time possibilities) greater mutual trust to be built that may have led to these issues being disclosed. Nevertheless, the researcher believes that the results serve as a good basis for further investigations into Czech family firms.

1.4 Methodological approach

The research presented in this text is, from the ontological viewpoint¹, a *non-positivistic study*.

Positivist theory regards social science as an equivalent to physical science and therefore able to use similar procedures. It emphasizes the unity of science (www.metodix.com). Reality, according to positivism, is objective and external to those who study it and the primary aim of research is to seek explanation in the form of general theories or “covering” laws which can be used to make predictions (Watson, 1995). Positivists believe that the only approach to be regarded as science is the positivistic approach. Everything outside this is ‘metaphysics’ and therefore has a tarnished image among “true scientists” (for more see www.metodix.com).

The concept underlying this study is instead based on *hermeneutics* (www.metodix.com) – i.e. interpretation and understanding (Verstehen) as opposed to positivistic theory. Based on the non-positivistic approach this study, as with the majority of other research in social sciences, is seen to require different procedures from the physical sciences. In reality, the social world is seen as only accessible through meanings developed by social actors and by understanding social processes (Disman, 1993, Coolican, 1999).

Using the non-positivist concept, qualitative research methods were chosen to allow the dynamics of the researched family businesses to be explored- matters that are often hidden and would not be easily researched using alternative designs. The study can therefore be regarded as socio-cultural and interpretative research.

In line with the methods applied in this study, the logic of reasoning is abductive. As such it adopts the stance that the creation of a new theory is possible only when observations (that are the bases of inductive reasoning²) are

¹ Ontological foundation means the reality in which the studied phenomena are believed to exist and the way in which they are located in their particular reality. By referring to the Greek words ‘on’ (existing) and ‘logos’ (dogma), ontology is the dogma of existing (www.metodix.com).

² “In inductive reasoning there is no strength of relationship between reasons and conclusions ... To induce are to draw a conclusion from one or more particular facts or pieces of evidence. The conclusion explains the facts, and the facts support the conclusion. ... The inductive conclusion is an inferential jump beyond the evidence presented.” (Cooper and Emory, 1995)

combined with a guiding principle (www.metodix.com) – assumption, formulated hypotheses or, as in this case, prior knowledge (the bases of deductive reasoning³). In other words, the induction and deduction processes are used in a sequential manner⁴.

The logic of abductive reasoning explains the Finnish methodological and research server Metodix (www.metodix.com).

“For abductive reasoning the researcher has to have some sort of a clue. It is preferable that he, at least in some extent, knows the subject of his research. As was the case with the previous two types of reasoning [inductive and deductive], also here the researcher should have a theoretical and intellectual pre-understanding about the subject. Unless he did not have any presuppositions or knowledge concerning the subject, he would end up merely describing the observations, and he would not be able to find the most relevant information in the data. The point behind the abductive reasoning is that the researcher’s interest is directed to the factors that are believed or known to be important. ... By using the abductive reasoning it is possible to find the elements for theory that have not been previously recognized, and thereby, have not been written about or used in education, or used in the phenomenon in question.” (www.metodix.com)

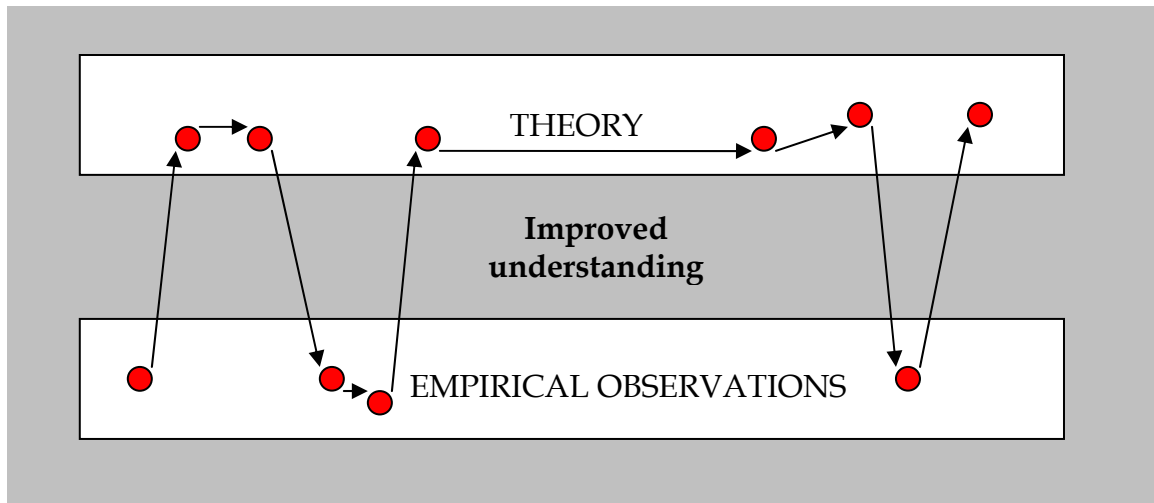


FIGURE 1 Abductive reasoning (based on discussion with prof. Koironen, 2004)

Figure 2 depicts the research process in terms of the abductive reasoning logic it applies. Further details are explained in chapter 1.5.

³ “Deduction is a form of inference that purports to the conclusive – the conclusions must necessarily follow from the reasons given. These reasons are said to imply the conclusions and the represent a proof. This is much stronger and different bond between reasons conclusions than is found with induction.” (Cooper and Emory, 1995)

⁴ “Induction occurs when we observe a fact and ask “Why is this”? In answer to this question, we advance a tentative explanation (hypothesis). The hypothesis is plausible if it explains the event or condition (fact) that prompted the question. Deduction is the process by which we test whether the hypothesis is capable of explaining the fact.” (Cooper and Emory, 1995)

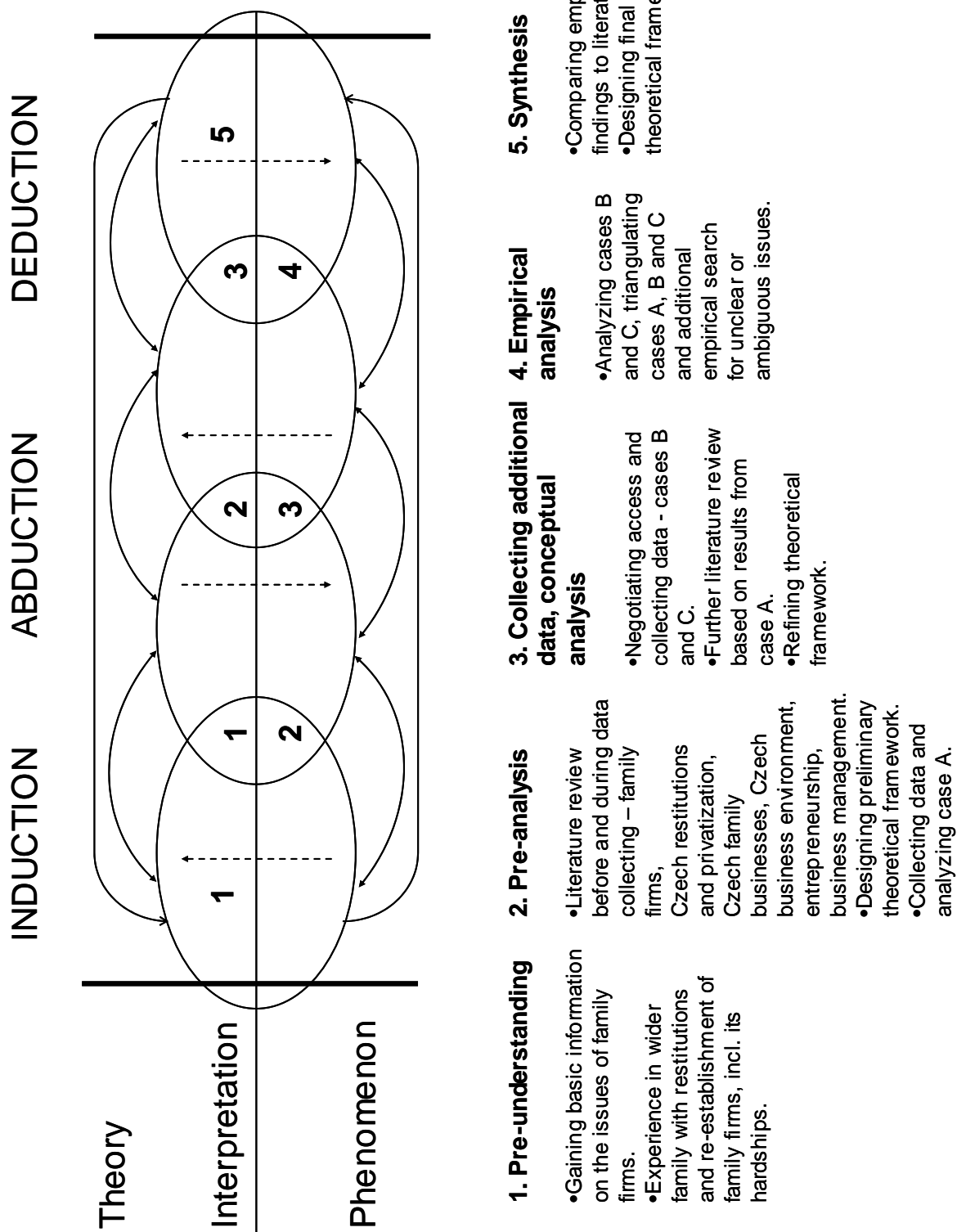


FIGURE 2 Research process and abductive reasoning (adapted from Niemelä, 2003)

1.5 Course of research

The research started in the summer of 2000 with an intensive preliminary literature review focused on research methodology, research design and family businesses both as understood in western literature and from Czech sources. Its roots can be tracked back to 1999 when I acquainted myself with the subject of family firms that had been, until then, practically unknown to me. Yet before that, my distant relatives had an old family firm returned to them. I became interested in learning of their progress and struggles they experienced in helping the business survive.

After deciding that family firms would make an extremely interesting research topic and subsequently what area I would focus on, the research design started. Based on my prior family experience with Czech restituted family firms and a preliminary literature review, concrete research questions were formulated, decisions were made about what research methodology and data collection methods should apply etc. The research methodology was designed by the end of 2000.

At the beginning of 2001, the empirical part of the study commenced. Access to the first family business – case A – was negotiated by February 2001. Following that was a series of interviews with the owners and other family members. Data was also gathered from other available resources such as the Internet, databases etc. before any interviews started the preliminary theoretical framework was defined. Through the course of the data gathering phase, collected information was also organized and filed with an ongoing literature review being interwoven through the initial phases. When all the data had been gathered in June 2001, it was analyzed and a report summarizing the methodological approach to the research and the initial findings was prepared. This was all completed by the end of September 2001.

Due to the abductive logic there has been much cross-pollination between theory and empirical data with interactive developments in both. The somewhat simplified description of phase one is depicted in figure 3.

In October 2001 an intensive search for two comparative cases started. As there was no official database on Czech family firms available, potential candidates were identified by conducting an extensive review of Czech economic press, internet searches etc. A shortlist of 10 companies was made, which were contacted before the two most suitable candidates were identified and the final conditions for access negotiated. The theoretical framework was further refined based on conclusions from case A. The data gathering for cases B and C started in February 2002 and was completed by October that year. As with case A, the data was organized and filed through the data-gathering phase and an additional literature review was conducted.

At this stage, writing the licentiate thesis began. Its aim was to create a sound methodological base for presenting the empirical results of the study. The licentiate thesis was defended in November 2003.

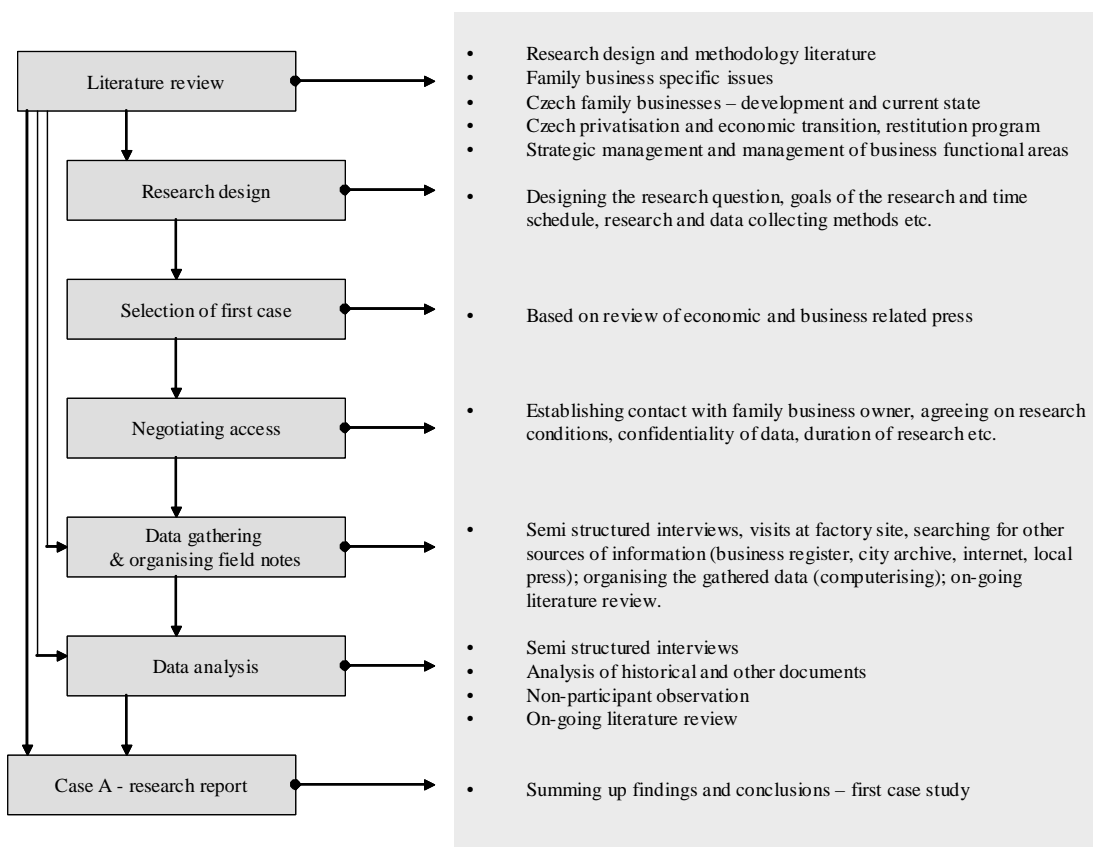


FIGURE 3 Progress of year 1

In February 2004 the final research stage towards a doctoral thesis commenced; analyzing the empirical data collected for cases B and C, triangulating the cases and systematically researching some of the issues emerging from the triangulation that appeared to be ambiguous or not sufficiently clear. The abductive analysis and theoretical framework was deepened in light of theory and new facts emerging from analysis and additional empirical research. Finally, writing this doctoral report began.

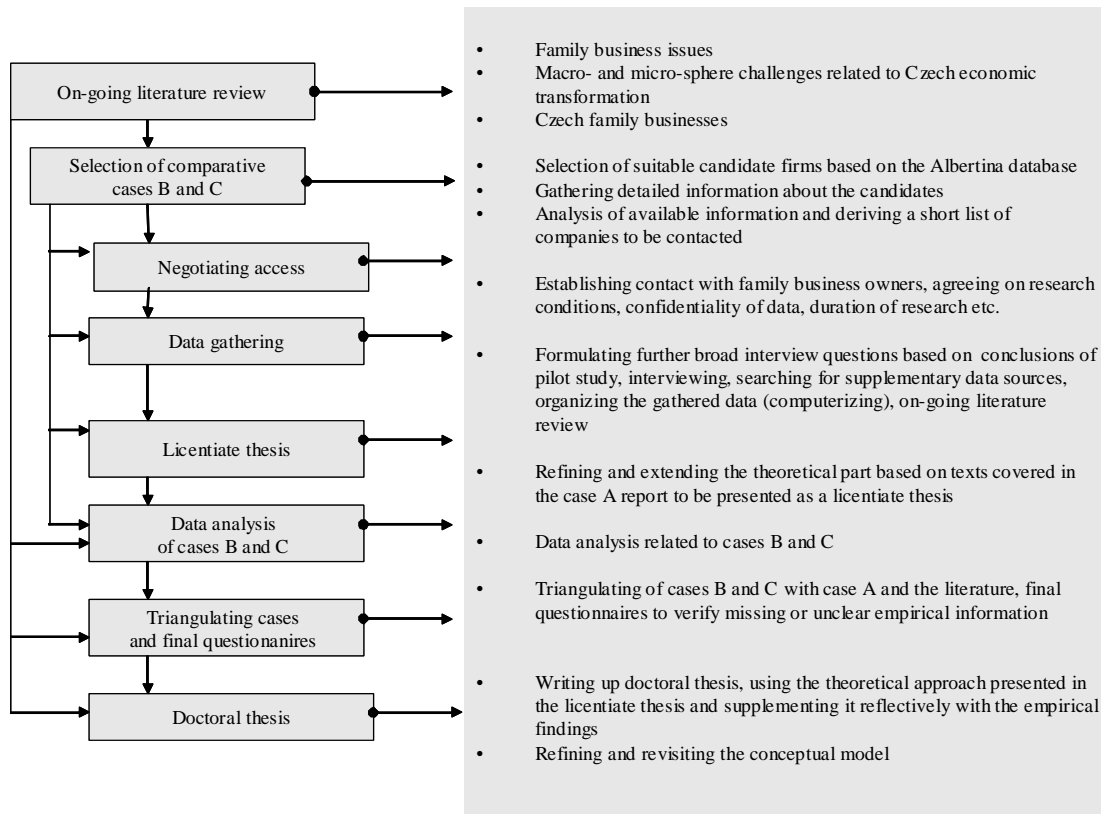


FIGURE 4 Progress of years 2, 3 and 4

2 ECONOMIC TRANSFORMATION IN THE CZECH REPUBLIC

2.1 Historical background

Before World War II Czechoslovakia was regarded as one of the best functioning, most socially stable and culturally developed parliamentary democracies in Europe. Its market economy, ranked among the top 10 in Europe and 15th in the world (Dyba, 1995, Stokes, 1996), was characterized by a solid industrial base and stable currency.

Czechoslovakia's economy was modern and open, with a strong pro-export orientation. Exports included light-industrial products such as textiles, clothing and shoes along with other items such as machinery and appliances. In later years fuels, groceries and glass also became important. Exports were made to numerous countries world-wide - in Europe mainly to Germany, France, Great Britain and Austria. These countries represented Czechoslovakia's main trading partners (Jirasek, 1993).

Exports of main commodities in 1920-1937 (in %)			
Items	1921-1924	1925-1929	1935-1937
Textile, clothes, shoes	33,3	30,8	25,7
Metals, machinery, appliances	10,6	17,4	23,2
Fuels (coal, wood)	13,2	8,5	9,7
Groceries	7,7	9,3	9,5
Glass	8,4	7,5	7,5
Sugar	12,6	4,0	1,9

FIGURE 5 Export structure for commodities, Czechoslovakia, 1920-1937 (Jirasek, 1993)

Czechoslovakia could also rely on its highly skilled and well trained workforce . Industrial secondary school graduates were held in high regard and compared favorably with university graduates. Apprentice training schools in large factories also gained notoriety, for example Bata (Jirasek, 1993).

Numerous small and large firms, often family owned, represented an important source of economic prosperity of that time. Among these were internationally famous firms such as Bata, Moser, Budeweiser, Skoda, Kolben and Danek, Petrof, Tatra, Praga, Aero, Jawa, numerous glass and china works, textile and furniture factories and others.

Czechoslovakia's favorable pre-war development was interrupted in 1939 by World War II. Despite the fact though that its war losses - in terms of both lives and property - were above the European average, Czechoslovakia managed to recover relatively quickly and its industrial pre-war production was fully restored. In 1948 production levels even outperformed by approximately 10% (Jirasek, 1993).

The post-war "industrial miracle", which saw the Czechoslovak industrial production once again performing at world levels, did not last for long. In 1946 the Communist party gained 40% of votes in the parliamentary elections. Shortly thereafter a considerable proportion of the country's industry was nationalized or transferred into so-called "national custody". The move towards socialism was accepted and Czechoslovakia, for the following 50 years, was part of a group of states in which, historically and economically, it never belonged to - the Eastern Block. Market economy was gradually replaced by the Soviet model of a centrally planned economy. The flourishing private sector virtually disappeared and almost all prices were centrally fixed and managed. The allocation of raw materials and investments was also managed centrally. Trade flows were diverted from West to East (Dyba, 1995).

In the early years of the socialistic era there were attempts to draw up national economic plans based on national and industrial proportions, supported by the agreement of experts and representatives of national industries. Gradually, however, the expert component diminished and bureaucracy took over. The whole country then went through a long and destructive period of economic stagnation and decline. Numerous economic reforms were made in an attempt to solve the crisis (Hlavni, 1965, Fisher, 1968, Dyba, 1995). External indebtedness and de-capitalization of the country was increasing along with "internal indebtedness" - a term used by Czech economists to describe poor quality infrastructure and housing stock, damaged ecology and obsolete capital. Furthermore, the efficiency of the Czech economy and its industrial structure changed unfavorably as a result of pressures from the Soviet Union and its satellites. Large investments flowed into heavy industry and traditional light-industry was neglected (Dyba, 1995).

In 1989 the Eastern block collapsed and fundamental changes created the political conditions necessary for radical economic reforms to replace the centrally planned economy with a regulated market economy. Czechoslovakia's pre-war position as a highly industrialized country with a strong entrepreneurial heritage (Clark and Soulsby, 1999, Lank 1997) represented an important base for the successful renewal of economic, political and social systems.

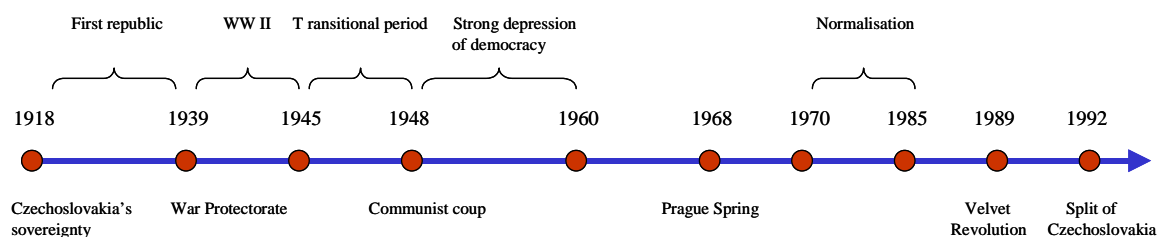


FIGURE 6 Czechoslovakia's economic and political milestones from 1918 to present

The transformation process of the Czechoslovak economy had to involve several key systematic, institutional, organizational and structural changes. The most important, as defined by the former prime minister Vaclav Klaus (Klaus, 1994, Dyba, 1995), were the fundamental changes in ownership relations, market deregulation, liberalization of prices, elimination of state subsidies, macroeconomic stability, healthy public finances (and stable state budget), an independent central bank and restructuring of the whole system.

These changes themselves involved a series of partial sub-tasks; deregulating foreign trade, de-monopolization, opening the country to foreign capital, creating a new legal framework, adopting modern market-economy norms and codes, financial and production restructuring, changes in social systems and, last but not least, *restitutions and privatization* of state property (Kerkovsky, 1998, Cesky, 1999, Kaderabkova 1999).

The structure of the Czech economy was altered in a very short period of time. By 1994 commentators regarded the Czech economy as one, having overcome the initial shocks of transformation, and predicted the continuing slow but steady economic growth. In 1995 the economic transition was officially pronounced to be completed with all the relevant economic reforms in place (Engen, 2002).

In the second half of the 90's problems began to surface - GDP fell substantially between 1996 and 1997 (annually by more than 5%, information from the Czech ministry of industry and trade, www.mpo.cz and the Czech statistical office, www.czso.cz), problems connected with the rapid coupon privatization, ownership structure and corporate governance started to emerge. The legal and regulatory framework had not kept pace with the developments in the economy which led to widespread economic crime (channeling etc.), crisis in the banking sector (bankruptcies of a significant number of Czech banks) and a slowdown in foreign investments and household consumption. Disorder in capital markets (Kerkovsky, 2002) represented a serious obstacle to household investments. The declared "Czech Miracle" was brought into question (Engen, 2002). In 1997, two so-called economic packages to revive the economy were accepted by the Klaus administration as a result of strong pressures from the opposition as well as members of his own governing party (Reflex, 2003).

The unfavorable economic situation only started improving in 1999/2000 (now under the Social-democratic government which took office in 1998). GDP gradually started to grow (www.mpo.cz), as did household consumption. The Czech economy started to recover from its first severe post-revolutionary economic recession.

In the 2nd quarter of 2003, economic data showed that the Czech economy found itself in a revival phase, growing annually by approximately 2.6 % (analysis available at www.mpo.cz). Positive inflationary developments (negative inflation rate) allowed a decline in interest rates and stimulated investments which increased annually by 3.5%. The trade deficit reduced by approximately 19 billion CZK per annum. Despite the unemployment rate increasing annually by about 0.6%, reaching 8.7%, the current overall performance of the Czech economy can be seen to as improving. The trend of mild growth has been continued until the present day.

2.2 Privatization

There has been much controversy concerning Czech privatization and its effectiveness (Singer, 1999, Privatizace, 1999). Whereas its defenders maintain that privatization of extensive state properties was inevitable, its opponents claim that privatization, especially coupon privatization, was the “fraud of the century” (Inventura, 2003). Only the future will show which of the two groups was right. However, there is no doubt that the privatization process was one of the key tools used in the restructuring process of the Czech economy (Dyba 1995).

The privatization method approved by the Federal assembly in 1991 (Inventura, 2003) was a compromise between several basic requirements; the speed of the process, transparency, the resulting positive economic effects and political acceptability (Singer, 1999, Vostrovská, 1999). Speed and transparency were clearly priorities so a mix of privatization strategies was finally launched (Beaglehole and Cerny, 1995): -

1. Restitution program
2. Privatization
 - a. Small scale privatization,
 - b. Large scale privatization
 - o Public auction
 - o Public competition
 - o Direct selling to a pre-determined owner
 - o Coupon privatization (Kerkovsky, 2002, Blazek, 1998)

The first method – the restitution program – was a scheme by which property expropriated by the communist regime after February 1948 was returned to former owners or their heirs (Beaglehole and Cerny, 1995). The rest remaining state property not returned through the restitution program was privatized.

Small privatization, utilized between 1990 and 1992, involved the return of smaller businesses, especially those of craftsmen, retailers, etc. The large privatization method, initiated in 1991 by the so-called Transformation Law, was used to privatize large state industrial companies such as banks, insurance companies and large hotels (Kerkovsky, 2002). Debate focused mainly on the last of the small-scale methods –coupon privatization. The aim was to allow citizens, regardless of their financial means, to share in state property. However, it was not small investors that were successful, rather investment funds that promised small investors large returns in exchange for their investment points. The Czech market was therefore exposed to the harsher side of capitalism. Many of the funds disappeared along with their assets as a result of weak legislation that allowed the transfer of large sums of money to unknown beneficiaries. Another problem of coupon privatization was that many state businesses did not find owners. Many large industrial companies, such as Czech electricity plants, remained under state administration (Inventura, 2003).



FIGURE 7 Volume of state property privatized by different methods up to 1998 (Kerkovsky, 2002)

The scale of Czech privatization after 1989 was unique, and not simply when compared to other post-communist countries (Lank, 1997). It is estimated that property valued at 150-200 billion CZK was returned to its former owners within the restitution program alone (Blazek, 1998). In total accounting value approximately 2% was privatized using the small-scale method, 10% returned in the restitution program (excluding the church and agricultural land which cannot be estimated) and the remaining 88% was transferred using large-scale privatization (Singer, 1999). The large number of restitutions in the Czech Republic after 1989 is incomparable to any other post-communist country (Beaglehole and Cerny, 1995). Apart from property such as houses, land and

forests (Holub, 1996), a large number of businesses were also returned to their former owners – many of them traditional old Czech family businesses.

	1st wave from 12/1991 till 01/1993	2nd wave from 12/1993 till 03/1994
Number of state enterprises participating in coupon privatization	988	861
Accounting value of shares appointed for sale	212.5 billion CZK	155 billion CZK
Number of citizens participating	5.98 million	6.16 million
Average accounting values of property per participating citizen	35 535 CZK	25 160 CZK
Percentage of property privatized by investment funds	72.2 %	63.5 %

FIGURE 8 Overview of coupon privatization (Inventura, 2003)

2.3 Economic transformation and its challenges

In many respects, Czechoslovak conditions in 1989 were better than those in other post-communist countries. Its economy was relatively efficient and debt free, the workforce was well educated and trained, wages were low (Dyba, 1995) and the geographical location of Czechoslovakia helped local industry to quickly substitute West European markets with the lost Eastern market (Kerkovsky, 2002, Jirasek, 1993). Nevertheless, the transforming Czech economy has faced a number of problems. For simplicity, these fall into three categories; problems connected with macroeconomic development, general micro-sphere problems and business specific problems.

In macroeconomic terms the primary concern of economists through the early years of this transformation process was the inflationary pressures caused by the faster real growth in wages rather than labor productivity. Later, other macroeconomic problems surfaced such as trade deficits and foreign indebtedness as imports from the West increased and the exports to the former Eastern Block fell dramatically. Unemployment increased as a result of the economic restructuring and bankruptcies of state owned businesses. The state budget and public finance deficits also caused severe distortions of the capital markets (www.mpo.cz).

The micro-sphere suffered from many general problems related to the economic transformation. Economic crime was widespread as a result of the weak legal system and poor law enforcement, the financial sector was inefficient and the allocation of capital problematic. State administration and bureaucracy was rife and the tax system was discriminatory to small and medium sized companies. Additionally, major shifts in industry structures took place and the nature of competition was changing rapidly (Heczko, 1999, Korab

at al, 1998, Blazek, 1998, Kerkovsky and Bird, 1998, Evaluation, 2002, www.mpo.cz).

Czech businesses were also suffering from numerous internal problems directly related to the conditions in their particular industry, company history, business size etc. In the early post-revolutionary years many firms had to cope with the low morale of their workforce that resulted from the fifty years of state governance. Despite the relatively low labor and production costs, many businesses were not able to compete in world markets because of the obsolete machinery and technology they inherited. Modernization was difficult because of a lack of finance or expertise. There were also serious managerial problems. Strategic planning and management, marketing and the commercial side of the business were often being neglected. Many companies lost their eastern market and were unable to enter new ones. Access to information was poor and business-led research and innovation decreased. Many firms were also unable to react to the rapidly changing legal and tax conditions. Finally, governance systems were poor due to ownership structures being fragmented by coupon privatization (Heczko, 1999, Korab at al, 1998, Blazek, 1998, Kerkovsky and Bird, 1998, Evaluation, 2002, www.mpo.cz).

Despite the transformation process having been almost completed, some of these problems still persist making business activities in the Czech Republic relatively difficult and risky. Issues that restrain the development of business activities in the Czech market receive close attention from Czech governmental and international institutions. For example, the Czech chamber of commerce (www.komora.cz) has been performing extensive annual research focused on the quality of the Czech business environment.

This research confirms that Czech businesses still faces serious problems; some of them are even worsening, as demonstrated by the pieces of research performed in 2001 and 2003 (www.komora.cz)⁵.

⁵ In 2001 the research considered four distinct areas:

- businesses and legislation,
- businesses and bureaucracy,
- business and finance,
- business and taxes.

Over 600 firms of all sizes and from various industries participating in the research have regarded the Czech legislation as significantly non-transparent, characterized by little involvement of business representatives in the legislation creation process. As critical is the perceived inefficiency of the Czech courts and along with poor law enforcement. The issue of bureaucracy is regarded as highly negative. The extent to which Czech businesses were informed about the changes in legislation has received criticism and complaints have been made about the unhelpfulness of officials in solving the problems of small businesses. Suspicions of deep-rooted corruption in the Czech Republic are also a major cause for concern. The unavailability of external sources of finance – especially bank loans– was regarded by respondents as a serious obstacle to further development of their business activities. Similarly, state support programs have been evaluated as insufficient. Finally, the relatively high level of taxation was seen as one of the most serious problems of all. Mainly small and medium sized businesses have been complaining about their inability to invest since an unreasonably large proportion of their profits are taken in taxes. The tax agenda was also regarded as too complicated and bureaucratic. One of the few positive opinions expressed was that taxation offices were regarded as relatively efficient and helpful. However, respondents from small and medium sized businesses complained

An EU evaluation made as part of the recent accession process for new candidate countries reinforced these conclusions. The otherwise positive assessment of the Czech Republic called mainly for improvements in the area of state administration, the legal system and efficiency of the courts, prevention of corruption and improvements in the financial sector including the tax system (Mocek, 2002, Evaluation, 2002, www.mpo.cz) – areas that directly affect business activities.

Separate research performed by Blazek (Blazek 1998), looked at management related issues and problems faced by Czech companies. This report concludes that there are numerous serious problems for Czech businesses; the inability to compete for and retain qualified and loyal employees and experienced managers, low levels of investment, low labor productivity, limited abilities to innovate, a lack of capital, poor financial and strategic management and limited business ethics and social responsibility.

Through 2003 and 2004, these problems seemed to deteriorate further. Jaromir Drabek, the president of the Czech export association (www.asociaceexporteru.cz) – founded by exporters in response to the insufficient support received from government– was quoted as saying⁶: -

“The business conditions got over the past several weeks beyond the lines of acceptability. I understand that it is necessary to create good conditions for people in employee relationship, but sole proprietors and businessmen are also people and also

that taxation offices apply stricter rules to them than larger businesses. Subsequent research performed in 2003 showed that the majority of the problems not only remained but had worsened in some cases. For example, this is true in with respect to the legislative process that most respondents viewed as even worse than in 2001 (messy legislation, difficult to understand and monitor). The research also revealed the prevailing opinion in among business leaders that the state does not communicate legislative changes well. Law enforcement is regarded as increasingly critical along with bureaucracy and corruption in the state administration. Interestingly, there is a perceived improvement in the availability of credit to smaller firms. This contrasts with an apparent deterioration in credit availability to medium sized firms. The majority of respondents regarded governmental support programs as inadequate. Equally alarming is the negative view of taxation, where 80 percent of small firms in the sample regard the current level as ‘demotivating’ and over 90 percent of medium sized businesses regard it as ‘totally demotivating’ (44 percent) or ‘rather high’ (55 percent). Opinions regarding the operation of financial offices substantially deteriorated from 2001. (www.komora.cz)

⁶ The Association of exporters has set the following objectives:

- to propose measures leading to the development of an acceptable exchange rate
- fairer conditions for Czech and foreign investors
- increasing state support in the area of export insurance, including insuring export investments and credit guarantees
- decreasing bureaucracy in business and related inefficiencies through a revision and simplification of current legislation
- tax conditions facilitate faster development of Czech producers
- state encouragement of citizens to take a proactive approach to their economic welfare and limiting the abuse of the social system
- decreasing the overall tax level, abolishing multiple taxation and simplifying tax legislation
- making exports the state priority
- adjustments to secondary and university education to encourage students to take personal responsibility for their own futures (www.asociaceexporteru.cz)

they need good conditions for their activities. ... Such approach [about changes in VAT legislation that was enacted only ten days before it came to power] is unacceptable, it is necessary to stop these practices, we cannot agree with that. ... We need immediate solutions, that would contribute to solving our problems much more flexibly." (www.pravo.cz)

These issues take on greater significance with the Czech Republic entering the EU and facing new challenges. -

"Business sphere have been though calling for this strategy [joining the EURO zone] for a longer time already. The exporters joint in the Export association have been negotiating already with the minister of finance, the Czech National bank as well as with the former minister of trade and industry Rusnok. What is the result like? 'If someone deals with that then we do not know about it. I think that gets underestimated. Or, important things will go public only after the EU emission referendum, which is not fair. We this it should be made known earlier. It is one of the basic prerequisites of being able to say to the citizens that we are ready for everything." (Jiri Grund, Member of the Czech export association, Profit, 31.3.2003)

The Czech Chamber of commerce also produced complimentary requirements (www.komora.cz): -

- Simplification of legislation and less administration
- Changes to legislation well in advance
- Less bureaucracy
- Adjusting secondary school education to suit the needs of the economy
- Fairer taxation
- A functioning business register
- Greater business competencies
- Re-establishment of the Economic chamber of the government (www.pravo.cz; Hospodarske Noviny, 11.2.2003)

2.4 A look at family firms in the Czech economy

The situation concerning family firms in the Czech Republic seems to be quite specific compared to established economies in three main respects: -

1. Family firms have not yet been officially recognized as a specific form of business. Family firms have been unrecognized at both governmental and academic levels. This means that there are no official statistics on form of business (Narwa, 2002), no relevant professional counseling, no focused educational programs and no family business associations in the Czech Republic.
2. Due to the unique history and development of the Czech economy, family firms are represented by several specific groups of businesses.
3. Due to the many problems connected to the economic transition and the years of having a centrally planned economy, Czech family firms potentially face a greater array of challenges than those in developed economies.

The lack of statistics on family firms means that their total number is difficult to estimate. Secondary data that may provide relevant information could potentially be found through an analysis of statistics available at Czech

ministries. However, this would though need significant separate research (personal conversation with Mr. Narwa, October 2002).

A clearer picture of the role played by Czech family firms can be obtained from the economic press, which delivers relatively frequent “traditional family business success stories” (an analysis performed using the Albertina database – a full text database of Czech economic and business articles). Searching the Albertina database based on key words “family firm” and “family business” led to approximately 500 articles (from 1999 the present). The same enquiry on key words “firm” and “business” yielded about 25 000 articles. This suggests that, of the total number of articles in which the words “business” or “firms” occur, about 2% address family firms or family businesses specifically. Even though this number does not initially seem particularly high, the proportion is not insignificant considering that “family firms” have never been officially recognized as a form of business. It is also usual for family owned and closely-held businesses to avoid media publicity and remain “silent actors” (based on conversation with professor Koiranen).

At the academic level, the subject of family businesses seems to have been almost ignored in the Czech Republic. Basic research carried out using the internet revealed that none of the leading Czech universities had related topics in their curriculum, either as special programs or separate courses.

A second issue arose during my conversation with Mr. Narwa (Prague, October 2002) and subsequent correspondence. We agreed that there are several distinct categories of family firms in the Czech Republic and eventually categorized four basic groups, which were differentiated using two criteria - size and time history.

		Time history	
		Long	Short
Size of business	Large	Re-established traditional family firms	Newly established family firms
	Small	Re-established traditional craft-shops and other micro-businesses	Newly established craft-shops and other micro-firms

FIGURE 9 Types of family business in the Czech Republic

The first category represents traditional family firms– medium or large businesses with a history often longer than 100 years. These businesses were expropriated and nationalized after 1948 and returned to their former owners after 1989, covering

famous pre-war names such as Bata, Jelinek, Petrof, Moser and Porkert. They display the characteristics of family businesses, such as a strong family business culture and family values permeating the businesses. Many are in their fourth generation or beyond and regard themselves as a “family business”. This particular research concentrates on this category – see figure 10.

The second category of restituted businesses consists of numerous micro-firms, traditional craft-shops, local family restaurants and pubs, small corner shops, bakeries, etc. These small businesses have been traditionally passed from one generation to the next or, more specifically, from father to son. They often take the form of a sole trader with one or more family members “helping” with the business. What differentiates them from other types of small firms is the business tradition they cherish.

The other two categories consist of both large and small businesses established after 1989. Despite having some attributes of family firms, such as several family members owning and/or being employed by the business, these do not often regard themselves as a “family firm” and have no specific family business culture. They are usually in their first generation.

In addition to the four general categories discussed, there are also two specific sub-categories – farms and demesnes returned to former Czech aristocrats. In many cases, these could be considered as specific forms of Czech family businesses.

There is no data available on the economic performance/situation of Czech family firms. Considering the somewhat volatile business environment, firm specific problems inherited from the past, challenges inherent in this special form of business and perhaps that many family members lack formal education⁷, it can be seen that the position of Czech family firms is not simple and that they have a variety of challenges to face.

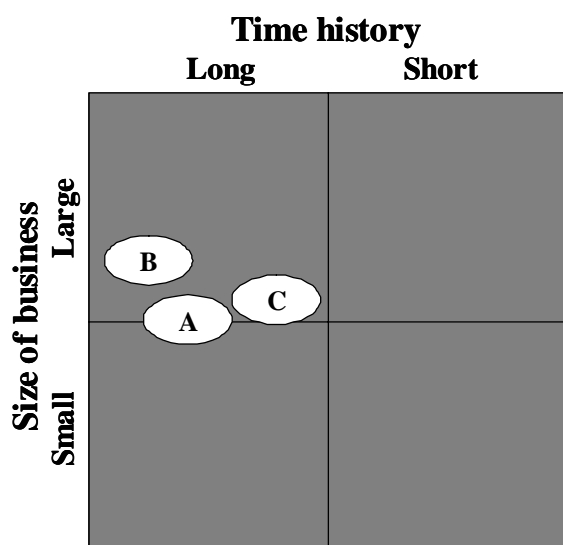


FIGURE 10 Classification of researched cases A, B and C in terms of time history and size

⁷ As a result of not being allowed to progress beyond secondary school education (Narwa, 2002).

3 TOWARDS UNDERSTANDING FAMILY BUSINESS

The aim of this chapter is to introduce and explain key concepts in the area of family firms. Full wording of this chapter can be found in the researcher's licentiate thesis (Hanzelkova, 2003).

3.1 Family business definition

Literature presents many definitions of a family business that very broadly fall into two categories. What characterizes the difference between them is the purpose for which the definitions were created. From this perspective, the first category covers single definitions their authors proposed to operationalize their research. It is clear that this category is rather inconsistent. The other group of definitions encompasses attempts to find more systematic and generally acceptable approaches to defining family firms.

As previously suggested, the first group encompasses numerous attempts to define family firms. Shanker, Astrachan and other authors in this field correctly state that there has so far been no consensus regarding the criteria that should be used to define family firms (Shanker and Astrachan, 1996 or Cuevas, Cumplido and Carrasco, 1995, Litz, 1995, Littunen and Hyrsky, 2000). The definitions presented cover a many criteria such as the percentage of share capital owned by a family, the number of generations involved in the business, employment of the owning family members, the intention to maintain family involvement in the future, the size of the enterprise, power over strategic decisions and the number of family members involved in the business (Neubauer and Lank, Shanker and Astrachan, 1996). Following are some examples of family business definitions that belong into this category: -

- Neubauer and Lank (1998): Family firm is a proprietorship, partnership, corporation or any form of business association where the voting control is in the hands of a given family.

- Hall, Melin and Nordqvist (2001): Family firm is a firm where one family group controls the company through a clear majority of the ordinary voting shares, this family is represented in the management team and the leading representatives of the family perceive the business to be a family firm.
- Ward and Aronoff (1994): Family business is a business intended for the next generation of family.
- Dyer (1986): Family business is an organization in which decisions regarding its ownership or management is influenced by a relationship to a family.
- Donneley (1964): Family business is a business closely tied with at least two generations of a family.
- McCollom (1990): Family firms are firms differentiated from non-family firms on four criteria - structure, task and value differences, culture and roles.

It has become apparent that using such a vast array of criteria to define family firms was causing problems. Firstly, the comparability of research was often criticized. Secondly, the lack of clarity makes estimating the impact of family businesses on different economies extremely problematic. Issues of this nature led researchers to "create some order out of this seeming chaos." (Neubauer and Lank, 1998)

Most recognized for their attempts to systematize the family business definitions were Shanker and Astrachan (1996). In their research they suggested a broader definition covering three groups, each depending on the level of family involvement in the business: -

- Broad definition requiring only "little direct family involvement". Here, the criteria defining a family business are the effective control of strategic direction and an intention to keep the business in the family.
- Middle definition based on the criteria of the founder/descendant running the business and legally control the voting stock.
- Narrow definition that defines a family firm as a business with multiple generations involved, the family directly running and owning the business and more than one member of the family having significant management responsibilities.

Similar to Shanker and Astrachan, Litz (1995) also started to deal systematically with the issue and eventually proposed the so-called "intention based approach". This model categorizes family businesses according to the actual degree of family involvement (management and ownership) and their intentions relating to their continued involvement.

However, these attempts for a more universal definition did not allow for the flexibility that family firms warranted. Recently, Astrachan, Klein and Smyrniotis (2002) took a promising new approach to reaching consensus in defining the family business. The authors had the idea of "artificially dichotomizing family vs. non-family, i.e. an approach adopted over the past twenty years, when no such clear-cut dichotomy exists creates more problems than it attempts to solve". They therefore proposed a continuum rather than a dichotomous scale. Consequently, firms would not be regarded as solely family or non-family but as having varying degrees of family involvement.

Their approach uses the "F-PEC scale". The scale utilizes three basic factors - power, experience, and culture - that determine the extent of "familiness" of a firm. In other words, the extent to which the family influences the business.

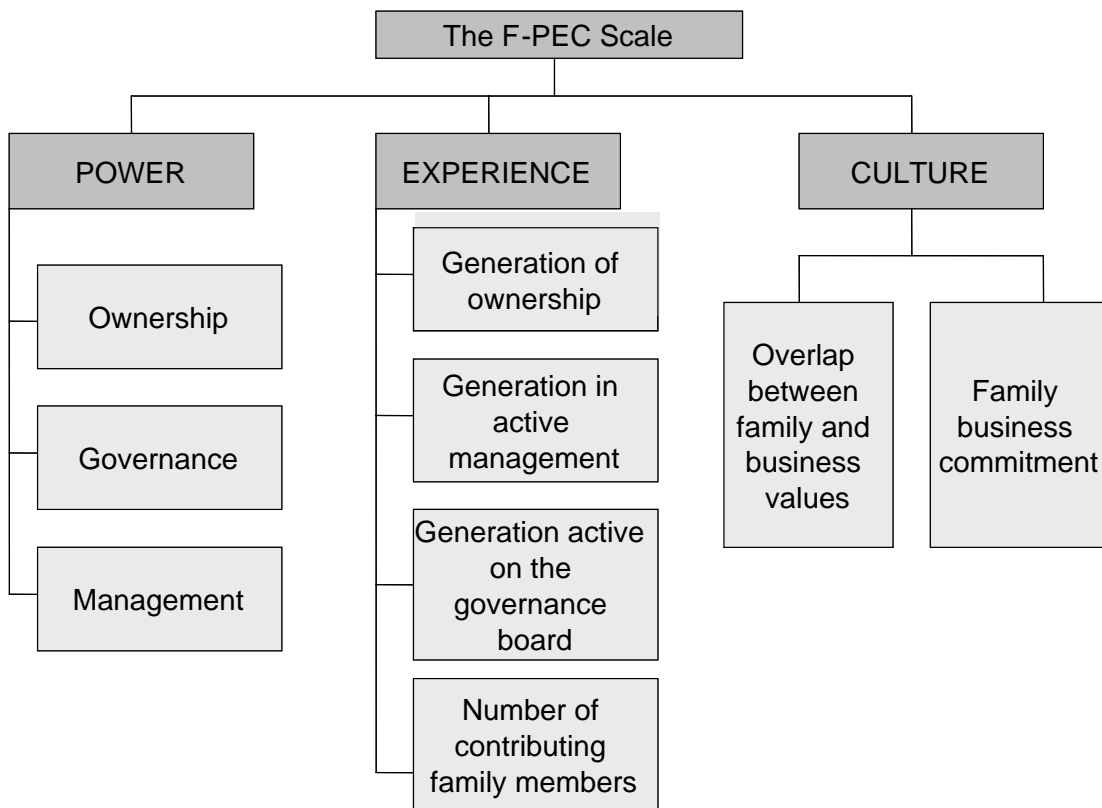


FIGURE 11 The F-PEC scale of family influence (Astrachan, Klein and Smyrnios, 2002).

POWER shows the extent to which the family influences the business via ownership, governance and management. EXPERIENCE measures the number of family successions in the past that, as many authors claim, add considerable value to the business and the family (see graph below).

Finally, an important determinant of family influence in the business is represented by the CULTURE sub-scale. Authors such as Gallo (Astrachan, Klein and Smyrnios, 2002) consider business culture and values to be important family firm elements. CULTURE assesses the extent to which family and business values overlap and the resulting family commitment to the firm.

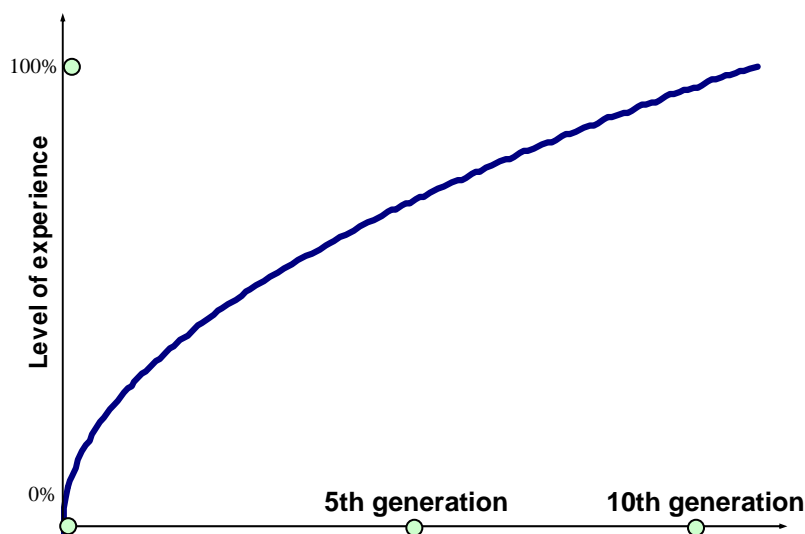


FIGURE 12 Level of experience as a function of the number of successions (Astrachan, Klein and Smyrniotis, 2002).

The multi-criteria F-PEC scale is a unique concept that overcomes many issues. It provides the researchers with an unbiased tool capable of defining the category for any firm, yet still leaving a degree of flexibility that a single definition would never allow. The F-PEC scale is yet to be tested in practice and so may be rather difficult to utilize in practice. Nevertheless, it has the potential to become the tool of choice for defining family businesses. A similar approach was adopted also by other authors, such as Uhlaner (2002) who proposed the Guttman scale.

3.2 Importance of family firms

Family firms are often associated with small commercial operations – “father and son” craft shops or family owned and managed corner shops. However, large international family firms (e.g. Benetton, Ferrero and Fiat of Italy, Ford, Mars, Estee Lauder and Levi Strauss of America, Lindstrom and H&M of Sweden, Ahlstrom, Kone, Lemminkäinen and Fazer of Finland, L’Oreal of France, C&A of Holland, Bata and Jelinek of Canada and Lego of Denmark) proves that it is not necessarily the case (Neubauer and Lank, 1998). In fact, apart from numerous micro and small family enterprises, family businesses represent a significant number of large international companies (Melin, 2002).

Another widely held belief is that family businesses are economically insignificant (Heck and McCann, 2001). The truth is quite the opposite. Family businesses are crucial drivers of national economies worldwide. Various studies confirm that the contribution of family businesses to GDP and employment vary from 45% to 70% through world market economies (Neubauer and Lank, 1998; Facts, 1999, Korab, Kalouda, Salgueiro and Garcia, 1998). In the US for

example, 60% of the workforce is employed by family firms, 75% similarly in Germany (Lank, 1994) and 50% in Australia (Owens, 1994). Measured as an estimated percentage of registered companies, family firms in various economies represent between 70% and 95% of the total number of enterprises (see table 3). In the EU for example, family businesses make up approximately 85% of all enterprises, with the figure at 90% in the US (Pistrui, Welsch, Wintermantel, Liao and Pohl, 2000). These numbers confirm how economically significant family businesses are in market economies all over the world (for more see for example the International Family Enterprise research academy, www.ifera.org).

Country	Percent
Portugal	70
United Kingdom	75
Spain	80
Switzerland	85
Sweden	>90
Italy	>95
Middle East	>95
U.S.	>95

FIGURE 13 Family enterprises as an estimated percentage of registered companies (adapted from Neubauer and Lank, 1998, Shanker and Astrachan, 1996).

Away from the “western world”, family firms have also become significant players in the newly emerging market economies. In the early 90’s Gibb (1993) stated that, in transforming economies, family firms had become the key players in a successful economic transition. Such businesses were responsible for macro-economical improvements creating wealth and absorbing unemployment (Lank, 1997 – A conversation with Tom Bata for the Family Business Review) and have had other important functions such as the creation of a supply and distribution system (Achremenko, 1999), expanding the politically stable middle class (Welsch, Hills and Hoy, 1995), re-establishing lost business morals and ethics (Kerkovska, 2002) and functions related to the social and economical changes taking place in these countries. As Lank (1993) points out, “family enterprises have been necessary for rebuilding the long-deprived nations”. In these markets family firms continue to increase their role (Pistrui, Welsch and Roberts, 1997). Being one of the most important components of the free-enterprise sector, family businesses represent an increasingly important driver of socio-economic prosperity and change (Pistrui, Welsch, Wintermantel, Liao and Pohl, 2000). Neubauer and Lank (1998) conclude that the former Eastern Block has to return to the very roots of capitalism – family owned businesses. This trend is already evident.

3.3 Family firm: a special species in the world of business

Family businesses deserve attention not merely because of their number, (often) size, and therefore their contribution to business outputs. Another important trait that their economic performance often surpasses other (non-family) businesses (Neubauer and Lank, 1998).

This obviously raises a question. What makes family firms different? Family business owners themselves derive their competitive advantage from many factors such as a strong and stable family (business) culture, values, belief in a common goal, a strong sense of mission, a long-term commitment and mutual trust among family members. Just as important are closer communication and a strong sense of social responsibility- locally, regionally, nationally and trans-nationally. This is often reflected in the contribution (both in time and money) made to community projects or an emphasis on value for money and quality. After all, the family's reputation depends on product quality, good service, family pride and doing things that are above-and-beyond the call of duty. Additionally, family firms often work to maximize shareholder wealth for their heirs, taking a long-term strategic perspective not bound by next quarter's earnings. This results in a greater willingness to reinvest profits or their willingness to make personal financial (and other) sacrifices for the long-term prosperity of the business. Finally, family firms maintain important community and business relations stemming from their respected name and excellent knowledge of local business (Neubauer and Lank, 1998, Donnelley, 1964, Kets de Vries, 1996, Ibrahim and Ellis, 1994, Kets de Vries, 1993, Korab, Kalouda, Salgueiro and Garcia, 1998).

However, despite their important role, numerous competitive advantages and often-superior economic performance, family businesses also have significant underlying weaknesses that make them vulnerable (Pistrui, Welsch, Wintermantel, Liao and Pohl, 2000). Statistics from various economies show that family firms are notoriously short lived; as Neubauer and Lank (1998) state "between two thirds and three quarters of family businesses either collapse or are sold by the founding family during the first generation's tenure. Only 5 to 15 percent continues into the third generation in the hands of the descendants of the founder". There are a number of explanations: -

- Unwillingness of the outgoing generation to "let go" of ownership and management power at the appropriate moment (early enough).
- Inability to attract and retain competent and motivated family successors.
- Sibling rivalry with no consensus and unmanaged family conflicts flowing into the business.
- Excessive nepotism (favoritism within employment) leading to the tolerance of inept family members, inadequate reward systems and an inability to attract and retain competent non-family managers.
- Spoiled kid syndrome.
- Autocratic and paternalistic management that resists change is secretive and attracts dependent personalities.
- Difficulties in finding suitable capital for growth without diluting the family's equity and limited access to capital markets.

- Confusing processes, a messy organizational structure and no clear division of tasks.
- Inability to balance the family's need for liquidity and the businesses' need for cash - poor profit discipline and milking the business.
- Poor estate planning and inability to pay inheritance taxes.
- Immobile marketing etc. (Neubauer and Lank, 1998, Donnelley, 1964, Ibrahim and Ellis, 1994, Kets de Vries, 1996, Tagiuri and Davis, 1996).

Both the success and high failure rate of family businesses result from a unique trait in comparison to other enterprises - the *presence of a family* and the related family dynamics in a business. It is the family relations permeating the business that makes them different from other firms.

This core rationale of family firms is described in the 'three cycle model' proposed by Tagiuri and Davis (1996). They explain that, whereas non-family business can be as a simple interaction of two systems (ownership and management), family businesses involve three overlapping systems: business, ownership and family. Compared to other businesses, it is the "family" circle and the related family's emotional dynamics which make family businesses vulnerable (Neubauer and Lank, 1998) and successful at the same time. From this perspective family firms are the most complex form of business.

Tagiuri and Davis (1996) explain that the complexity of family firms comes from the fact that these three systems, though often made up of the same people, are by nature very different due to their diverse goals. The success of family firms depends the extent to which the varied demands of these distinct systems are correctly managed. When one or another of these three systems becomes unbalanced the problems arise. If they are properly managed and support each other their co-existence can become sources of significant competitive advantage (Korab, Kalouda, Salgueiro and Garcia, 1998, Carlock and Ward, 2001).

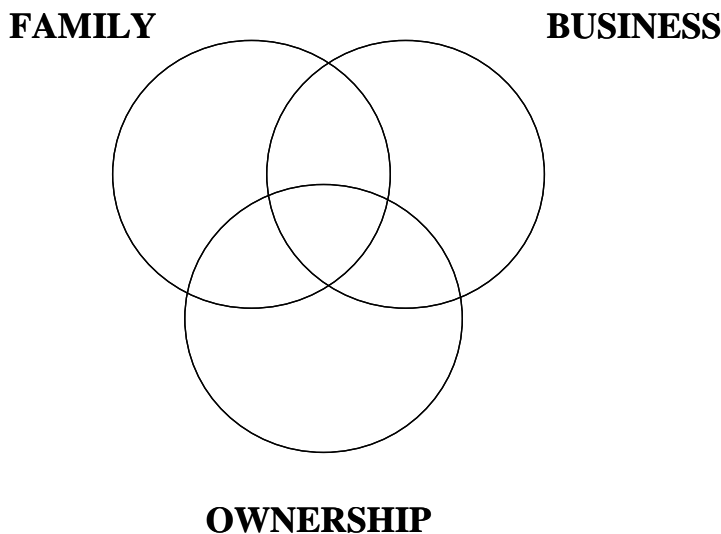


FIGURE 14 Three-circle model (Tagiuri and Davis, 1996)

The inherent ambiguity within family firms has also been systematically shown by another model of Tagiuri and Davis (1996). This model identifies the specific attributes of family firms that have the potential of becoming both the sources of advantages and disadvantages. Because of their latent positive and negative potential, the authors call them “Bivalent” attributes.

Bivalent attributes of the family firm		
Disadvantages	Attributes	Advantages
Norm confusion and anxiety; family business and ownership issues can get mixed up; lack of business objectivity	Simultaneous roles	Heightened family and company loyalty; quick and affective decision-making
A stifling sense of being over watched; Resentment toward family and business	Shared identity	Heightened family and company loyalty; a strong sense of mission; more objective business decisions
Family members can point out weaknesses; early disappointments can reduce trust in work interactions	Life-long common history	Relatives can draw out relatives' strengths and complement their weaknesses; a strong foundation can encourage a family to weather adversity
Lack of objectivity in communication; resentment and guilt can complicate work interactions; covert hostility can appear	Emotional involvement and Ambivalence	Expression of positive feelings creates loyalty and promotes trust
Can trigger sensitive reactions that can distort communication and encourage conditions for conflict	Private language	Allows for more efficient communication with greater privacy
Can lead relatives to feel over-watched and trapped	Mutual awareness and privacy	Improved communication and business decisions that support the business, owners, and family
Fierce rivalries can develop between relatives	Meaning of the family company	Company symbolism can develop a strong sense of mission for employees

FIGURE 15 Bivalent attributes of family firms (Tagiuri and Davis, 1996)

3.4 Family, business and relations

As previously explained, families influence the way a business functions in many ways. To understand the complex issues related to the family's involvement and the related *psychodynamics*, attention has been turned to a closely related area – psychology. This chapter attempts to explain the key issues that substantially impact the quality of relations – both positively and negatively – in the family and the business. Figure 16 gives an overview.

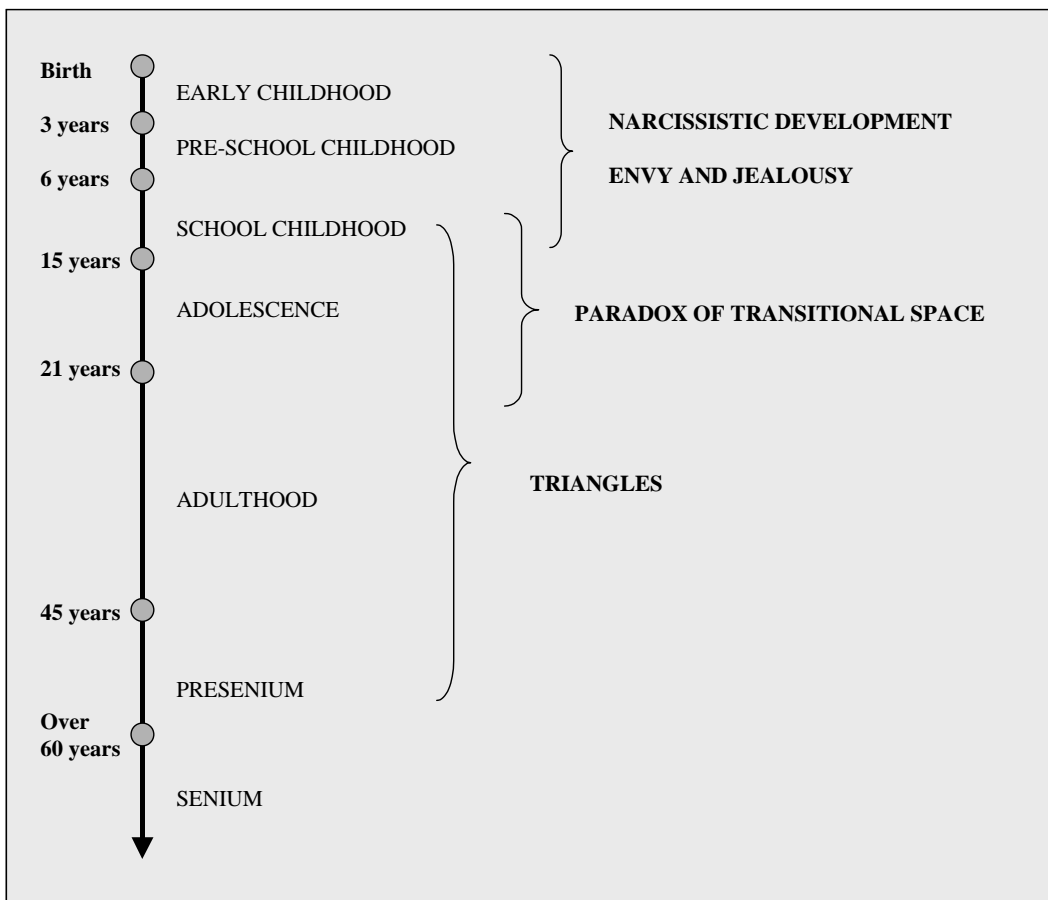


FIGURE 16 Developmental life stages and possible dangers in psychological development (Bouchal, 1993 and Kets de Vries, 1998)

Narcissistic development

Narcissistic development is a term used in developmental psychology for the changes that take place during the early years of person's life that irreversibly influence core personality patterns in later life. Psychologists claim that the kind of treatment a child receives during this time profoundly influences his or her view of the world through adulthood. It is also often this stage of life that becomes the source of many personality dysfunctions – some of them related to family business.

In childhood the role of parents is critical. Whether parents are consistent and supportive or inconsistent and rejecting shapes the child for the rest of his life. Children with experience of healthy narcissism become “constructive narcissists” – well balanced with positive self-esteem. Conversely, disappointments, parental over-stimulation, under-stimulation or inconsistent arbitrary behavior in this period can lead to problems of a narcissist nature; the inability to trust anyone’s love or loyalty resulting in a fixation on power, beauty, status, prestige and superiority. People with narcissistic disorders have grandiose sense of self-esteem, are exploitative, cannot empathize with the feelings of others, are arrogant and manipulative.

In organizations, negative narcissistic development can lead to two counter-productive leadership styles – “dramatic” and “suspicious”. According to Kets de Vries (1996) these are often present in family firms and can have devastating consequences.

Paradox of transitional space

Attention should also be paid to the “paradox of transitional space” – the second important stage in a child’s development that can cause many family and family business problems. The notion relates to that fact that, before a child becomes an adult, he has to pass through the transitional place – an area between childish fantasy and reality. Later, everyone experiencing normal psychological development leaves this space to become an independent adult with two clearly separated worlds; the world of every day reality and the intrapsychic world made up of internal beliefs, drives and wishes (Kets de Vries, 1996).

In dysfunctional families this healthy development of leaving the transitional space is inhibited. Such “enmeshed” families do not give their members the opportunity to become an independent individual. Family members are not respected as individuals. At the other extreme are families where the members have practically nothing to do with each other. Such families are called “disengaged families”. This concept is a central to the Bowen Family Systems Theory (Kerr and Bowen, 1988).

With respect to family firms, Kets de Vries (1996), Friedman (1991) and Carroll (1988) highlight that family businesses often represent transitional objects that separate the inner family world from reality. In some family firms, members may thus never attain a true adult sense of separateness. Family firm members are therefore more vulnerable to being unable to become independent adults, which later negatively impacts the business.

Envy and jealousy

The third important sources of personality and family dysfunctions are envy, jealousy and rivalry between the family members, siblings in particular (Kets de Vries, 1996, Korab, 1998). Envy develops early in life as the child starts to realize that everything is not available to him just as he wishes. The arrival of a second

child into this mother-child dyad often results in the emergence of another feeling, namely jealousy. Due to this envy and jealousy the older child starts to compare his own qualities to those of the younger sibling and rivalry between them often increases. Bank and Kahn (1982) stress that sibling relationships have a great deal of influence on the formation and continued development of an individual's identity. In this respect they note: -

"A satisfying, reasonable and flexible sibling relationship allows separateness and differentiation from one another without isolation and cooperation and closeness and intimacy without enmeshment. Abnormal sibling relations on the other hand can hinder individual development and destabilize family." (Bank and Kahn, 1982).

Negative feelings stemming from sibling rivalry and jealousy often extend far beyond childhood and frequently become another source of subsequent problems in the family and family firm (Friedman, 1992).

The intensity of envy and jealousy amongst children is greatly influenced by the ability of the parents to handle their children's' tension. One of the main factors influencing sibling rivalry is the equitable availability of the parents to both children (Kets de Vries, 1996). Friedman (1991) stresses that the quality of sibling relationships can be influenced by three key factors - inter-sibling comparison, the mode of justice and the parental role in conflict resolution.

Envy and jealousy amongst siblings are not the only factors causing family dysfunctions. Another source of conflict is envy and jealousy evident in parent-child relations - especially between father and son where sons are compared to their father whilst also competing for their mother's attention. The consequences are similar.

Triangles

Finally, tension between the parents themselves is dangerous for the family and business alike. Kets de Vries (1996), Hollander (1983) and Brown (1991) point out that such tension often draws third parties - often the children - into the fray resulting in "triangles". In the "parent-child" triangle the two side against the other parent. In "detouring coalition" triangles it is the child who victimized by the parents. Such parents may try to demonize the child or treat a normal child as "sick", devoting all their attention to the child's care. Such children may find it difficult to become independent. Family alliances can, in extreme cases, harden into "family myths"- a set of rigidly defined beliefs shared by those family members playing a defensive and protective role. The most common family myths are as follows: -

- myth of a harmony that the family members cherish in spite of evidence to the contrary,
- myth of stereotyping in which everyone in the family has a specific assigned role,
- myth of martyrdom that creates the family members' identities using the idea that they must constantly do things against their will,
- myth of the scapegoat, when all the family's problems are blamed for on one member,

- myth of the messiah when salvation is thought to come from an omnipotent source (person) who is then overburdened with expectations.

Conflict

All of the potential psychological dysfunctions, if present in a family and its business, can often lead to a dangerous state of affairs – a conflict. Conflict can be seen as the competitive and opposing actions of incompatibles, an antagonistic state or action or a hostile encounter – fight, battle, war or similar behavior – that occurs when two or more parties are in opposition or battle as a result of a perceived deprivation of one by the other (Neubauer and Lank 1998). Although present in all types of organization, conflict in family firms is unique in nature (Sorenson, 1999) since family firms face not only business issues but also issues related to the family and its psychological dynamics. Jaffe (2003) describes this in more detail: -

“While many feuds are about money and control, one can see that they are often result from unhappy family relations – parents not being respectful or loving enough, or a feeling that one child or gender is favored. A feud begins when one family member feels that their role, share or influence does not allow them to feel respected.”

Neubauer and Lank (1998) point out that conflict is inevitable even in healthy families and if constructively managed does not necessarily need to be negative. The same view is taken by Watson (1995) who states: -

“Co-operation cannot of itself be evaluated as good or healthy any more than conflict per se can be seen as bad or un healthy. We can judge it only by the ends to which it is related.” (Watson, 1995)

This is good news for family firms. If managed effectively, conflict need not cause harm to their business may even yield necessary change and development. Neubauer and Lank (1998) claim that, in principle, families use three basic strategies to handle conflict: -

- Avoidance – when the parties ignore conflict
- Referral – when parties acknowledge conflict but are unable or unwilling to resolve it themselves, using a third party as a mediator between the quarrelling parties
- Confrontation – involving direct face-to-face dialogue between parties in order to identify and solve the basic problem

Neubauer and Lank suggest that the more complex the conflict is the more appropriate becomes the confrontation strategy. The other two strategies – avoidance and referral – can lead to long-lasting conflicts of unmanageable proportions. Confrontation is the one that brings change.

Similarly, Sorenson (1999) identified five basic conflict management strategies and assessed their impacts on the business and family: -

- Competition – based on the concerns of the competitor not taking others into account.
- Accommodation – based on genuine concern for others whilst neglecting one's own personal desires.
- Collaboration – attempts to fully satisfy the concerns of all involved parties. Unlike accommodation, it is not yielding to other's concerns but actively searches for win-win solutions.
- Compromise – attempts to find a solution acceptable to everyone.
- Avoidance – fails to address or discuss conflict. It therefore limits confrontation but often leads to frustration.

In his research Sorenson concluded that the strategies of competition and avoidance produced the most negative results for the business and the family. Cosier and Harvey (1998) reached similar conclusions.

Clearly, the ideal solution to family feuds is successful prevention. Jaffe (2003) proposes four principles to avoid conflict in a family firm - defining family fairness and justice, respecting an individual's growth and development, creating structural clarity and using outside mediators.

Family business, relations and special challenges

Closely related to the notions of poor family relations and conflict are four issues typical in family firms - nepotism, the spoiled kid syndrome, the ghost of padrone and milking the business.

Nepotism

Nepotism is a term used for a situation common in family firms when senior managers "show a remarkable capacity for closing their eyes to the weaknesses of their beloved" (Kets de Vries, 1996)⁸ and welcome family members into the business regardless of their abilities. The implications for company performance are not only financial – when family members do not really contribute to the business – but also psychological, especially with respect to other non-family employees. Working for an incompetent person can be highly demotivating. It is worse still when the incentive system is biased towards the incompetent family member. In this case, family firms can have difficulties in recruiting and retaining capable employees.

The spoiled kid syndrome

The spoiled kid syndrome is another typical scenario in family businesses that can eventually endanger their existence. As Kets de Vries writes, "its typical protagonist is a hard working entrepreneur" overwhelmed by the demands of

⁸ The notion of nepotism can be broadly understood as the practice of hiring relatives. From this prospective, nepotism can also have positive consequences, such as shorter learning curves, greater loyalty, better performance, lower employee turnover, long-term commitment to the company and successful succession (Molofsky, 1998, Nelton, 1998, Aronoff and Ward, 1993). Usually, however, its negative connotation is used (Vinton, 1998).

the business. Because of time constraints, he neglects his family and spends no time raising his children to become responsible human beings, never mind well business trained and educated. When an entrepreneur exhibits this kind of behavior he feels guilty and starts “bribing” his children to keep their love in spite of devoting little time to them. Consequently, possessions become the overriding reward for their children, instead of well-internalized values, feelings and mutual respect. The lack of business expertise and knowledge, coupled with potential sibling rivalry, can eventually be the downfall of the company.

The ghost of padrone

Inherent in many family firms is the tendency towards autocracy. Many founder-entrepreneurs have rather autocratic personalities, sometimes through necessity. This trait may be beneficial in the start-up phases of the family firms, although they can later cause serious problems. One hypothesis states that people willing to work under such autocratic rule are likely to be “dependent personalities” with no abilities to move a company further. In addition, the internal culture in such companies can be too insular and secretive, ignoring external developments.

Milking the business

This problem arises when companies are turned into a “summer” house for the family members who enjoy considerable benefits but do not contribute to the business. As in case of nepotism, such family employees/hangers-on in the business can lead to financial strains and serious morale problems of other employees who work hard.

Entrepreneurs and psychological dysfunctions

The personality of entrepreneurs – often the founders of the company – is an interesting subject to investigate in this field. Kets de Vries (1996) states that entrepreneurs are, from the psychological point of view, personalities with many unique traits that can be a considerable source of strength but can also cause significant difficulties. Entrepreneurs are generally very achievement oriented, energetic, creative and imaginative, like taking responsibility for decisions and dislike repetitive work. They are ready to take calculated risks, are capable of turning their ideas into reality and with their sense of purpose and charisma they can easily convince others. On the other hand they also have certain personality quirks that make them tough to work with. According to Levinson (1971), many entrepreneurs start their own business as a result of unresolved conflicts with their fathers or to escape the authority of other powerful figures. Following are some of the difficult characteristics entrepreneurs often possess: -

- Need for control resulting in difficulties dealing with authority or an inability to delegate.
- Sense of distrust resulting from victimization in their childhood. This leaves them perpetually on guard against authority figures and always ready should disaster strike. As a result entrepreneurs are permanently scanning their environment. In such a climate employees can stop working independently and political gamesmanship can become rampant.
- Desire for applause as a result of lack of recognition whilst growing up. To compensate, many entrepreneurs need to play a particular mythological role later in their adult life. They often lack a secure sense of self-esteem and need to show the world that they matter.

Entrepreneurs can therefore find themselves the victims as well as (even more importantly) the causes of many relation-based problems in family firms.

3.5 Values and culture

There is another important issue that differs considerably difference between family and non-family firms. That is the role of *family values and culture* in the business. Numerous authors support the view that rich value systems and strong, persistent and stable cultures are typical characteristics of family businesses (Newsletter, 2001, Hall, Melin and Nordqvist, 2000, Gersick, 1997, Alvarez and Lopez-Sintas, 2001, Korab, 1998) and, as such, represent the most significant source of strength family firms have over their non-family competitors. The importance of family cultures and values is also recognized by Astrachan, Klein and Smyrnios (2002) who with their F-PEC scale define the “cultural subscale” as an important determinant of firm’s “familiness”.

As with most concepts in social science, there is no clear consensus concerning the definition of values and culture. One similarity between the definitions of culture can be traced however – most take the concept of values in as the main⁹ definitional pillar. Values are then regarded as ideas about what is wanted or preferred that influence selective behavior (Sociologicky, 1992, Watson, 1995)¹⁰. Culture is then defined as: -

- Shared and learned world of experiences, meanings, values and understandings which inform people and which are expresses, reproduced and communicated in partly symbolic form; in other words, culture consists of belief, values, norms, traditions etc. shared by all members of the organization (Hall, Melin and Nordqvist, 2001)

⁹ Watson for example sees culture merely as a system of values (notions of what is good or bad, right or wrong within a society or its part) shared by society (Watson, 1995)

¹⁰ Most of the definitions of culture take this consensus view. Some authors argue that such definitions do not mirror reality. Instead they see organizational life as a matter of competition, conflict, politicking, domination and representation which has its roots in differentiating values and conflicting interests, beliefs and norms (Alvesson and Melin, 1987). Culture is therefore as much about social relations as consensus. Social relations are the central part of culture and culture is an outcome of political processes about how to define what an organization is and which major relations it has. Culture according to this view is a process of becoming.

- Pattern of basic assumptions that a given group invented, developed or discovered in learning to cope with its problems of external adaptation and internal integration (Schein, 1995).
- Set of (1) artifacts as the more tangible aspects of culture (dress, logo, language, jargon, stories etc), (2) perspectives as of a set of ideas and actions person uses to deal with difficult situations (norms and rules), (3) values as broader principles (for example always play in the interest of the customers) and (3) assumptions as premises on which group bases its world views (Dyer, 1988). Seven basic assumptions are then key in analyzing culture: the nature of relationships, human nature, the nature of truth, the environment, universalism/particularism, the nature of human activity, time (Dyer, 1988).
- The system of meanings which is shared by members of a human grouping and which defines what is good or bad, right or wrong, and what are the appropriate ways for members of that grouping to think and behave (Watson, 1995).

In classically sociological terms, culture can be regarded as explicit or implicit (Sociologicky, 1992), weak or strong, clear, tight and coherent or muddled, loose and vague (Watson, 1995). In family businesses, culture extends into the area of the family business culture – those typically present in family firms.

One of the most famous pieces of work in the field by Dyer (1988) who identified four basic types of family business cultures based the assumptions as defined above. The first - “paternalistic” culture – has hierarchically arranged relationships. In this culture leaders retain all the power and authority and make all the key decisions. “Laissez-faire” culture also relies on hierarchical relationships but it differs from the paternalistic culture in its assumptions about human nature and the nature of truth. Employees are viewed as trustworthy and are therefore empowered to make decisions. “Participative culture” is based on assumptions that vary dramatically from the first two types. Relationships tend to be more egalitarian and more group oriented. The status and power of the family tends to be de-emphasized. Employees are deemed to be trustworthy and are given opportunities to develop their talents. Finally, “professional culture” is where the owners decide to turn the management of the business to professional managers. In such family firms, relationships are individualistic, impersonal and competition is keen (Dyer, 1988).

Dyer states that eighty percent of first generation family business in his panel had the paternalistic culture. In successive generations more than two-thirds of those paternalistic cultures changed with the majority becoming professional cultures. Therefore, it seems that in order for the family firm to successfully transfer leadership to the next generation, the paternalistic culture should evolve into one of the other three types (Dyer, 1988).

Role of values and culture in family business

In determining those values at the heart of a particular culture we should return to the core of this chapter – the roles played by values (and culture) in family firms. Three main issues will be explored; values as competitive advantage, values as agents assuring business continuity and values as a mediator between the needs of a family and a business.

As previously mentioned, strong value systems and culture provide family firms with a competitive advantage over the publicly held companies. In this respect Aronoff and Ward (2000) state: -

“When an owning family’s values form the heart of a business’s culture, some vital synergies can arise.” (Aronoff and Ward, 2000)

In fact, an enduring commitment to its values is the greatest benefit a family can bring to business ownership. According to the authors, family business values endow firms with many competitive advantages. Values lay the bedrock for corporate culture, provide a template for decision-making, inspire top performance, support a patient, long-term view and commitment, reduce the cost of capital, challenge conventional thinking, help to adapt to change, improve strategic planning and the execution of strategy, help form strategic alliances, help to recruit and retain employees and lend meaning to work (Aronoff and Ward, 2000).

Kotter and Heskett state that values tend to endure over time. According to them, when being shared amongst the owners, decision-makers and employees in a business, values have a great power to shape businesses performance (Kotter and Heskett, 1992). The same conclusion was also reached by Neubauer and Lank (1988) and Ibrahim and Ellis (1994) who stated that: -

“The values, ideals and sense of purpose nurtured by the owning family are potentially vast sources of strength and energy for a business. A healthy owning family with strong values, in fact, may be the greatest resources a business can have.” (Neubauer and Lank, 1998)

“Shared values, beliefs and vision belong to greatest advantages family firms possess.” (Ibrahim and Ellis, 1994)

Assuming that family firms’ values do indeed provide distinct competitive advantages, an obvious question is which values are the most important in increasing the business’s competitive advantage. Interestingly, Aronoff and Ward note that not all values are necessarily positive. Among the values with the potential to disrupt family firms is that of maintaining peace at all costs. The best values, according to Aronoff and Ward, are those that are robust, distinct and powerful. Values often found in successful family firms are accountability, adding value, collective good, valuing input and interaction (give and take), education and development, ethical conduct, focus on values, fun, justice, meritocracy, openness, practical realism, risk taking, self-reliance, servant leadership, special purpose, entrepreneurial spirit, stewardship, trust and valuing stakeholders (Aronoff and Ward, 2000).

In a similar way, Cappuyens states that one of the factors influencing the success of family firms is the implementation of a strong family culture based on the ELISA values; excellence, laboriousness, initiative, simplicity and austerity (Cappuyens, 1998).

Apart from providing competitive advantage, values also play other important positive roles in a family business. One is that they assure the

continuity of a business. Narva, for example, states that value-driven families who control business enterprises build on their family's core values and relationship strengths to nurture future generations of leaders. According to him, these family-controlled businesses are "built to last" (Narva, 2001). Similarly, Dyer asserts that the culture (and values as its building block) of the family business plays an important role in determining whether the firm continues successfully beyond the first generation (Dyer, 1988).

Finally, values play an important role in family firms by acting as a mediator between the interests of the family and the business. This is because the family and business have different short-term goals. In order to reconcile these two inherently different sub-systems, there must be something stronger than the forces that pull family and business apart. Aronoff and Ward claim that this role is played in many families by values that work in four fundamental ways - providing an incentive for sacrifice, elevating discussion, generating a unique synergy and helping to prune the tree, thus resolving ownership conflicts in the second and third generations (Aronoff and Ward, 2000).

Values and the founder

Academic consensus suggests that family business founders are very important for the emerging culture and values in organizations (Hall, Melin and Nordqvist, 2000). In this respect, Schein claims that entrepreneurs are very strong-minded about what to do and how to do it. Typically, they have strong opinions about the way of the world, the role their organization will play in that world and human nature, truth, relationships, time and space. These assumptions then get projected into the value system of their organization and its culture (Schein, 1995). Alvarez and Sintas also acknowledge that an entrepreneur's values are translated into business practices (Alvarez and Lopez-Sintas, 2001).

The same authors performed research (Alvarez and Lopez-Sintas, 2001) in which they attempted to classify the founders based on their values. They point out that the roots of family business heterogeneity are found in the diverse values of their founders. After analyzing a wide range of values, they eventually identified four groups of family business founders; founders of family business traditions, founder-achievers, founder-strategists and founder-inventors. They concluded that founders of family firms had different hierarchies of values resulting in diverse behaviors.

According to Aronoff and Ward (2000) and other authors (Harvey and Evans, 1994, Schein, 1995, Gersick, 1997), values often come from the founder or another strong charismatic figure - the hero of the business. They then elaborate by stating that the values of the third generation then become crucial. They also stress that, without a strong value system, many family firms in their later generations move towards the norms governing public companies. After some time this undermines their strengths - the patience to pursue long-term goals and the commitment to stable, trustworthy business connections.

Passing the values and culture

In acknowledging the importance of culture and values in family firms, one question remains unanswered. How can the values and culture be passed to subsequent generations? Aronoff and Ward claim that parents generally teach values by living them. According to them, this process almost begins at birth. Family values can be passed on in numerous ways - writing family creeds, holding family meetings, telling stories, arranging fireside chats that are especially powerful when grandparents get involved, organizing an active board, setting up a family university, introducing children to the business, writing an ethical will etc. (Aronoff and Ward, 2000). As the children enter the business, they bring with them the same or similar values as their parents. This may also explain why family firms have stronger cultures and value systems than their non-family counterparts - an issue that has not been addressed in the literature reviewed.

In organizations, culture is embedded and can be transmitted through formal statements of corporate philosophy, charters, creeds etc., the design of physical spaces, deliberate role modeling, teaching and coaching by leaders, explicit reward and status systems and promotion criteria, stories, legends and myths, what leaders pay attention to, measure and control, leader reactions to critical incidents, how the organization is designed and structured, organizational systems and procedures or criteria used for recruitment, selection, promotion and communication with people (Schein, 1995).

3.6 Strategic management and corporate governance

Managing family firms strategically

Family firms face numerous challenges. One of these, that seems to be gaining in importance as competition in industries increases, is their *reluctance to engage in strategic management and planning*. It is a well known fact that lack of such planning is a key cause of business failure so family firms do indeed face a serious problem. With respect to the attitude of family firms towards strategic management various authors comment: -

- Laveren, Jorissen, Martens and Reheul (2002): non-family firms make significantly more use of long-term planning instruments than family businesses.
- Donckels and Lambrecht (1999): family businesses differ from non-family businesses in having less clear answers to the question of where the business should be heading in the next three years and less often have anything written down on this subject,
- Donckels and Frohlich (1991): information on strategic behavior of family firms suggests their rather conservative attitude.
- Ward and Aronoff (1994): lack of formal planning by family business owners often frustrates their advisors and key managers

- Korab et al (1998): lack of strategic planning is one of the important factors of family business failure etc.

There appears to be enough evidence for these assertions. What then makes family firms overlook an issue that is of such importance to their long term success and survival? There are many reasons. The majority of authors agree that owner/managers view such planning exercises as futile. They feel that planning is worthless because it is based on assumptions about the future and, as they strive to maximize flexibility, assume that these plans might constrain them. In their opinion, planning is too time consuming, costs too much compared to the value added and often the future has already passed before the plan is completed. It is also important to note that owners/managers are often busy with little time for the appropriate reflection, convinced that nobody looks at the plan anyway (Jinks, Leedy and Teal, 2001, Ward, 1988).

There are also other relevant factors specific to family firms. A desire for secrecy or a lack of trust in their lieutenants, a reluctance to change (Ward, 1988), the wish to keep the future strategic direction ambiguous, feeling that family commitment in a business should be a natural process, a fear of discussing sensitive family issues and the avoidance of conflict (Ward and Aronoff, 1994, Carlock, 2001). All these are likely causes of the reluctance to utilize strategic management and planning.

A lack of strategic management and planning would be a serious drawback in any type of firm. However, Jinks, Leedy and Teal (2001) state that the issues are even more acute in family firms because of important factors related to the family –succession planning, employment and compensation of family members, division of profits between the family and business and other issues.

Academic writers urge family business owners to deal with strategic planning as the key to professionalizing their business (Leach and Bogod, 1999, Korab, 1998) and provide them with insights and planning tools. Jinks, Leedy and Teal (2001), for example, propose a model of strategic analysis made up of two broad areas –internal functional areas and external considerations. Leach and Bogod (1999) outline the steps for developing and implementing the strategic process. Other generic tools such as SWOT and SLEPT analysis, Porter's five forces model, the McKinsey 7S model and value chain analysis (De Witt and Meyer, 1994, Koonz and Weihrich, 1998, Porter, 1994) can be employed for the purpose of strategic planning in family firms.

Various authors point out that *strategic planning in family firms is rather a special process* as such planners should pay particular attention to two aspects – both the business and the family (Jinks, Leedy and Teal, 2001, Carlock, 2001, Koiranen, 2002). Ward and Aronoff (Ward and Aronoff, 1994, Ward, 1988) suggest that, in reality, family considerations do shape strategy, often unconsciously. Jinks, Leedy and Teal (2001) highlight that family controlled businesses have planning needs similar to those of other companies, although family businesses also encounter unique issues that have to be incorporated into the planning process – family's objectives, aspirations and familial needs.

The strategic planning of family firms has a unique level of complexity that is well illustrated in the family business strategic management model of Sharma, Chrisman and Chua (1997). This model supplements the classical strategic management model with issues specific to family firms such as the incorporation of family goals, planning for succession, the family business culture, the inclusion of family members, intergenerational issues and sibling relationships.

Carlock (2001) proposes the Parallel Planning Process (PPP) – a framework that helps in analyzing the needs and controlling the destiny of both the family and the business. The main goal of the PPP model is to identify family and business plans that are supportive of each other's needs and goals. Its outcome should be a harmonized family business continuity plan and strategic business plan.

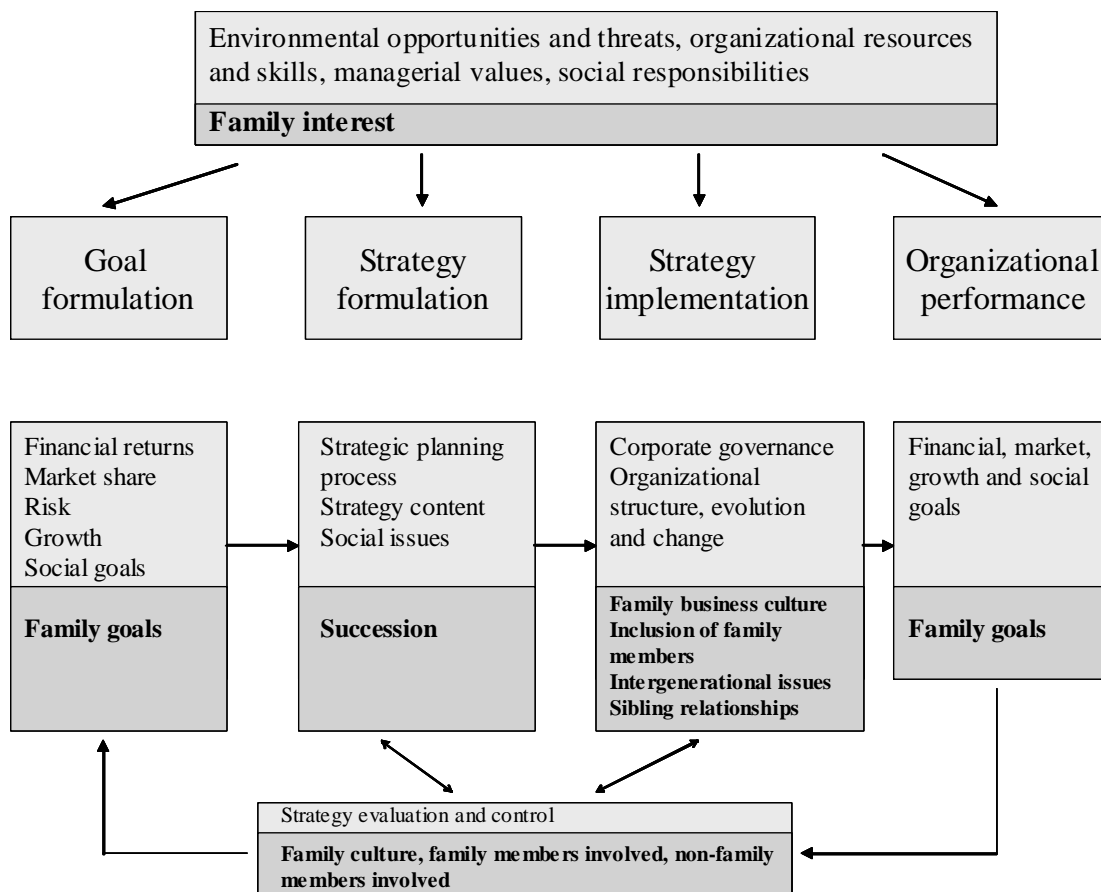


FIGURE 17 Family business strategic management model (Sharma, Chrisman and Chua, 1997).

Additionally, Ward (1988) suggests that strategic planning in a family firm should proceed in several steps; a review of family commitment to the future of the business and the company's financial health, identification of business alternatives, consideration of family and personal goals, selection of business strategy and assessment of family interests and capabilities.

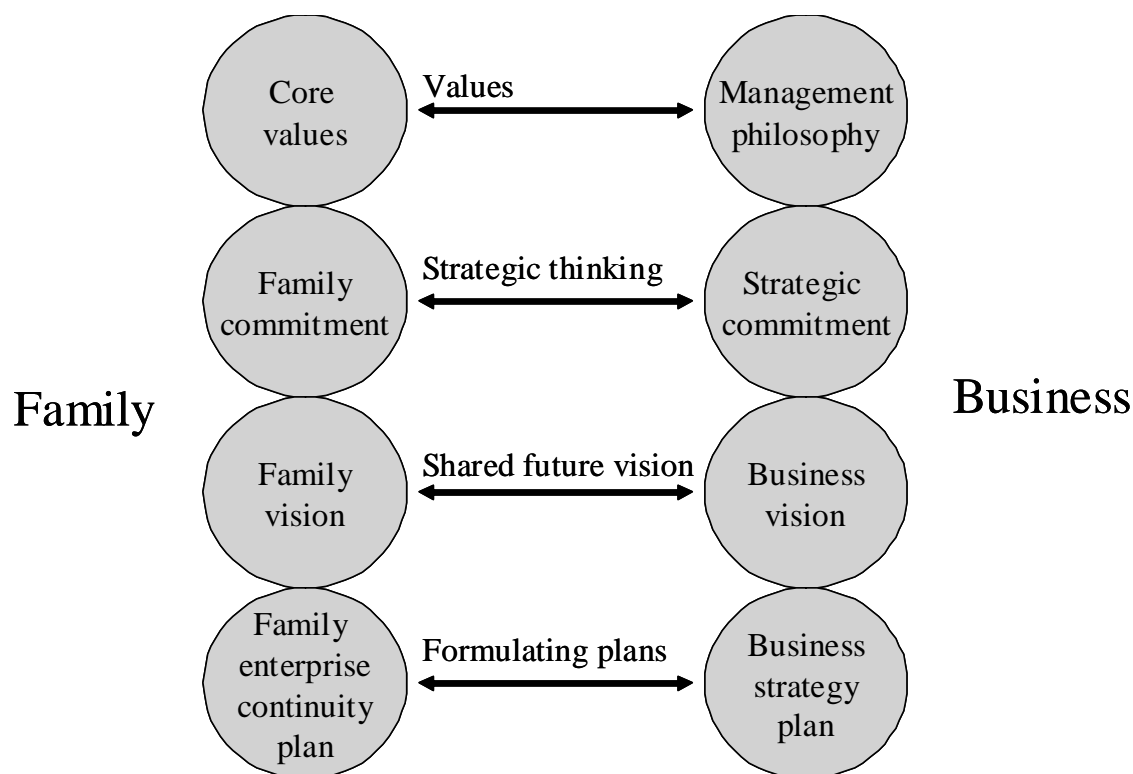


FIGURE 18 Parallel Planning Process model (Carlock, 2001)

Family business governance

The issue of strategic planning in a family firm is also closely linked to the overall notion of *corporate governance* - a hot issue from the 1990s. The UK's Cadbury Committee defined the framework in which companies should be run. The Swiss business school IMD provided an alternative definition that regards governance as a question of performance accountability within the relevant legal frameworks, ultimately dealing with the question of to whom, and for what, corporations should be held accountable (Pocket, 1994).

This interest in governance developed from the suspicion that the interests of non-managerial stakeholders - customers, employees and the general public - were being ignored. The focus then turned to the debate over questions of how to construct more effective boards, either in Anglo-Saxon cultures or the two-tier system with a supervisory board used in the German model (Pocket, 1994, Pass, Lowes, Pendleton and Chadwick, 1991).

Using the same logic, the issue of governance in family firms deals with the issue of incorporating various family institutions into the generic governance system so that the needs of the family are represented. Aronoff and Ward (1995), for example, identify a reasonable approach to solving the problem of balance by having business leaders being attentive to family needs without damaging the interests of others. To achieve this, many firms develop

family institutions to address these needs (Jinks, Leedy and Teal, 2001). Mustakalio and Autio (2002) stress that, due to an overlap of the business and governance cycles, the governance of a family firm is particularly challenging. In addition, they argue that good governance of such a firm is not only about reduction of conflict but also has an effect on firm's entrepreneurial approach.

Neubauer and Lank have provided perhaps the most exhaustive work on governance in family businesses - "Governance for sustainability" (Neubauer and Lank, 1998). According to them, major family business institutions cover the following: -

- Family meeting - the simplest, often informal, family institution usually taking the form of 'pillow talk' between an entrepreneur and his wife, with the children being included later.
- Family assembly (forum) - a more formal family gathering of several nuclear families commonly held in sibling partnerships and cousin confederations.
- Family council - a formalized body necessary in cousin confederations and divided into the family supervisory board, inner council and family executive committee.
- Other family institutions such as the shareholder committee, family educational committee, family recreational committee etc. (Neubauer and Lank, 1998, Korab, 1998).

The key task is to define the rules of the game that the family firm should follow. This is achieved by having family statements that describe what the family stands for, its expectations and fundamental values - family constitution, family strategic plan, family code of conduct, family protocol, family values, family culture, family creed etc. (Neubauer and Lank, 1998).

3.7 Critical time in family firm's life - succession

Readers should have already noted that family firms face a unique issue with respect to strategic planning - that of *succession*¹¹. Statistics highlight the very high number of first generation companies¹² failing at this developmental stage (Neubauer and Lank, 1998, Barach and Ganitsky, 1995, Handler, 1994, Ward, 1987), so it is unsurprising that this issue has attracted the attention of both family business practitioners and academics. Donckels and Lambrecht claim that in 1994 that Handler's survey on succession revealed 108 articles by 82 writers (Donckels and Lambrecht, 1999). A review of articles published in the Family Business Review journal saw the topic of succession ranked as the second most frequently published, beaten only by articles on family business dynamics (Dyer and Sanchez, 1998). This shows its genuine significance.

¹¹ Succession refers to passing the family firm from one generation to another or a formal procedure for determining who is to follow the boss (Pocket, 1994).

¹² The statistics confirm that succession is a typically problematic issue. Only 30 percent of family firms survive the transition to second generation and only 10 percent make it to third generation (Beckhard and Dyer, 1983)

Founder, owner, and the other members of the older generation

Poorly managed succession is regarded as one of the most common causes of family business failure. It is therefore crucial to find out what might be the potential causes for this issue to be so difficult matter to manage or, in other words, what are the critical obstacles in the succession process. Since the most dominant player in the succession process is generally the founder or the older member, attention is initially focused on them.

A seminal work in this area by Kets de Vries (1996). He explains that the founders face a special set of challenges that make succession a difficult task to handle. The most important ones are accepting their own mortality, deciding who of the children would take over the business, loosing their power and their core identity that is strongly linked with the business. Similar conclusions were also reached by Lansberg (1988) who stressed “strong psychological deterrents of the owners” to managing the exit – the reluctance to face mortality, a strong need to retain power and centrality, a fear of loosing an important part of their identity, a fear of empty nest syndrome etc.

Lansberg (1988) identifies additional factors related to four groups of stakeholders – founder, family, owner, and environment – that can interfere with succession and proposes ways in which the particular barriers can be managed. He stresses that in order to go through succession successfully, a succession plan has to be created and the barriers to succession have to be recognized and handled through strategies for mobilizing succession planning.

Similarly, Barach and Ganitsky (1995) adopted a positive approach and thus proposed four categories of factors influencing successful succession: -

- at the CEO’s level -factors such as strategic commitment to family leadership and to specific offspring,
- sharing the joy and pain of work and life with the family, relations with offspring, along with expectations and personal characteristics,
- at the offspring’s level – actual and perceived responsibility, competence and decision-making capacity, relationships with others and commitment to family firms,
- at the level of other participants – personal goals, career path and power, shareholder mix,
- and at the firm’s level – corporate culture and organizational structure, health and prospects.

Strategies for mobilizing the founder
<ul style="list-style-type: none"> - Help the founder to develop a supportive network of peers who can emphasize and share learning - Be attentive to timing, paying particular attention to how the founder is coping with his fears of death - Heighten the sensitivity of the family to the needs of the founder - Provide the founder with specific data about the steps involved in the development of a succession plan, and, if, possible, get him to develop a timetable - Help the founder to design a role for the future that will motivate him to let go of his present involvement in operational management
Strategies for mobilizing the family
<ul style="list-style-type: none"> - Help the founder and his spouse to develop a shared vision of the future - Help the founder and his spouse to seek marital counseling of needed - Develop a family council that facilitates meetings of the family in which members discuss their values and expectations for the business and for one another
Strategies for mobilizing managers
<ul style="list-style-type: none"> - Create a succession task force and build in incentives that reward serious involvement in the development of a succession plan - Encourage planning for succession for senior managers as well as for the founder
Strategies for mobilizing the owners
<ul style="list-style-type: none"> - Create a board of directors that is appropriately staffed and that provides an independent perspective that can safeguard the interest of the owners -

FIGURE 19 Strategies for mobilizing the stakeholders (Lansberg, 1988)

They conclude that the success or failure of succession depends on the interaction between the critical factors and the ability of core players to control these.

Other authors such as Churchill and Lewis (1983), Levinson (1971) and Schein (1983) also agree that for various reasons entrepreneurs, CEOs and other stock holders have difficulties giving up what they have created and this can manifest itself in a variety of non-productive ways. Danco (1982) states that the founder commits what is known as “corporeuthanasia”.

Sonnenfeld (1988) then stresses that there are various types of retirement styles for founders or CEOs; the monarchs who do not leave until they are forced or die, the generals who leave when forced out and plan a return to power to rescue the company and the ambassadors that leave willingly and become advisors to the firms, rule for a term before pursuing another venture. Each type of retirement style also has its own special features and challenges.

What about the younger generation?

Although studies seemed to focus on the older generation, there were authors who criticized this biased view of succession. Handler (Handler, 1992) points out: -

“Only few empirical studies, anecdotal accounts or conceptual analysis have focused onto the experience of the next generation family members, in spite of the fact their participation is critical to successful succession and it cannot be assumed that their motivation, desires and concerns are the same as the ones of the older generation.” (Handler, 1992).

In line with this statement, Handler then focused her research on the experiences of the younger generation (Handler, 1992) and suggested that the quality of succession has been influenced by two groups of factors; individual (such as personal need for fulfillment, career interest or personal identity) and relational (for example the mutual respect and understanding between generations, sibling accommodation, commitment to family business perpetuation etc.). Dumas, Dupuis, Richer and Cyr (1995), Stavrou (1998, 1999), Corbetta, Marchisio and Salvato (2002) and Innarelli (1992) also presented pieces of research focused on the various factors influencing the next generation’s decision to take over a family firm.

Numerous pieces of research suggest that the experience of older and younger generations both have a significant impact on the quality of the succession process. Later studies therefore adopt a complex approach to succession and identify factors related to both generations. A study by Hubler (1999) identified general obstacles to succession and succession planning – a lack of appreciation, recognition and love amongst the family members, a lack of forgiveness, a fear of losing control, other-oriented considerations, fear of scarcity (both financial and emotional), entitlements of the younger generation, family history, indirect communication, seeing differences in a negative light and poor expression of feelings and wants. She points out that proper succession planning is key to overcoming these.

Succession as a process

Another group of researchers dealing with succession took the stance that one might call developmental or rather, processual. According to them, succession is regarded as a process with specific phases (Friedman, 1987, Gordon and Rosen, 1981, Vancil, 1987). They argue that it is possible to identify the characteristic problems occurring at various stages in the process which subsequently helps in overcoming these.

One of the most recognized pieces of work in this field by Gersick (1997) who analyzed succession from the developmental perspective. He distinguished three forms of family business: -

- controlling owner (CO),
- sibling partnership (SP),
- and cousin consortium (CC) - see also Neubauer and Lank (1998)

Gersick stresses that changing from one type to another can result in nine different types of succession, each of them having specific issues. These are called “recycles” when the business changes individuals but retains its basic structure or ownership (CO->CO; SP->SP; CC->CC), “devolutionary”

transitions when the business moves to a less complex structure (SP->CO; CC->SP; CC->CO) and finally “evolutionary” transitions when the firm moves to a more complex structure (CO->SP; SP->CC; CO->CC). Gersick, Lansberg, Desjardins and Dunn (1998) and Dunn (1999) further develop the model by focusing on transitions – periods between two developmental stages. Transitions, according to these writers, have the same pattern, beginning with the continuous accumulation of developmental pressures followed by phases of trigger, disengagement, exploring alternatives, choosing and finally commitment to the new structure. They conclude that the transition periods are primarily exploratory and strategic, representing an opportunity for reassessment. In contrast, periods of stability create opportunities for business growth and development. According to the authors, understanding these differences is critical for the effective management of a family enterprise over time. Their conclusion seems to be of genuine practical importance.

Churchill and Hatten (1987) and Longenecker and Schoen (1978) also take the developmental prospective and created a life-cycle-approach to succession.

External succession

The notion of succession has traditionally been associated with passing the business through the family, usually to the next generation. Recently though, as market competition has increased and the business managers have required more specialist skills, owners have had to deal with another type of succession – succession to an external CEO.

Since external succession is a relatively new phenomenon, there has been little written about it. One piece of note, however, is by Astrachan, Keyt, Lane and Yarmalouk (2002). In their articles they review eight major issues related to succession to an external executive: -

- reason for hiring a non family executive,
- recruiting a non-family executive,
- traits of successful non-family executive,
- compensation of non-family executive,
- concerns of non-family executive,
- suggestions for non-family executive,
- the role of non-family executive and preparation of the next generation,
- indicators against hiring non-family executive.

Their work is of particular importance for the family firms themselves, since it provides a thorough “decision-making framework” when considering whether to hire an external CEO. The framework of Astrachan, Keyt, Lane and Yarmalouk can then be supplemented by another issue addressed by Hall (2002) - the importance of roles. In her article, Hall stresses that roles should also be carefully considered and managed during successions to non-family executives.

Succession and other related phenomena

Knowledge about succession has considerably increased over the past year. Family business owners and managers currently have a number of tools available that should assist in managing this demanding period in their business's life. It is also encouraging that succession is now being studied from new perspectives. Only recently new studies have emerged that focusing on the less tangible, but equally important, aspects of succession: -

- Succession and social capital (Compagno, Visintin and Pittino, 2002)
- Succession and of values (Equaminondas, 2002)
- Succession and knowledge transfer (Varanaki, Pihkala and Routamaa, 2002)

Financial and fiscal issues (Compagno, Visintin and Pittino, 2002) have also been considered as important as well as the positive effects of mentoring through succession (Tunkkari, 2001, Handler, 1994).

3.8 Family business and finance

Business finance and its management are also strongly influenced by the presence of the family factor in businesses (McConaughy, 1999). Coleman and Carsky performed research into the sources of capital for small family businesses and noted: -

“Family-owned small businesses encounter all of the same challenges that small businesses in general encounter. In addition, they have the added complexity of dealing with the dynamics of the family as well as the dynamics of the business. ... Issues relating to money are equally complex, and financial rewards can be viewed as measures of love as well as measures of profitability and success.” (Coleman and Carsky, 1999).

External sources of capital

Perhaps the most distinct feature family firms possess is their aversion from external sources of finance and borrowing to finance their business activities (Gallo and Vilaseca, 1996, Dreux, 1990)¹³. A survey by the Arthur Andersen Center for Family Business revealed that a third of their research sample – more than 3000 family firms – used no external debt and an additional third had a debt-to-equity ratio of less than 25 percent. This led to the conclusion that, in general, family firms avoid debt (Arthur Andersen, 1995).

¹³ Research by Coleman and Carsky (1999) does not support this view and concludes that, at least in the sample of small businesses, there was no significant difference between the family and non-family firms in the degree of leverage used. In their sample, both the family and non-family firms had ratios of total debt to total assets of approximately 70 % and ratios of total external debt to total assets of 50 %. The majority of authors nevertheless agree with the findings presented above.

Family business owners typically explain this by the lack of funding. However, Gallo and Vilaseca (1996) claim that family business owners avoid obtaining additional outside funds. Sonnenfeld and Spence (1989) state then that the identification between the family and the business leads owners to equate business bankruptcy with becoming personally bankrupt. Another reason is the unwillingness to dilute family ownership (Harvey and Evans, 1995). Gallo and Vilaseca (1996) add that it is not possible to only blame the firms themselves for this situation. According to them, financial institutions are also a factor in this low debt/equity level: -

“The bank’s credit underwriting policies concentrate on ownership wealth instead of analyzing the repayment capability of the family business. The debt level should be related to the equity or with the future cash flows that the business project will generate.” (Gallo and Vilaseca, 1996)

Obtaining finance therefore represents one of the major challenges family firms face. De Visscher, Aronoff and Ward (1995) note that many businesses fail because of insufficient capital and liquidity.

A related issue is that of costs that are, as some authors claim, higher for family than non-family firms due to the so called “family effect” – the quality of the relationships between family members and with their firm. Nevertheless, according to modern corporate finance (capital market) theory and the Capital Asset Pricing Model (CAPM), the cost of capital depends on the characteristics of the underlying investment rather than where the investment capital flows. Some authors support the previous view. De Visscher, Aronoff and Ward (1995) offer a model of the cost of equity capital for family firms.

$$\text{Shareholder's expected annual rate of return} = [\text{RF} + b(\text{MR} - \text{RF})] * (1 + \text{IP}) * (1 - \text{FE}).$$

RF ... risk-free rate

b ... beta coefficient expressing the risk of securities

MR ... market return

IP ... illiquidity premium

FE ... family effect

The first part of represents the CAPM model that shows investors require a higher return to take on riskier investments. For family firms, this CAPM formula is then extended by two other coefficients; (1+IP) that give a non-marketability discount due to the fact that private firms’ stock is less liquid. Another coefficient used for family firms is related to the aforementioned family effect, in the equation expressed as (1-FE). FE can reach the values from 0 for restless families to 1 for families perfectly dedicated and committed to their business. The authors explain that cohesive families which are committed to the firm will enjoy greater profitability and are therefore less risky.

Numerous authors then concentrate on advising family firms on raising sources of external finance. Harvey and Evans (1995) and Dreux (1990) review the various obstacles to utilizing traditional sources of capital. An interesting remark in respect to venture capital – as an alternative potential source – was

made by Astrachan and McConaughy (2001). They stress the positive impact of venture capital on organizational performance, hypothesizing that that a business successfully raising venture capital is a certificate of quality for other investors.

Use of financial management techniques

Family firms tend to use less financial management techniques than their non-family counterparts. Instead of formal financial techniques, family firms base their decisions more on intuition and the experience of the owners (Filbeck and Lee, 2000). Filbeck and Lee stress that in an increasing number of non family firms employing more sophisticated financial management techniques, family businesses should at least consider incorporating financial management models into their decision-making. According to them, a significant proportion of family business failures might be tied to this issue. Moore and Reichert (1989) also contend that the use of the analytic financial management techniques positively influence a firm's performance. Gallo and Vilaseca (1998) agree.

In addition to the core issues in financial management, research also highlights other matters related to family business finance and its management. Astrachan and McConaughy (2001) point out that liquidity requirements go beyond the needs of a non-family firm. They give examples of "casing out" for older generations or the needs associated with estate or inheritance¹⁴ tax or younger generation members (with interests other than the business) wanting cash instead of company ownership. Stevenson calls the tension described by Astrachan and McConaughy the "wealth factor" (Stevenson and Astrachan, 1993), stressing that different attitudes toward managing wealth can create many conflicts. Another issue that is frequently discussed is wealth management (Hamilton, 1992, Youngman, 2003). Maslinski (2003) advises family firms to review their approaches to wealth management as a result of its increasing complexity. Wealth management and related issues, such as the management of family foundations and the management of estate taxes (Patterson, 2003), are further challenges that family firms need to consider.

3.9 Family firms as socially responsible actors

Family firms also differ from others in numerous other areas. These differences can be summarized by the concept of *social responsibility*.

Social responsibility can generally be defined as "the businessman's decisions and actions taken for reasons at least partially beyond the firm's direct

¹⁴ Surveys show that the value of the typical family firm represents about eighty percent of the family's total assets and so, when the senior generation dies, the family faces the most onerous tax rate in the world (Ward, 1987).

economics and technical interests" (Davis, 1960). Other authors define social responsibility as: -

- Obligations to pursue those policies, to make decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953),
- The intelligent and objective concern for the welfare of society that restrains individual and corporate behavior from ultimately destructive activities, no matter how immediately profitable, and leads in the direction of positive contributions to human betterment, variously as the latter may be defined (Andrews 1971),
- Obligation of organizational decision makers to make decisions and act in ways that recognize the interrelatedness of business and society (Kuratko and Hodgetts, 1998),
- Socially responsible behavior of a company is complying with the general interest of society (Rolny, 1998),
- As a concept that encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time (Hay, Gray and Smith, 1989),
- Or as seriously considering the impact of the company's actions on society" (Carroll, A.B., 1989) or as (7) "broader responsibilities of a business to the society in general (Mullins, L.J., 1993).¹⁵

Even though the work social responsibility within family businesses has been fairly limited (Vyakarnam, Bailey, Myers, and Burnet, 1997) and the majority of the studies provide single insights rather than an overall picture of this issue, there are numerous authors - many highly recognized in the field - who claim that family businesses generally apply stronger ethical rules and act in a more socially responsible way than other firms.

Neubauer and Lank (1998) point out that family firms have a strong sense of social responsibility reflected in their contribution of time and money to worthwhile community projects, in emphasizing value for money and quality and treating their employees fairly and with loyalty. Donnelley (1964) emphasizes family businesses' social sensitivity stating that they tend to value

¹⁵ Most "modern definitions" talk of the obligation of businesses to the wider community and numerous stakeholders - both external and internal (Drucker, 1989, Kuratko and Hodgetts, 1998, Carroll, 1989, Vodacek, Vodackova, 1996, de Witt and Meyer, 1994). The more traditional view of social responsibility claims that organizations existed solely to serve the interest of one stakeholder group - the stockholders. Milton Friedmann was the biggest advocate of this view (Friedman, 1962, Kuratko and Hodgetts, 1998, Takala, 1991, Rice, 1996). In addition, social responsibility is classified from the perspective of different areas to which businesses' responsibilities extend (Hodgetts and Kuratko, 1991). As it has also been suggested, some authors look at the different stages, levels or intensity businesses get involved with social responsibility as for Carroll (1989), Hay, Gray and Smith (1989), Sethis (1979) and Boal and Neumann (1985). Attracting the attention of those dealing with the concept of social responsibility is the question what is the underlying logic for socially responsible behavior (Mullins, 1993). Some academics claim that pure business sense is what makes a firm socially responsible, at least on the long run (Hay, Gray and Smith, 1989, Carroll, 1989, Steiner and Steiner, 1991, Takala 1991). A second approach takes the stance that social responsibility arises out of genuine moral and ethical conviction, being a kind of a "higher ideal" (Carroll, 1989, Hay, Gray and Smith, 1989, Mullins, 1993).

the social aspects of decisions more strongly than comparable public firms. Uhlaner, van Goor-Balk and Masurel (2000) add that family firms show greater commitment to employees and clients, maintain special relationships with suppliers, sport clubs, the church, the physical environment and service organizations.

Through my own studies (Kerkovska, 2002), I came to similar conclusions, finding that family firms do indeed apply stronger rules related to their interaction with the physical environment, highly cherishing and maintaining the traditional quality of their products, supporting the local community, making efforts to be fair, having positive business relations with their business partners, treating their employees with exceptional care etc. Harvey and Evans (1995) or Korab (1998) also support this view.

The socially responsible behavior observed in family firms is, according to many authors, once again the result of the presence of the family circle in the business - family business values in particular (Bruel, 2003, Klein, 2003, Koiranen, 2002) and pride (Donneley, 1964, Neubauer and Lank, 1998).

Such behavior exhibited by family firms provides yet another of their competitive advantages (Neubauer and Lank, 1998). It has been proved that socially responsible firms generate higher profits and show better economic results (Hay, Gray and Smith, 1989). Eric Derobert, Director of the World Business Council for Sustainable development, concludes (Bruel, 2003): -

“Corporate social responsibility has moved to become a mainstream business issue, giving family businesses a unique opportunity to stand out from the crowd.” (Bruel, 2003)

3.10 Entrepreneurial thinking in family business

Through the recent turbulent and competitive economic environment, globalization, advances in information or communication technology and changes in consumer demand (Hamel, 1996, Eisenhardt and Martin, 2000), another issue that seems to be gaining in importance is *entrepreneurial thinking*¹⁶. Although important for any form of business, it is even more critical for family firms since, as numerous researchers confirm, family firms, contrary to other non-family firms, are often strategically inflexible and lack entrepreneurial thinking. Hall, Melin and Nordquist (2001) comment on this issue: -

“There seems to be an interesting tension between the new entrepreneurial demands on business firms following the so-called new economy and the traditional characteristics of most family business.”

¹⁶ In line with the definition of Hall, Melin and Nordquist (2000) entrepreneurial thinking is such that it supports proactive, innovative, frame breaking and risk taking strategies.

Though the founders of family firms are often referred to as entrepreneurs, and indeed they are so at first, their entrepreneurial capacity seems to disappear when the firm is maturing. Many founders lose their entrepreneurial capability and succeeding generations run the business in accordance with the early established traditions and core values (Hall, Melin and Nordquist, 2001, Hall, Melin and Nordquist, 2000). Ward (1997) claims that successful business leaders often become fixated on their formula for success. As the requirements for success change, the architects of past strategies become inflexible which stifles further development.

There seems to be a broad consensus amongst researchers that the main cause of entrepreneurial inertia is related to the strong and stable cultures family businesses carry as a result of the family being part of a business, bringing the associated beliefs, values, goals and common history (Hall, Melin and Nordquist, 2001, Hall, Melin and Nordquist, 2000, Newsletter, 2000, David and Stern, 1988, Harvey and Evans, 1994, Schein, 1995). Dyer (1994) states: -

“In the family business, change is, however, likely to be more heavily resisted than in other organizations because the feelings and emotions related to change are likely to be deeper and more intense than those in non family businesses.”

However, not all family business cultures need to have these traits. Hall, Melin and Nordquist (2000) stress that, whereas some cultural patterns tend to preserve the traditional way of doing business, others facilitate entrepreneurial behavior. According to them, an organization should systematically create and encourage the conditions that support entrepreneurship. This can be specifically done through publicly discussing the company’s norms and values and implementing entrepreneurial supportive tools into an organization. Questioning that which is taken for granted is necessary (Hall, Melin and Nordquist, 2000, Newsletter, 2000). The essential idea is expressed simply by Drucker (1985), who states: -

“No business, that continued to remain entrepreneurial beyond the founders departure, unless the founder has built into the organization the policies and practices of entrepreneurial management. If these are lacking, the business becomes timid and backward within a few years at the very latest.” (Drucker, 1985)

Together the issue of strategic change and entrepreneurship one must also consider growth. Strategically inert family firms are known for the fact that “they do not grow” (Ward, 1997). A study of the fastest growing companies in the US performed by Cooper’s and Lybrand (Ward, 1997) concluded that only one percent were firms run by family successors and founders. In his study of family business Koiranen (2002) confirms the same result - family firms only have fairly limited growth ambitions. Therefore, family firms not only fail to grow for objective reasons but also because they do not regard growth as important.

Ward (1997) and other authors (Newsletter, 2000, Poza, 1988) suggest practical steps for family firms to assure entrepreneurial behavior and growth;

assuring fresh strategic insights, attracting and retaining excellent non-family managers, creating a flexible and innovative organizational culture and a culture of change, preparing the successor for leadership, creating and conserving capital and exploiting the unique strategic advantages of family ownership such as a long term approach. He sees the most important “best practice” for long-term growth as the process of holding family meetings to define its purpose and mission, family values and the motivations and rationale for continued business ownership.

In order to remain profitable and competitive in this increasingly competitive environment, it is essential for family firms to encourage entrepreneurial thinking and strategic change in their organizations. Only such an approach can assure their continued development and growth. Family firms should simultaneously preserve their inherent strengths – strong cultures, values and traditions. As Koiranen (2002) expressed this well by saying: -

“Sustaining entrepreneurial drive over generations seems to be based on a good fit between innovativeness and respect for traditions plus visionary thinking at owner’s and top management level.” (Koiranen, 2002).

4 MANAGING BUSINESS PROFESSIONALLY - A GENERAL AND FUNCTIONAL LOOK AT MANAGEMENT

We have already explored the multiple challenges family firms face in the current competitive environment and other similar issues key to understanding family firms. With respect to the management of their businesses, one factor is particularly important to their long term survival; professionalizing their business and managing the various business functional areas - strategic management, marketing, finance, human resources and so on - with sufficient business expertise. The here is therefore to briefly outline the main activities related to the management of a business's key functional areas as these are, in the same way as family business aspects, a substantial part of the empirical research. The aim of this chapter is not to provide detailed "instructions" for how to manage a business professionally - to do that would necessitate going far beyond the scope of textbooks in many areas of management. The aim is to highlight the key issues that should not be omitted subject to the individual business areas being managed with sufficient expertise. A more detailed description of the issues mentioned in this chapter can be found in the researcher's licentiate thesis (Hanzelkova, 2003) and in many business and management textbooks.

4.1 Strategic management

Strategic management has become one of the *key criteria for a company's success*. Kerkovsky (2003) states that correct decisions at the strategic level account for 80% of business success . Strategic management has also become a highly fashionable topic for Czech business. Unfortunately, a thorough understanding and practical implementation is still lacking in many Czech businesses (Jirasek, 1993, Kerkovsky, 1991). Neglecting strategic management has been one of the

most fundamental weaknesses and competitive disadvantages for Czech firms (www.cma.cz)

Collins dictionary of business (Pass, Lowes, Pendleton and Chadwick, 1991) defines strategic management as the formulation of a unified body of strategic plans through which firm's business objectives are achieved. Alternative definitions are as follows: -

- planning to reach the company's mission (De Witt and Meyer, 1995),
- defining a set of company's goals and basic assumptions how these should be reached (Vonderembse and White, 1990),
- a long term planning (Dobson and Starkey, 1993).

Understanding strategic management is about defining what goals a company wants to achieve and devising ways of how to reach these. In addition, it also deals with two equally important activities - implementing plans and controlling their outcomes. This is covered by Johnson and Scholes (1999) who state that the strategic management process includes three interlinked phases - strategic analysis, strategic choice (or formulation, as described by De Witt and Meyer, 1994) and strategy implementation. De Witt and Meyer (1994) extend the process to include a further phase that has been already mentioned - evaluation and control.

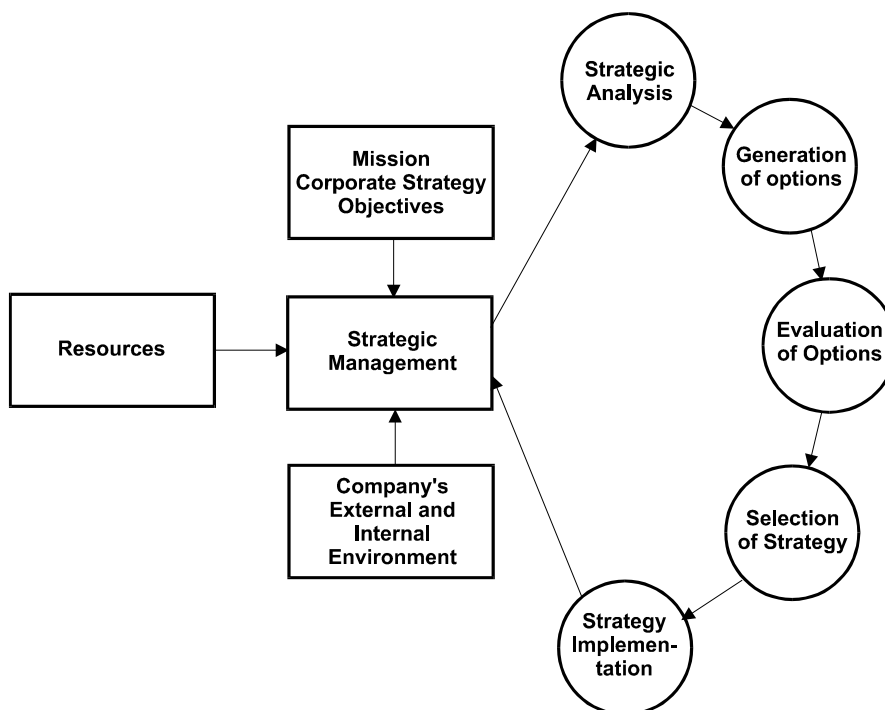


FIGURE 20 Strategic management as a permanent process (Kerkovsky, 2001)

Within these stages businesses must cover a wide scope of activities. These start with the strategic analysis to understand the company's strategic position. Depending on the type of business and its current situation, strategic analysis can cover several elements - an analysis of a company's external environment,

including the societal (SLEPT¹⁷ factors) and task environment (analysis of trade and industry¹⁸, competitors, customers and suppliers, competition, lifecycle etc.) as well as an analysis of the internal environment¹⁹. This entails elements such as a company's structure, culture, resources and products²⁰ (De Witt and Meyer, 1994, Dobson and Starkey, 1993, Sedlackova, 2000, Mintzberg and Quinn, 1991, Kotler 1997).

Once a firm is aware of the important forces that influence its position, it is ready to start dealing with an issue central to strategic management and planning – the formulation of a strategy. A well formulated strategy covers the definition of a company's mission, its objectives and a hierarchy of interlinked strategies²¹ (De Witt and Meyer, 1994) – corporate, business and functional. Their interrelatedness and content is depicted on figure 21.

Strategy should be then converted into organizational action within the implementation phase. Although strategy is formally formulated in many Czech firms, the reason for its failure is mismanaging or underestimating at this stage.

Organizational design²², resource planning and management of strategic change should be adjusted to fit the pre-defined goals. Successful implementation of a strategy is likely to be dependant on the extent to which its components are effectively integrated to provide competences the organizational needs.

Finally, evaluation and control should follow strategic implementation – the company's results should be permanently monitored and compared to the

¹⁷ An analysis of the social, legal, economical, political and technological influences of the environment.

¹⁸ The classical Porter's five forces model is a useful tool to perform the analysis (Porter, 1990, Porter, 1994, Porter 1995)

¹⁹ The 7 S framework (De Witt and Meyer, 1994, Drdla and Rais, 2001) stresses that the relationship between organization's strategy, structure, systems, style, staff, skills and super ordinate goals serves this purpose. Another alternative, used to analyze company's resources, is another well-known analytical tool created by Porter – the Value Chain model (Porter, 1991, Porter, 1995).

²⁰ Theory offers various models such as, for example, the Business Portfolio Matrix of the Boston Consulting Group, the GE Business Screen Matrix or the Hoffer Matrix. (Sedlackova, 2000, Kotler, 1997, De Witt and Meyer, 1994).

²¹ Recommended is the formulation of a strategy using several alternative scenarios from which the optimum one can be later chosen (Soucek, 1991).

²² In reality organizational design covers such activities as reviews of organizational structure, decisions concerning centralization or decentralization, the related management style and organizational configuration (i.e. matching the detailed structure to the context within which the organization is operating and controlling processes). Resource planning deals with issues such as resource configuration – protecting unique resources, fitting resources together, business process re-engineering as a way of making radical improvements in customer service and business efficiency as a whole (Drdla and Rais, 2001), preparing resource plans, planning and controlling resource allocation, managing information as a key resource etc. Management of strategic change might then be needed to develop ways of diagnosing strategic change needs, managing the process of change including the roles of various stakeholders within the process etc. (Johnson and Scholes, 1999). Additionally, budgeting at all levels is an important component of strategic implementation and practical realization (De Witt and Meyer, 1994).

planned goals. If the actual results do not meet the desired outcomes, it is strategic control that gives impetus for corrective measures and, if necessary, re-evaluation of the strategy.

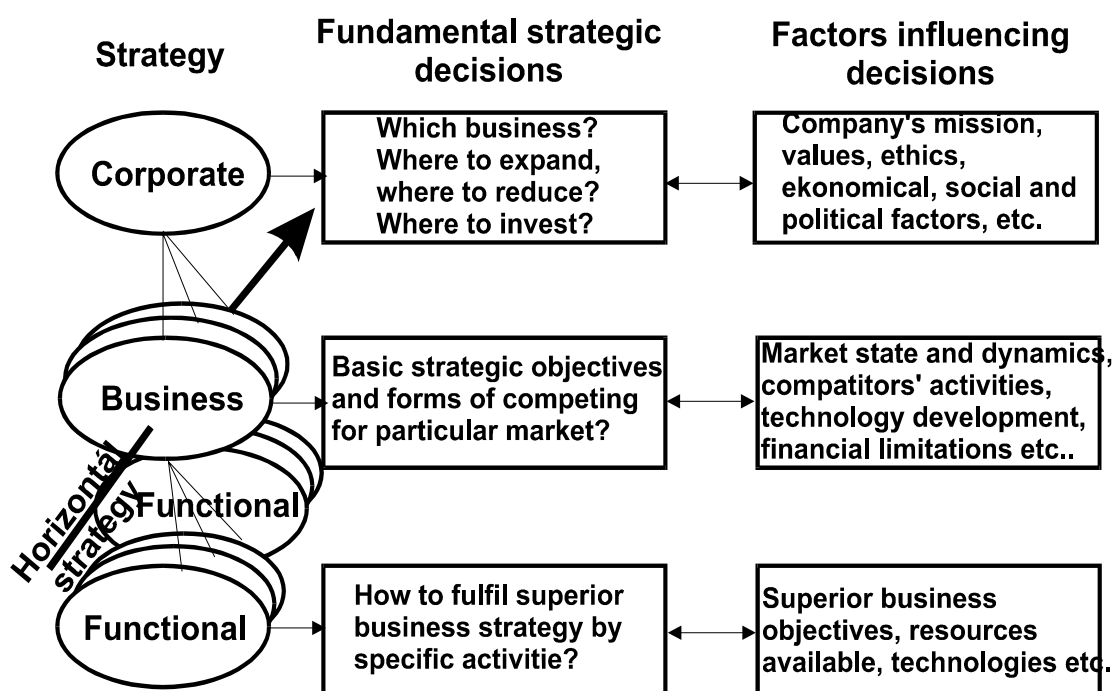


FIGURE 21 Hierarchy of company's strategies (Kerkovsky, Vykytel, 2002)

4.2 Marketing management

In practice, marketing is often associated merely with advertising or marketing communications (Chalupsky, Kerkovsky, Korab and Pokorny, 1997, www.cma.cz) Marketing management should actually cover a *broad scope of activities*. An understanding of marketing management can be gained from the definition proposed by the American Marketing Association that states (www.marketingpower.com): -

“Marketing management is a process of planning and realization of conception, pricing, promotion and distribution of thoughts, goods and services with the aim of satisfying the needs of the customers.” (Kotler, 1997)

The definition suggests that marketing should cover a vast array of activities related to the product and its development, price setting, promotion and distribution (including the subsequent after-sales care for customers). There are still many Czech businesses that do not approach marketing from this broad prospective.

The core activity in marketing management is defining marketing competitive strategy and the sub-strategies, based on marketing research²³. The choice of competitive strategy²⁴ might also influence multiple factors that have emerged from the marketing and strategic analysis such as the market type and competition structure, the needs of the customers, the market potential, the internal capabilities and resource base of a firm and others. (Kotler, 1997, Johnson and Scholes, 1993). Each lower-level strategy should be developed to support the overall business and corporate strategies (for example the marketing strategy). In the same way it should become the umbrella for strategies at lower levels - related to product, price, promotion and distribution²⁵ (Foret, 1994, Foret 1997, Kotler, 1997).

Having clearly defined marketing strategies, their implementation and subsequent evaluation and control should follow (Kotler, 1997). A well-implemented strategy may cover the management of a vast array of day-to-day

²³ For this purpose firms have a number of individual types of research available. To understand the marketing opportunities and the requirements of the potential customers, sales and market research could be used to cover the measurement of market potential, an analysis of market share, an analysis of distribution channels or suppliers, customer satisfaction and studies of customer behavior - known as customer insight studies. The prognosis of market demand is also important. A related issue of great practical importance is measuring the market potential, monitoring the competition and evaluating current products or internal processes in relation to customer needs. Promotion and advertising activities, media and promotion efficiency studies are also important, as well as analyzing the competition's advertising strategy. Companies wishing to enter foreign markets might find it useful to monitor international competition and study foreign markets. Recent studies related to the concept of social responsibility are gaining on importance. In this category are studies of customers' right to know, studies of ecological impacts or the legal limitations of advertising. Larger corporations use special research of their brands, image etc. (Kotler, 1997).

²⁴ Using Porter's concept of generic competitive strategies suggests that suggest four types of competitive positioning of a product in a market - cost leadership, cost focus, differentiation and differentiation focus (Porter, 1994, De Witt and Meyer, 1994) - see diagram below.

²⁵ With product strategy, a decision concerning the core benefit of the product should be made - over and above its quality level, style and design - as to what, if any, trademark the product should use on its packaging. Considerations regarding the extended product are also important, which covers after sales service, warranties, repairs, leasing, special payment conditions, installation at the customer's site etc. (Foret, 1997, Foret, 1994). When deciding about the price strategy, numerous factors (both external and internal) should be considered. although these are, understandably, mainly covered by the costs of production, distribution and marketing, other factors such as the internal objectives of a firm, its overall strategy, the willingness of the customers to pay and competitor pricing should be considered. The third of the strategies for distribution that defines the channels to be used to deliver the product to customers. The decision about distribution strategy involves issues such as whether the product would be sold through its own retail network, wholesale or directly through sales representatives, and also matters such as the overall arrangement of the sales places etc. (Foret, 1997, Foret, Prochazka and Sasinka, 1999). Last of the areas to be defined is the marketing communication strategy within which another factor - the communication mix - should be defined. This means deciding about what media - TV, press, internet, outdoor (Stuchlik, Pegner and Dvoracek, 1998, Papik, Michalik, Michalik, Novacek, 1998) - and what forms of promotion, whether advertising (Vysekalova, and Komarkova, 2002), direct marketing, sales promotion etc., to use.

activities. These include planning the yearly marketing plans and budgets, defining and applying the corporate identity²⁶ rules, selecting which advertising, media and other agencies to cooperate with, planning and realizing marketing campaigns, working with the media and journalists and actively cooperating with the other departments in the company and, above all, those who take care of sales, distribution, product development. Certain aspects of tactical importance – such as positioning the marketing department correctly, giving the marketing specialist a sufficient range of competencies and responsibilities – should not be neglected. Critically, attention should also be paid also the recruitment and selection of marketing experts with the necessary knowledge, skills and experience in marketing.

4.3 Management of finance

A dominant functional area is that of *financial management*, the professional management of which is a key driver of organizational success. It is defined as a discipline dealing with the flows of money and capital in a firm. In the Czech market, financial management (or strictly speaking some of its areas) is being neglected, even within larger corporations (Kolektiv, 1998).

At its best, financial management should entail a wide range of strategic and operational activities that are properly harmonized under the umbrella of a functional financial strategy. These can be viewed as falling into four main categories (Kolektiv, 1998): -

- activities related to financial accounting system,
- activities related to management of liquidity,
- activities related to cost accounting,
- and supplementary activities.

²⁶ Corporate identity is a unique set of visual features that characterize a firm. Amongst these are the company's name, colors used, the type of font, the architecture of products etc. (Fialova and Tomek, 1994).

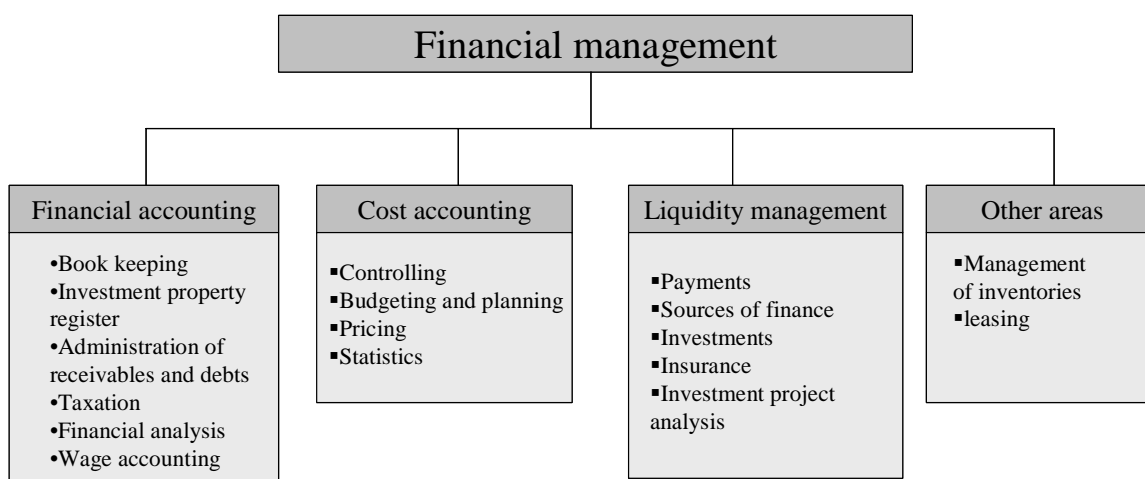


FIGURE 22 Scope of activities covered by financial management

Apart from its legal aspects, careful attention should also be paid to its overall efficiency (including the accounting software) and its position and function within the company's information system (Kovanicova, 1999) and with respect to company's informational needs.

The aim of financial analysis is to analyze the financial structure of a company and, if necessary, reveal its weaknesses so that these can be addressed. Financial managers may find it useful concentrate onto five basic areas; profitability and productivity, capital structure (indebtedness), liquidity, activity (turnover) and other indicators, for example those related to capital markets (Sedlacek, Hamplova and Uradnicek, 1998, Kolektiv, 1998Kerkovsky and Vykypel, 2002, Valach, 1999).

Whereas financial accounting is externally orientated, cost accounting much more internally focused. Its main aim is to monitor the company's financial efficiency (controlling) but it is also useful for pricing, goal setting etc. The outputs gained should be used as inputs for other management activities. Another important function of cost accounting is budgeting – an activity necessary for the company's overall long-term development.

Liquidity management is an area that financial theoreticians expect to become the cornerstone of successful business (Kolektiv, 1998). Liquidity management has not always been consistently utilized by Czech businesses but the situation has been improving. The main aim of liquidity management is to optimize liquid resources and related costs (Polidar, 1995).²⁷

²⁷ Financial managers have several theoretical liquidity management models available such as the model of Baumol or Beranek. An important part of liquidity management is the planning of cash-flow – cash reception and cash disbursement. Investment decision-making, based on the time value of money method (Kolektiv, 1998), also falls into the area of liquidity management. This area provides managers with several tools for assessing investment opportunities (Tepper and Kapl, 1994) – above all the internal rate of return (IRR), return on investment (ROI) or the net present value (NPV).

Finally, in production oriented firms financial management should essentially encompass the management of inventories lying at the interface of two functional areas - finance and logistics. This is said to be the area of greatest weakness in many Czech firms (Kolektiv, 1998, Kerkovsky and Vykypel, 2002).

4.4 Human resource management

Human resource management (HRM), as a separate discipline, emerged in the early- to mid- 1980's in the US and the Great Britain as a reaction to the pressures experienced during the recession of 1980-82 (Devanna, Fombrun and Tichy, 1984). The simplest definition of HRM is managing employment relations (Beardwell and Holden, 1995). An alternative definition defines it as a branch of management concerned with administering the employment relationships and with achieving the effective use of the human resources available to the organization (Pass, Lowes, Pendleton, Chadwick, 1991). *Human resource management*, compared to traditional personnel management, possesses distinct characteristics. These include greater sophistication in the use of personnel techniques (e.g. psychological tests in employee selection), concern with resource maximization (emphasis on training and development) rather than traditional one of cost minimization and closer integration of personnel management with business strategy (Pass, Lowes, Pendleton, Chadwick, 1991).

In practice human resource specialists, under the umbrella of human resource strategy, might manage a wide scope of activities. The following are key examples.

- Human resource planning - traditionally one of the key tasks of human resource managers. Manpower planners should seek to estimate the current and further employment needs of the organization. A manpower plan should consider variables such as recruitment plans to avoid unexpected shortages, identification of training needs to avoid skill shortages, management development in order to avoid bottlenecks of trained but disgruntled management and managerial shortages, industrial relations plans to avoid industrial unrest etc. (Timperley and Sisson, 1989).
- Job design (Huczynski and Buchman, 1991, Trist, Higgin, Murray and Pollock, 1963) and recruitment - searching for and obtaining potential job candidates (Dowling and Schuller, 1990). In practice recruitment (and job design as part of it) should consist of a number of tasks (Beardwell and Holden, 1995) such as job analysis, including job descriptions, reward packages, decisions about in-house versus external recruitment, target groups and appropriate recruitment methods, design of communication, ways of responding to the applicants and evaluation of the recruitment process.
- Employee selection - choosing the best candidate for each particular position.²⁸

²⁸ There is a vast array of selection methods available to human resource specialists (Beardwell and Holden, 1995); interviews (Webster, 1964, Arvey and Campion, 1982, Lopez, 1975), biodata, group methods such as role plays, problem solving etc. (Belbin, 1981), in trays, presentations, work simulation exercises (Beardwell and Holden, 1995), Anderson's (Anderson, 1990) repertory grid technique, personality

- Learning²⁹ and development³⁰ as a way to obtain certain qualities of strategic importance – quality and continuous improvement, flexibility and adaptability (Mumford, 1988, Bloom, 1956) and helping employees to develop as people (Erikson, 1950, Levinson, Darrow, Klein, Levinson and McKee, 1978, Kegan, 1982, Beardwell and Holden, 1995)
- Management development (Molander, 1986, Mumford 1987)
- Monitoring and improving employee involvement and communication. The main task of human resource specialists in this area is to design a system within the organization that enables the thoughts and feelings of the workforce to be expressed and, equally important, acted upon. (Mathis and Jackson, 1994).
- Monitoring and raising job satisfaction and overall motivation and performance of employees³¹ (Mathis and Jackson, 1994)
- More administrative issues such as employee contracts or defining the overall conditions of employment in line with employment common law³². Collective bargaining and trade union relations also fall into the HRM competence.

4.5 Production and operations management

The primary goal of *production and operations management*³³ is to ensure high technical and economic standards as well as the quality of its products, to realize product and technology innovations on time, to keep increasing the company's competitive ability and to optimize the use of production resources. Another important goal of production management is the integration and coordination of workers' and the participating organization departments' efforts

questionnaires (Hampson, 1982, Bem and Allen, 1974, Mischell, 1984) and assessment centers (Lewis, 1985).

²⁹ In the literature, learning is understood to be a process within the organism which results in the capacity for changed performance which can be related to experience rather than maturation (Ribeaux and Poppleton, 1978). In other words, it is an experience after which an individual qualitatively changes the way he or she conceives something (Burgoyne and Hodgson, 1983).

³⁰ Development is understood as a process of becoming increasingly complex, elaborated and differentiated by virtue of learning and maturation (Beardwell and Holden, 1995).

³¹ There should be a strong connection between evaluation, remuneration and development. In the majority of Czech firms the evaluation of employees is used only as a tool for remunerating rather than as a base for development (Hronik, 2002).

³² Employer-employee relations in the Czech environment have been regulated by several pieces of legislation. Central has been the "Code of labor" in its latest wording 155/2000 that defines the participants in labor relations, work contracts and the establishment of work relations, changes in work relations and their cessation, working time including overtime, work conditions including safety at work, working conditions for women and infants etc. Another piece of legislation dealing with employment relations has been the Employment legislation 592/1992 which defines the broad conditions for employment, the right of Czech citizens within employment, conditions for the employment of foreigners, mediation of work through employment offices and other organizations, re-qualifying, conditions for the provision of unemployment benefits, employment of disabled citizens etc. (mujpodnik.atlas.cz).

³³ In the past, the term production management was used for activities necessary to assure the production. Recently its meaning has been extended to include areas such as procurement and wholesale activities. The term operations management covers all activities necessary to produce and provide products or services (Koonz and Wehrich, 1993).

aimed at achieving the best possible production results (Kerkovsky, 2001, Koonz and Weihrich, 1993).

To reach the goals defined above, an organization (depending on its type of production and its overall strategy) should manage a vast array of production related issues: -

- Flexibility of production in the sense of being able to respond positively and quickly to customers demands concerning the functions, quality, amount and prices of products and required dates of supply.
- Shortening of production times.
- Reduction of costs, reserves and production in process.
- High productivity.
- Fluency and rapidity of material flows.
- Efficient use of dispensable production capacities.
- Handling of information processes, including connections with related subsystems.

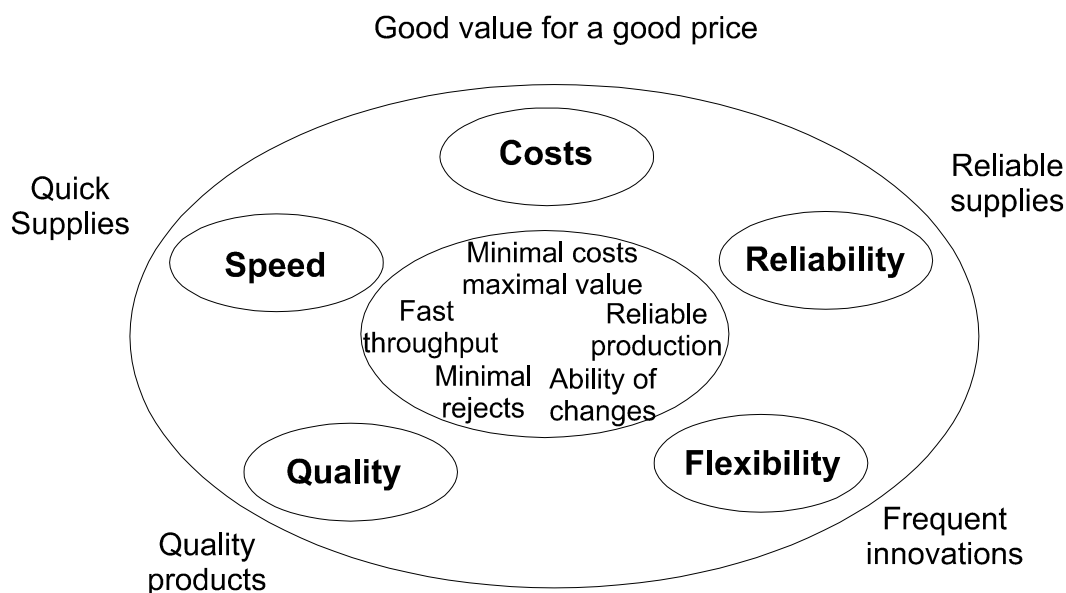


FIGURE 23 Internal and external meaning of goals and criteria of production management (Kerkovsky, 2001)

On a day to day basis, in order to reach these the production and operations specialists coordinate a wide range of tasks. The key ones are the production program (Heizer and Render, 1995) and its location - both globally and locally³⁴. Also critical are the decisions and activities regarding the issue of the company's production profile - the aggregation of its production capacities.

It is also important to manage the organization and structure of the particular production depending on the type of product, market, volume,

³⁴ The decision over production location is one of the key aspects of strategic and logistical decision-making since optimum locations can offer competitive advantage and may contribute considerably to the success of an enterprise (Flaherty, 1996).

demand, technologies used and other factors. Based on these factors, production managers often make decisions concerning the flow, the quantity of the products and the number of product types. Layout is also related to the type of production.

Additionally, production has to be managed from the prospective of time (Heizer and Render, 1995) - timing of production process.

Inventory management is of key importance. Primarily, it should deal with finding the right balance between keeping sufficient reserves for unexpected events and the costs of storage. Other factors to be managed are inventory turnover, the allocation of inputs into reserve capacities, material, production in process and final products, centralized and decentralized dislocation of inventories etc.

An activity that strongly influences operations is procurement (Heizer and Render, 1995, Vonderembse and White, 1990). Its management covers ways that procurement should be organized and the structure of suppliers, their selection and relations with them including their monitoring. Management of supplies is also important, being it in creating reserves or employing the just-in-time approach (Koonz and Wehrich, 1993).

The management of costs also falls into this category. Of the cost strategies employed by the vast number of Czech companies, production cost management is one of the most important (Kolektiv, 1998, Vonderembse and White, 1990).

In terms of the management of production quality, the main task is to decide about the product quality required - from extremely high for luxury products to standard for every day products. Quality is controlled through regular checks or the application of Total quality management (Heizer and Render, 1995).

Finally, the production manager is the person who, in cooperation with human resource management, should define the labor needs to assure a stable production process and to decide about the remuneration system, the control of work, management style, type of work and specification of work tasks (Bearwell and Holden, 1995).

Overall, firms have a wide spectrum of approaches to production management they may use to best suit their strategy - lean management (Bogaschewski, 1992), the Just-In-Time production or the approach of agile production (James R. Holt, <http://www.vancouver.wsu.edu>).

4.6 Management of information

In the current highly competitive business environment timely, relevant and reliable information have become prerequisites for a company's success. The *management of information* has become one of the key support areas of business efficiency and substantially influences other business areas - marketing, sales,

production, finance, procurement, storing etc. Its management can be both a source of strength and weakness. Zid, Benacanova and Kunstova (1998) state that “knowledge and information are nowadays the only meaningful resource” - information is considered to be not only an inevitable prerequisite of managerial decision-making, but also an important business article, investment area and business opportunity.

There has been no clear consensus amongst authors as to what management of information is and what areas it should encompass. As a result, literature presents varying definitions: -

- “Management of information involves management of system that provides information for the management activities carried out within an organization. Nowadays the term is reserved exclusively for computerized systems. These consist of hardware and software which accept data and store, process and retrieve information. This information is selected and presented in a form suitable for managerial decision-making and for planning and monitoring of the organization’s activities.” (Curtis, 1989).
- “Management of information involves a management of a set of technical tools and methods assuring data gathering, transfer, storing and processing for the purpose of creating and presenting information for the needs of the users active in management systems.” (Molnar, 1992).

Whereas the two authors above view the management of information from a narrow prospective as a simple management of information system, Earl (Earl, 1989) presents a more complex method of defining information management. He sees it as the management of two lower level sub-systems - management of information systems (IS), that represent the management of informational requirements, and the information applications and management of information technology (IT) that involves management of particular technical solutions.

His definition reflects the latest approaches that view the management of information as a set of tasks on operational, tactical and strategic levels (Cash, McFarlan and Mckenney, 1992, Ward, Griffiths and Whitmore, 1991, Kerkovsky and Drdla, 2003). In business practice, well executed management of information should cover activities on all three levels.

The key task related to management of information is setting the information strategy. The spectrum of goals a company can set is wide, from the development of new IT applications, the improvement of current ones, measures necessary to satisfy the demands of key stakeholders and the elimination of businesses critical weaknesses or threats. The strategic goals expressed in the strategy proposal should steam from a thorough analysis (Kerkovsky and Drdla, 2003).

As part of the overall strategy, IS/IT conception should also be defined. The conception is to identify the priority characteristics an information system would be required to possess. The key ones include safety and stability of processes, integrity (concerning functions, data, software, hardware and use interfaces), costs from the viewpoint of necessary investments and operations, openness of the system in terms of further development, creating robust

solutions do not become obsolete too early, simplicity of solutions, maintenance and orientation towards the key decisions and stakeholders. All these aspects should support the development intentions of the business as a whole. Conceptions should also further define the particular “overall architecture” of the information system (Molnar, 1992, Zachman, 1987).

At the tactical and operational level the strategy should be developed using well coordinated projects and tasks with assigned competencies and responsibilities.

Important to the overall management of information systems is also the matter of finance and costs, particularly since the related costs are invariably substantial whilst their effectiveness is difficult to measure (Molnar, 1992). Plans should therefore not only focus on the sums of money required and their sources (profits, investment plans, leasing) but also the plans concerning the cash flows. The area of financing also covers decisions concerning outsourcing that can substantially reduce the investment and operational costs and the approach to controlling the efficiency of investments into information technology and systems.

On the tactical level, companies deal with selecting and purchasing hardware and software. Specifically, the latter includes a choice from many types of software applications - strategic information systems, transaction systems, management information systems, software for management of production, personal systems and office automation, interfaces to external environment and the infrastructure for data management (Ward, Griffiths and Whitmore, 1991, Molanr, 1992, Ward, Griffiths and Whitmore, 1991, Kerkovsky and Drdla, 2003, Ward, Griffiths and Whitmore, 1991).

With respect to information technology and systems, appropriate management of human resources should not be neglected - for both, the IS/IT specialists and its users (managers and line employees) are relevant. The human aspect of IS/IT organization deals with issues such as effective utilization of communication and IT systems, responsibility and data protection, training and education for using information technology etc.

Finally, attention should be paid to safety aspects such as the prevention of data loss, data corruption and abuse as a result of unauthorized access.

4.7 Logistics and distribution

Organizations focused on production *logistics can gain an important source of competitive advantage* from cost savings³⁵, flexibility of serving its customers, innovations of products and services etc. For many years, logistics has taken the

³⁵ The management of firms has started to deal more rigorously with distribution costs, since these represent about 25% of the sales price of a product. Distribution costs therefore present sufficient scope for cost reductions (Kotler, 1991)

back seat in many organizations, although it has recently become an integral part of business strategy (Pernica, 1998, Pocket, 1994).

Logistics³⁶ has its roots far in ancient and military history³⁷ and its first modern definition was created in the US on the grounds of the National Council of Physical Distribution Management (Ballou, 1974). This definition defines logistics as: -

“A process of planning, realization and control of effective and cost-efficient channels, storing of raw materials, production and storing of final products and to it related information.” (Ballou, 1974)

Some later alternative definitions³⁸ describe logistics as:

“The process of moving people and things about and of getting the right ones in the right place at the right time and the right amounts. That includes distribution, stock control, warehousing, packaging and material scheduling.” (Pocket, 1994)

“Logistics integrates the relations between goods, people, production capacity and information so that these would be at a right place in a right time, in a correct amount in the right quality and for the right price.” (Institute of Logistics, 1995)

“Logistics is a discipline dealing with system solutions, coordination and synchronization and overall optimization of material and immaterial operations that are created as a result of work division and are connected to production and circulation of certain production. It is focused onto the needs of a customer as to a final effect and it tries to reach as great flexibility and efficiency as possible.” (Pernica, 1998)

Logistics is currently understood to be an integrated system (integrated logistics) or the total supply chain. Its main goal is the optimization of all levels. The needs of customers are also important and thus have to be a basic consideration of logistics management (Gunn, 1994, Pernica, 1998).

In reality, logistics creates a wide range of issues to manage. For simplicity and to show their scope, these can be classified into several areas – transportation, material handling, storing, packaging, management of

³⁶ The origin of the word logistics derives from the Greek word *logistikon* – ingenuity, intelligence, wisdom (Pernica, 1998)

³⁷ Some authors see the origin of logistics in managing the construction of pyramids in Egypt. Later on, in the 18th century, logistics was used in army (Pernica, 1998)

³⁸ Some older definitions describe logistics as follows: -

- Management of all activities that cover the flows and coordination of procurement and consumption (Haskelt and Ivie, 1964)
- A system of creating, managing and regulating of the course of material flow, energy, information and people (Ihde, 1972)
- Creation, management and regulation of the physical flows of goods and to it corresponding flow of information focused onto reaching certain goals (Krulis-Randa, 1991).
- A discipline dealing with coordination of active and passive elements focused into as little costs and time as possible and improvements in company's flexibility and adaptability to the changing environment (Kortschak, 1991)

inventories, documentation, information and customer service³⁹ (Safranek, 1992)⁴⁰.

Addressing the issues in more detail, transportation logistics covers not only the choice of the best means of transport depending on multiple criteria (such as speed, costs, reliability etc.) but also an optimization of transportation routes and the selection of the particular transport handling system and the choice of a transporter (Brewer, Button and Hensher, 2001, Yamakoshi, 1983, Kotler, 1991).

Material handling is another important issue. Gaining in importance is mechanization (Yamakoshi, 1983), especially automation that substantially reduces the costs and time connected with handling material. Also crucial are the decisions about the handling units - units capable of independent/separate handling. All these influence the overall efficiency of the transportation system.

With respect to storage and overall management of inventories, an important consideration is the inventory level to be retained. The firm must have sufficient reserves but balance this against the costs of storage, whilst also considering location and the layout/type of storage (Pernica, 1998, Kotler, 1991). Certain strategic and tactical decisions must be made; the selection of an overall approach to managing inventories, such as the JIT (just-in-time) system, the use of distribution and supply chains etc. (Yamakoshi, 1983, Pernica, 1998).

Packaging not only serves the purpose of protecting the goods for transpiration, or enabling its handling, but also provides information to customers and promotes the goods (Stehlik, 1996).

Various activities related to documentation are relevant to the operational level. These cover the monitoring and administration related to orders, administration of duties and customs, entering the logistics data into information system, providing instructions for the carriers and many others (Kotler, 1991).

Increasing demands are placed on information in logistics. Information becomes the key component of almost any area logistics administers. Special information technology is used in areas such as the identification of location or position of stored items or transports, control of stored volumes, monitoring and managing of logistic processes and information for dispatcher communication.

Logistics also covers many important issues on strategic level - setting the purchasing conditions and managing the relations with the supplies including their evaluation and selection, forms of supplies, distribution strategy, formulating the procedures for the individual logistics processes (Pernica,

³⁹ The share of the overall distribution costs these activities take are - 37 % transportation, 22 % managing inventories, 21 % storing, 20 % administration related to distribution. (Kotler, 1991)

⁴⁰ Alternative approaches see the elements of logistics being areas such as material management, storing, sales, in-house transpiration, procurement, external transportation, distribution and administering of orders; prognosing, contracts and purchasing, inbound transportation, management of production, storing, management of inventories, outbound transportation and customer service. (Pernica, 1998)

1998), forecasting demand, positioning logistics in the organizational system and providing relevant competencies and responsibilities (Kotler, 1991) etc.

4.8 Entrepreneurial management

Apart from managing the overall functional areas of business with necessary expertise and competence, the success of a business is also influenced by other factors. The degree to which its managers (being it external managers or the owner - managers themselves) are *entrepreneurial and manage the business entrepreneurially* is one such factor.

For the purpose of explaining what entrepreneurship (or being entrepreneurial) means, Gibb (1998) provides some guidance. Gibb, in his definition states, that: -

“Entrepreneurship means behaviors, skills and attributes applied individually an/or collectively to help individuals and organizations of all kinds, to create, cope with and enjoy challenge and innovation involving higher levels of uncertainty and complexity as a means of achieving personal fulfillment.” (Gibb, 1998)⁴¹.

Central Gibb’s definition is the behaviors, skills or attitudes that enable a person to react efficiently to the changing environment, uncertainty and increasing complexity. Gibb (1999) states that the challenges or pressures one has to cope with arise at various levels – individual (higher stress, less career certainty, fewer guaranteed rewards, greater career mobility etc.), organizational (downsizing, restructuring, de-layered organizations, wider management responsibility, supply chains, global investment mobility etc.), societal (deregulation, privatization, environmental protection, high technological change, higher divorce rates, single parent families, reduced welfare etc.) and global (IT revolution, international standards, international capital mobility, reduction of barrier’s to international business, prevalence of the English language etc.) (Gibb, 1999). All these developmental trends impact the business on the four levels outlined by Gibb. The ability of its managers to cope with these impacts determines the overall success of an organization and its long term development.

To be able to cope with these, Gibb then states, that managers have to possess certain important skills and attributes that lead to the required enterprising behavior. The skills and attributes are presented on Figure 24.

⁴¹ There are also alternative definitions of entrepreneurship. Entrepreneurship is viewed in different paradigms such as economics, for example, that understands entrepreneurship as activities aimed at the creation of new enterprises (Burns and Dewhurst, 1989). In this thesis we take the rather personal and behavioural prospective as defined above. However, it should not be confused with knowledge and skills traditionally acquired at business schools related to industry, finance, economics, business management etc (Gibb, 1998).

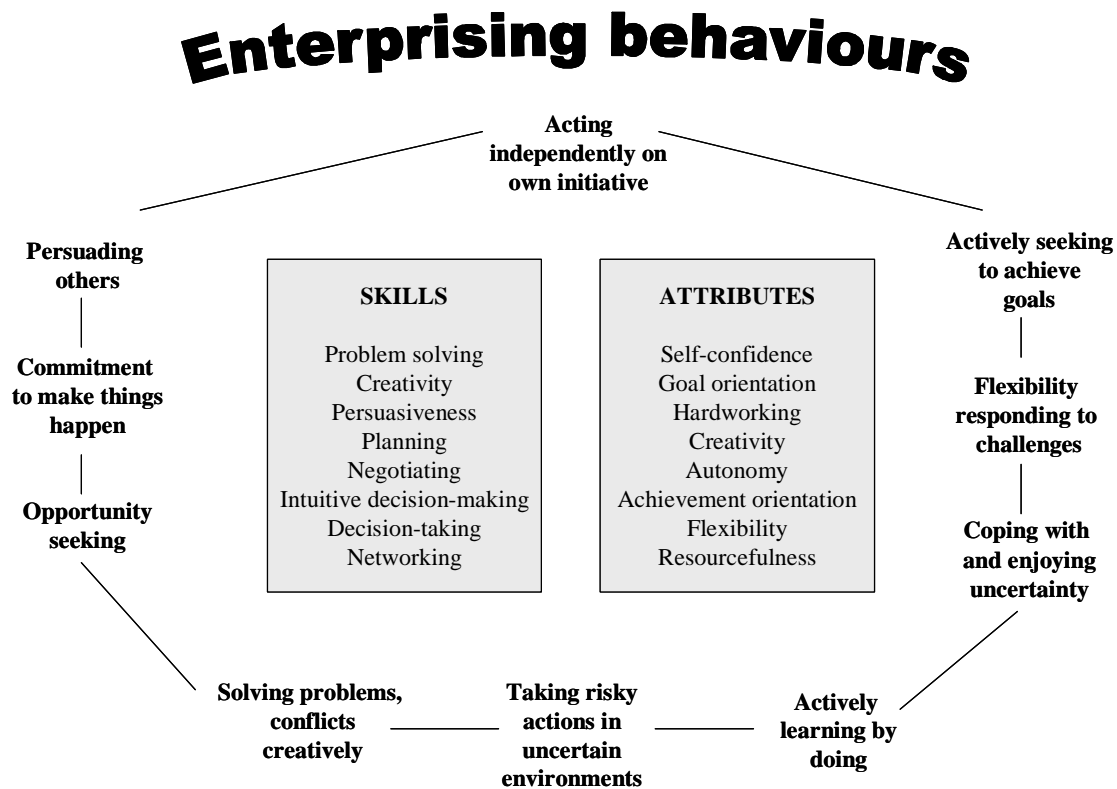


FIGURE 24 Enterprising skills, attributes and behaviors, adapted from Gibb (adapted from Gibb, 2000, 1999, 1998)

Gibb, in his extensive work on entrepreneurship, sees entrepreneurial skills and attributes as non-transferable. Other authors take the viewpoint that entrepreneurial skills can be learnt (Kyro, 2000, Fiet, 2000). In this way, Guirdham and Tyler (1992) identify ten key entrepreneurial areas: -

- self-management, including setting personal goals, self-development, managing stress, time management etc.,
- learning,
- obtaining and using information,
- decision-making and planning – including decision-making aids,
- opportunities – including enhancing creativity and outside contacts, managing projects, evaluating opportunities etc.,
- achieving and changing – including managing change and quality,
- communication,
- working with others,
- leadership and project management skills – including managing major projects, leadership skills, running meetings and conferences etc.,
- resources – including managing own physical resources etc⁴².

⁴² The main idea of self management is to develop skills that allow a person to take responsibility for his own life, which is the main prerequisite for working efficiently. It is important to be explicitly aware of his own motives, feelings, values and abilities, weak and strong points. For this purpose, various techniques can be used, from event analysis, biographical SWOT analysis, requesting feedback to discussing issues with others, which are used for further self-development. Also important are techniques for coping with stress that influences both the mental and physical health and the person's overall efficiency. Time management is an important factor for success.

The scope of skills and attributes presented by Guirdham and Tyler is certainly not exhaustive⁴³, but it covers the main topics the second stream of authors view as important. Without wishing to discuss whether entrepreneurial skills can be taught (transferred) or not, it is obvious that the range of skills and attributes identified in both models to some extent cover similar categories (such as networking and finding opportunities to seek outside contacts). In others they differ. For the purpose of this work, both approaches and their categories are considered, as they are regarded as equally important for a company's ability to cope with outside pressures.

Various time management techniques allow for the analysis of time efficiency. Important to learning is the idea of active learning and learning driven by the learner, using methods such as problem-based learning, reflection, learning by doing etc. With respect to information, it is important to establish what you need to know, to obtain high quality information, develop ways of analyzing it, presenting it to the others and recording, storing and retrieving it. Decision-making skills and tools do not provide a guarantee that decisions will always be correct but their purpose is to help in decision-making so that it is as sound as it can be based on the information available at the time. The aids frequently used in decision-making are decision trees, computer models, etc. Equally, planning provides various tools such as the key event method, Gantt charts, critical path analysis, etc. Recognizing, creating and evaluating opportunities are critical to success in business. To create opportunities, various techniques can be used such as attitude listing, brainstorming, negative brainstorming, synectics etc. To evaluate the opportunities in ways other than intuitively, it is recommended that special methods, such as cost-benefit-analysis, are used. It is necessary to make one's own work user-friendly (i.e. to see one's own work from the other person's perspective). The ability to change is a basic prerequisite of success in the dynamic environment. Communicating covers such skills as questioning and listening, assertiveness and responsiveness, communicating in writing, making spoken presentations etc. Working with others covers such skills as the awareness of the others, networking, influencing, resolving conflict and winning cooperation, negotiating, working in groups etc. Leadership skills are also important. Using resources including obtaining information about availability of resources, skills to look resources up etc. (Guirdham and Tyler, 1992)

⁴³ Numerous textbooks and university syllabi identify a vast array of entrepreneurially-oriented topics (skills and knowledge), which are backed up by the research of Fiet that focuses on analysing the content of entrepreneurial university syllabi. (Fiet, 2000).

5 SYNTHESSES OF LITERATURE: WHAT CHALLENGES DO RESTITUTED CZECH FAMILY FIRMS POTENTIALLY FACE?

5.1 What is a challenge?

This work is about the *challenges* faced by a specific group of Czech family restituted family firms. Before getting to the actual syntheses of the theory used in this work, I should explain what exactly should be understood by the concept of “a challenge”.

Various dictionaries define the word challenge in many different ways: -

- An act or statement of defiance or a call to confrontation (www.yourdictionary.com)
- A test of one's abilities or resources in a demanding but stimulating undertaking (www.yourdictionary.com)
- A summons that is often threatening, provocative, stimulating, or inciting (Merriam-Webster's dictionary at <http://www.m-w.com>)
- The situation of being faced with something needing great mental or physical effort in order to be done successfully and which therefore tests a person's ability (Cambridge dictionaries at <http://dictionary.cambridge.org>)
- An interesting or difficult problem or task (Wordsmith dictionary at <http://www.wordsmyth.net>)
- A demanding or stimulating situation (<http://ultralingua.net>)

As can be seen, some dictionaries view challenges in a positive light, as simply something that is demanding or stimulating. Others regard challenges rather negatively, using words that are provocative or even threatening.

This work takes a positive stance and, as such, defines it as: -

“Any demanding effects, impacts or circumstances family firms have to adapt to or cope with or any demanding skills and knowledge they have to develop or acquire that are important for its long-term existence and development.”

5.2 Greatest challenges related to the family involvement in business

Family firms do face many specific challenges. These are a result of family firms being an interaction of three interlinked sub-systems – business, ownership and family – that can be considered as being made up of only two systems; business and ownership.

After thoroughly reviewing the major topics highlighted by currently available literature and research, it seems that there are four basic aspects/attributes related to the family and its presence in business that make family firms such a unique and, at the same time, vulnerable form of business. These are (1) *family values and culture*, (2) *family relations and feelings amongst the family members*, (3) *family roles* and (4) *family needs and wants*. All these influence some or all of the business and ownership sides of a family firm. Coping with the effects, impacts and circumstances of these four attributes is, in this work, regarded as the first and greatest source of potential challenges family firms might face.

A review of the major challenges as identified in a relatively extensive literature review is given in figure 25 a 26. The table categorizes the challenges according to their relation to the four family business aspects/attributes – family values and culture, family relations and feelings, family roles and family needs and wants. Provided a challenge can be regarded as falling into more of these categories (typically such issues as succession), the table depicts it too.

Three fundamental challenges for a family firm to deal with can be identified. Firstly, it has to work on establishing a value system consisting of those values that will become the core of the company's competitive advantage. Secondly, the company has to be capable of reviewing its value system and gradually adjusting it if needed. Lastly, it has to be able to pass its value system to younger generations so that it can be strengthened and the competitive advantage arising from it perpetuated. Provided a firm has a strong and stable value system consisting of "right" values, it can help in not only increasing its competitiveness but also in successfully overcoming some of the common pitfalls family firms often experience - such as succession, family psychodynamics and many others.

Values and culture	Relations and feelings	Roles	Family wants and needs
Laying correct foundations for values and culture in the latter generations, passing the values and culture, to maintain balance between tradition and entrepreneurship and to assure business continuity.			
Challenging and reviewing the values and culture so that these would not become the prohibitions of development, innovativeness and growth, apart from other related to the culture established by the founder.			
Recognizing the need for strategic management and planning, managing the barriers to it such as lack of trust in the lieutenants, reluctance to change, will to keep the future direction ambiguous so as to use the business to affect the family outcomes, fear to discussing sensitive family issues or avoidance of conflict and mastering the formal strategic management family business oriented tools and techniques.			
Recognising the need for external succession and attracting and hiring a suitable candidate.			
Avoiding poor profit discipline and milking the business.			Avoiding poor profit discipline and milking the business.
Learning the formal financial management tools, professionalizing the management of finance.			
		Avoiding confusing organization, messy organizational structure and lack of clear division of tasks.	
		Avoiding confusion of family and business roles as a result of simultaneous roles in the family and business, which can lead to lack of business objectivity, anxiety etc.	
Introducing the formal family business procedures into the business; corporate governance.			
Coping with the feeling of being over watched and to it related resentment towards family and business resulting from shared identity, mutual awareness and privacy.			
	Avoiding lack of trust in work interactions and pointing out weaknesses resulting from life-long common history and early disappointments.		
	Avoiding lack of objectivity in communication, resentments and guilt as well as covert hostility resulting from emotional involvement.		
	Avoiding sensitive reactions that can distort communication and encourage conflict as a result of private language used in work relations.		

FIGURE 25 Review of family business challenges (continues)

Values and culture	Relations and feelings	Roles	Family wants and needs
Willingness to plan for succession and the ability to manage its course, timing etc., including managing the departure of the founder and the other members of the older generations from the business; attracting the successor to join the business and transfer of knowledge, know how, skills and social capital onto the younger generation.			
	Managing sibling rivalry and family conflict stemming from the early life stage pitfalls such as the narcissistic development, transitional space problems, jealousy and triangles.		
Avoiding spoiled kid syndrome that causes the younger generation to value material possessions rather than having strong and stable value systems, skills and knowledge.			
	Avoiding nepotism, tolerating the weaknesses of the beloved ones, which can lead to departure of competent non-family employees or inadequate reward systems.		
			Coping with unwillingness to use external sources of capital to finance further growth.
		Avoiding autocratic and paternalistic rule or the so called ghost of padrone that leads to attraction of dependant personalities, secrecy and resistance to change.	
	Gaining external sources of finance and for reasonable costs, avoiding the so called family effect.		
Avoiding fierce rivalries between relatives steaming from different meanings company has to them.			

FIGURE 26 Review of family business challenges (continued figure 25)

As for relations among the family members, the key challenge of any such firm is to keep these fundamentally healthy. Only strong and positive relations can create the antidote to the numerous problems inherent to this kind of business – nepotism, autocratic rules, milking the business, spoiled kid syndrome, long lasting conflicts, a lack of trust, frequent sensitive relations and a lack of objective communication.

Regarding roles, the challenge for family firms is to establish clear division of roles for family members involved in the business that would meet their expectations and wants. Additionally, clearly defined and well suited roles can help family firms overcome some of their challenges, such as autocratic rule of the founder in the business or the unclear division of tasks in the business and messy organizational structure.

Finally, a challenge for family firms is to balance family needs and wants with those of the business. Strategic management is an area in which these may be interlinked and harmonized.

5.3 Business challenges

Family firms are the most fragile form of business. The main reason for this unenviable position is that they face a double load of challenges compared to non-family businesses – those related to the presence of the family in the business and those that occur in any kind of business and stem mainly from *internal management dysfunctions or the external environment*. In addition, for Czech firms, the external environment still presents an array of specific post-transitional challenges. The aim of this sub-chapter is to review and summarize the challenges Czech family firms face as a result of both - the deficiencies of internal management and external ones stemming from the post-transnational external business environment.

Challenges emanating from unprofessional management of a firm

Related to internal management of companies all the individual challenges have the same common denominator - managing the functional areas as well as the entire business professionally and strategically.

Managing business strategically in particular means developing a sound, well planned and feasible strategy. Well-defined strategies defined for both the business and its functional areas are an important prerequisite. Despite sounding simple, strategic management is still a great challenge for many firms.

Setting strategy setting is the first prerequisite for the professional management of a firm. All the subsequent steps related to the implementation of the defined strategies should also be professionally managed. A short review of those activities that might contribute to obtaining a high standard of professionalism in managing the strategy implementation has been described in Chapter 4 and is summarized below in Figure 27 and 28.

Challenges related to entrepreneurial management

Other challenges relate to the entrepreneurial skills and attributes of the owner/manager and the overall entrepreneurial management of a firm. This is described in more detail through chapter 4.8. Figure 29 summarizes this category of challenges.

Challenges related to						
Strategic management	Marketing management	Management of finance	HR management	Production and operations management	Management of information	Logistics and distribution
Recognising the need and importance for strategic management and introducing it in the business	Understanding the importance role of marketing and the scope of activities it should get engaged with - not reducing marketing to mere advertising or communication	Recognising the importance of managing business finance professionally and with sufficient expertise, not only based on intuition	Recognising the need for quality workforce and HR management as a way of assuring its quality, defining HR strategy that would develop overall business strategy in this important area	Recognising the needs for defining clear production and operations strategy that would contribute for reaching the goals set in business strategy, defining overall approach to production management	Recognising the need for analysing and defining the informational needs, recognising the need for setting an information strategy supporting the business strategy and the other functional strategies	Recognising the need for defining logistics strategy that would support the overall business strategy and other functional strategies, as well as defining logistics sub-strategies etc.
Ability of acquiring relevant, timely information for reasonable costs	Possessing sufficient marketing skills, experience and knowledge, not performing marketing activities based on external knowledge and theory	Possessing or gaining sufficient knowledge and experience in financial management	Managing HR with sufficient knowledge and expertise	Establishing measures to keep required quality of products, incl. setting required quality standards, quality control processes, introducing TQM rules etc.	Defining more detailed IS/IT conceptions and architecture suitable for fulfilling the informational needs and strategy of an organisation	Treating the area of logistics as an important source of competitive advantage and not only as a support business area
Ability to correctly analysing and interpreting information	Setting organisational structure and assigning competencies and responsibilities	Defining the scope of financial management activities to get engaged with, so that these would be sufficient for the character and size of the business	Engaging with HR planning to assure future HR and overall organisational strategic needs	Recognising the importance of customer needs and keeping these central to all production related activities	Properly managing implementation of informational strategy in the business	Deciding about suitable transportation and its optimisation in terms of routes, transport means and handling systems so that these would support the overall business strategy
Knowledge of theoretical strategic management tools and ability and will to apply these in praxes where appropriate	Developing marketing activities on market research	Deciding about way of realising accounting - internally or by outsourcing it from and external company, with regard to its costs and the needs of a business	Monitoring the cost effectiveness of HR areas, related to recruitment of employees, training and development, employee turnover and fluctuation etc. and taking corrective steps if needed	Monitoring of costs and keeping these on such level that would maximise the value for money of the products, using monitoring techniques such as target costing, bench marking etc.	Evaluating the projects and their efficiency - functionality and coast effectiveness, taking corrective measures if needed	Designing material handling, incl. introduction of automation where appropriate so that these would match the overall business strategy
Awareness of its strategic position and active approach to influencing it	Understanding the various pieces of research available, their advantages and potential outcomes that can be expected from them	Assuring maximum efficiency of an accounting system (suitable software for reasonable costs) so that it would meet also the other informational needs of a firm, not only the legal requirements.	Paying appropriate attention to job design so that it would meet the needs of an organisation	Keeping required flexibility of production so that it would be possible to react quickly enough to the changing needs of the customers and the activities of competition	Stressing practical utilisation of the IS/IT systems by the individual departments, training the employees in using them	Deciding about storing, so that it would overall support the business strategy
Knowledge of attributes well formulated strategies should have and experience in formulating them	Ability of obtaining timely, relevant information for appropriate costs and ability to decide when the costs related to obtaining information would exceed the benefits steaming from having them.	Performing financial analysis in a scope suitable for the needs of a business and using its results to reveal and correct possible gaps and weaknesses	Paying appropriate attention to recruitment and selection of employees	Recognising the need for shortening production times to increase competitiveness as well as increasing productivity	Managing and planning IS/IT human resources	Designing suitable packaging so that it would fulfil its core functions such as handling or marketing etc.
Awareness about its importance and ability of properly implementing strategies, incl. its proper communicating, realizing changes in organisational design, resource planning, management style, if needed etc.	Cooperating with other department on establishing efficient internal information system, recognising the need for planning and defining its own informational needs and actively utilising the information available	Establishing an efficient cost accounting system that would allow for exact monitoring of costs and using its results as bases for corrections in cost-effectiveness.	Knowledge and application of specialised assessment techniques for the purpose of employee selection	Improving the fluency and rapidity of material flows	Managing safety aspects of IS/IT systems.	Establishing and organisational design in such a way so that it would allow good cooperation of the logistics department with other part of business, above all with production and marketing etc.

FIGURE 27 Challenges related to internal management (based on chapter 4; continues)

Challenges related to						
Strategic management	Marketing management	Management of finance	HR management	Production and operations management	Management of information	Logistics and distribution
Realising the importance and need for evaluation of strategy and ability to decide about and will to assert corrective steps if needed.	Recognising the need for defining marketing strategy incl. generic competitive strategy, product strategies, price strategies, communication strategies and distribution strategies	Engaging with budgeting as with an integral part of company's strategy and establishing controlling processes to monitor the development of financial magnitudes compared to the financial plans.	Designing and appropriate learning, training and development programmes, encouraging personal development and learning especially in areas key to company's core competences	Paying attention to reduction of spare capacities	Managing safety aspects of IS/IT systems.	Establishing efficient administration and documentation system, that would allow prompt administering of orders, monitoring of complaints and fulfil all the other functions so that the customer could be served in quality and time required. etc.
	Harmonising the particular strategies so that they would not contradict but instead they would support and develop one another as well as the overwhelming business strategy and would contribute to reaching business goals.	Recognising the need and actively engaging with liquidity management, managing efficiency of liquid resources and the cash flows.	Designing management development schemes to be able to attract and retain capable managers	Collecting and handling information, analysis of information and taking corrective measures where gaps in production emerge, providing information for other departments on the required structure		Assuring sufficient HR in logistics, proper division of tasks, clearly defining competencies and responsibilities, properly defining the processes etc.
	Recognising the need for evaluation and control of strategies and taking corrective measures if needed	Assessing investment activities applying specialised decision-making methods, not based solely on intuition	Recognising the need for monitoring job satisfaction and motivation of employees, taking corrective steps and designing consistent motivation and satisfaction programmes to retain and enhance it.	Taking appropriate decisions concerning production programme, that would support the overall business strategy and would be harmonised with the other functional strategies		
	Ability of implementing the defined strategies, communicating them to line employees and ability of making them involved in their pursuit	Establishing active cooperation and coordinating activities with other department such as production, logistics, marketing etc.	Designing clear and fair remuneration systems that would contribute to employee satisfaction and motivation	Taking appropriate decisions concerning location of production facilities, with regard to cost effectiveness and the needs of the customers, both globally and locally		
	Recognizing the need to recruitment and selection of marketing specialist with sufficient marketing knowledge and experience - above all in media planning and buying, advertising, PR and working with journalists, etc.		Overall enhancing such organisational working environment that would support involvement of employees on pursuit of company's strategy	Making appropriate decisions concerning organisation of production and production processes, so that all these would support the overall business strategy		
	Defining overall framework for realisation of marketing activities, incl. planning of marketing activities, budgeting, framework for corporate presentation of a firms, branding strategy where appropriate etc.		Maintaining healthy relations with trade unions and negotiating conditions acceptable for the business as well as for the employees (further enhancement of satisfaction, motivation etc.)	Predicting demand and planning volumes of production, and to it related capacity and HR needs.		
				Managing inventories and their optimisation, incl. selection of suppliers etc.		

FIGURE 28 Challenges related to internal management (continued figure 27, based on chapter 4)

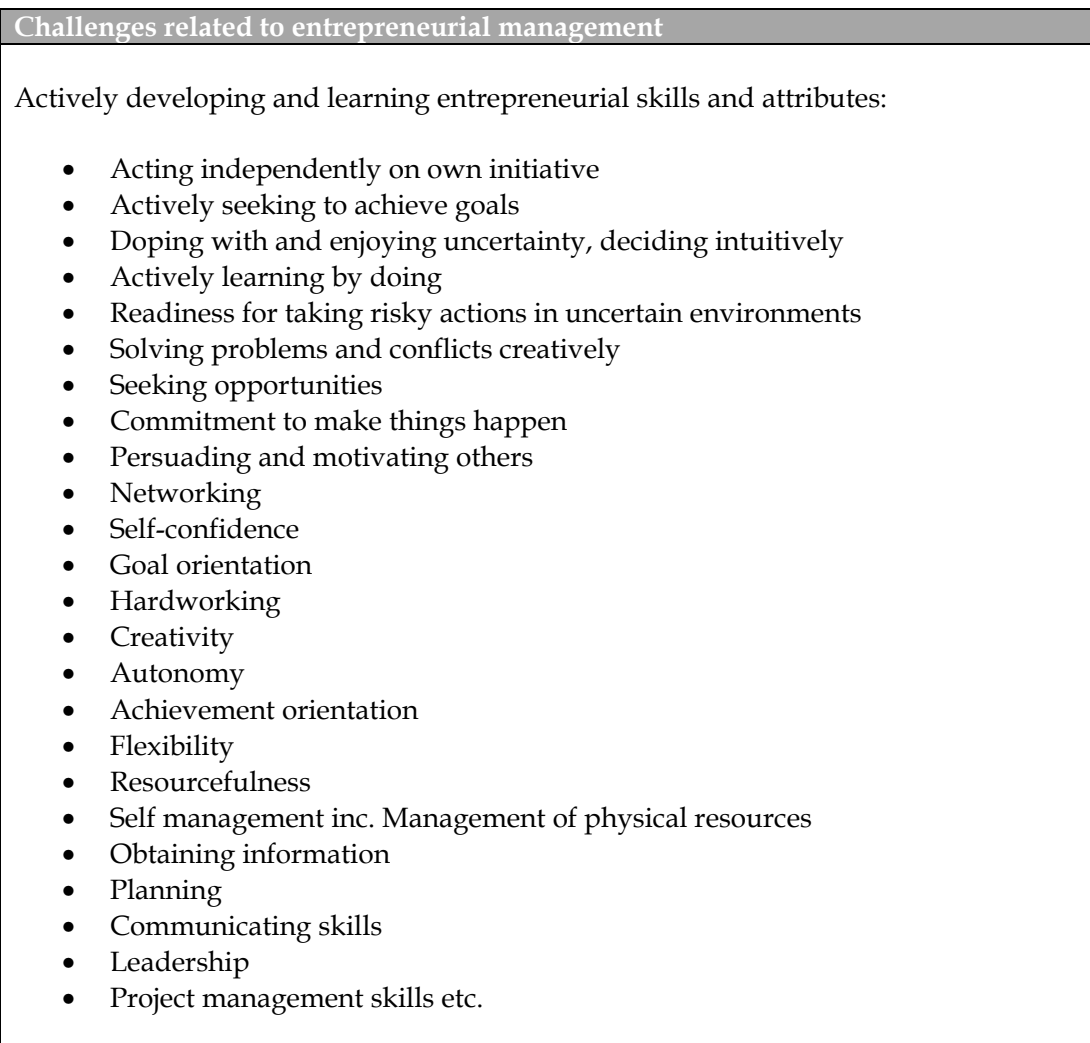


FIGURE 29 Challenges related to entrepreneurial management (based on chapter 4.8)

Challenges related to external factors

Apart from the internal challenges faced by Czech firms, including restituted family firms, they are also likely to have to cope with numerous *external challenges* related to the recently completed economic transformation and other external forces. Their overview, as identified in Chapter 2.3, is given in Figure 30.

Challenges related to external environment
<ul style="list-style-type: none"> • Macro- and micro-sphere related problems as inflation, unemployment, fluctuations of exchange rates, recessions etc. • Economic crime, poor business ethics and business relations • Weak enforcement of law and weak legal system • Inefficient financial market and poor allocation of resources, inability to monitor and adjust to frequently changing legal environment • State administration and bureaucracy • Discriminatory tax system • Major changes in industries and character of competition • Low working morale of employees • Low productivity, obsolete machinery, low ability to compete • Lack of sources of finance • Lack of business and other know-how • Poor access to information • Inefficient governance structures

FIGURE 30 Challenges related to external environment (based on chapter 2.3)

5.4 Integrated framework

The aim of this chapter is to present the knowledge we have uncovered so far under a single umbrella in the form of an integrated framework. This framework will then be used as the main guideline for the empirical part of this work that will be published later as a doctoral thesis.

Potential challenges of Czech restituted family firms

It has emerged from available literature that, in order to review the main potential challenges faced by Czech restituted family firms, four different groups of challenges must be considered – see figure 30.

The first group of challenges is one that encompasses all *those typical for any kind of family firm* (i.e. those created by the presence of the four family related elements in the business) – family values and culture, family relations and feelings, family roles and family needs and wants. In particular, this group of challenges covers those well known in the field of family business, such as coping with the ghost of padrone, milking the business, dealing with various developmental dysfunctions of the younger generation as nepotism, narcissistic development and the related long- or short-term conflicts, challenges connected with “right and wrong” values, dealing with ownership aspects, succession, and many others described previously.

The second group of challenges covers potential *internal challenges related to coping with insufficient or non-professional management of key functional areas* in a firm – an aspect frequently discussed in both family business and general business literature. To be able to review the potential challenges in this area and to judge to what extent the firms under scrutiny indeed are managed with the necessary business expertise, it is important to review the potential challenges in several of the key business functional areas. Chief among these are strategic management, marketing management, management of finance, production and operations management as well as logistics management, management of human resources and management of information and information technology.

Reviews of the challenges in the first two groups is therefore important, not only as these are the fields that present the majority of challenges, but also because these challenges are, compared to others, relatively easy to handle.

The third group of challenges to be reviewed is one of the *entrepreneurial skills* of the owner/manager. Even though a lack of entrepreneurial skills might be an area of potential problems in any kind of family firm, in Czech restituted firms this is taking on even greater importance. Above all, this may be viewed as a potential challenge with respect to the fact that, under normal circumstances, the business owners/managers have the chance to learn at least some of their entrepreneurial skills, either through their own business experience or through seeing their predecessors in business. However, in Czech restituted firms, the 50 year break (being understood as a break away from the family firm, market economy principles and entrepreneurship generally) gave owners/managers few opportunities to acquire these skills. Many re-entered their firms at a relatively late age, often with substantially different educational backgrounds than business, economics or management and with almost no prior experience of running their own business.

The last of the four areas to be scrutinized is that of *external challenges*. These cover challenges created by the economic transformation through which the Czech economy underwent recently and other external challenges typical for any market economy. These include unfavorable macroeconomic developments, widespread economic crime, weak law enforcement, state bureaucracy, unexpected changes in industries, low working morale of employees, low productivity, a lack of external sources of finance and know-how, poor access to information and many others.

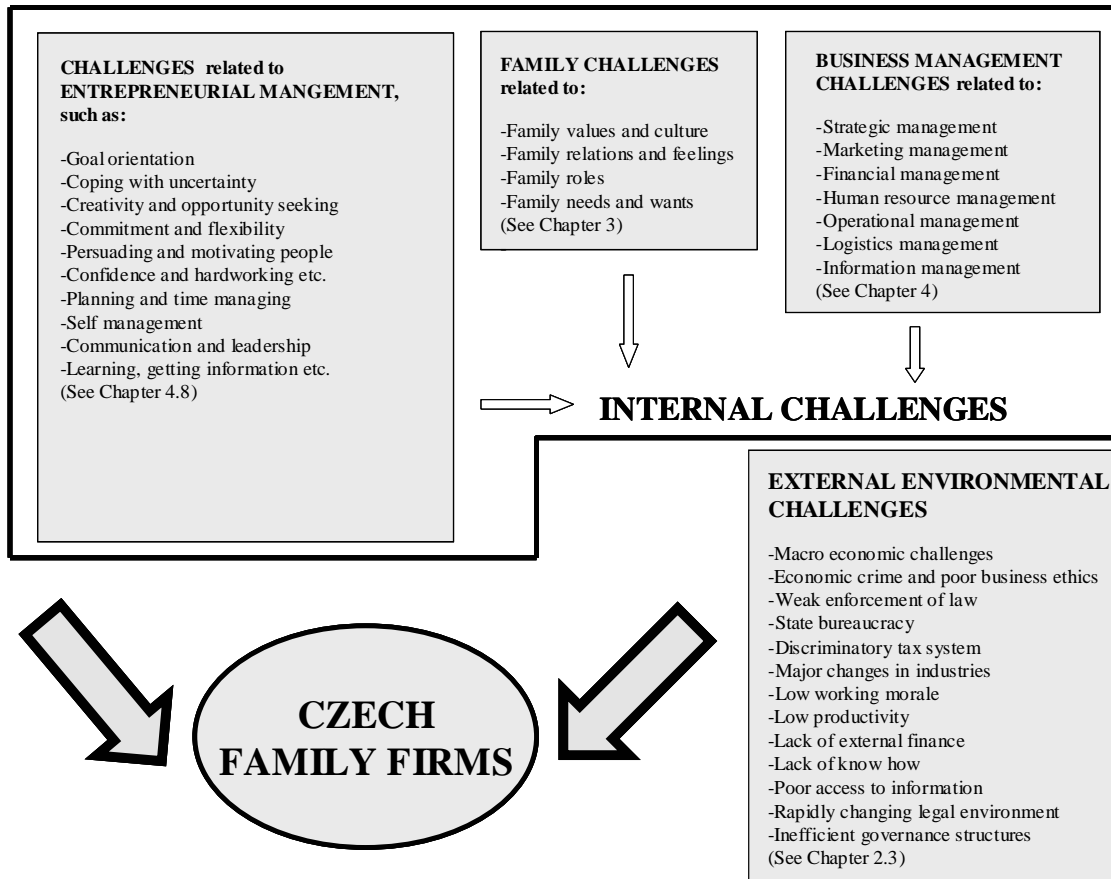


FIGURE 31 Potential challenges faced by Czech restituted family firms – an integrated framework

6 INTRODUCTION INTO EMPIRICAL RESEARCH

6.1 Sharpening the research questions

The main objective of the research is to trace and comprehend the main challenges (problems) restituted Czech family firms face ten years after their return to the original family owners, and also to provide recommended solutions. In particular, the research aims to answer the following research questions: -

- *What have been the main challenges Czech family firms, returned after 45 years of state ownership to their former owners, face at present?*
- *What are the ways to help family firms cope with these challenges?*
- *Would increased business and economic education or counseling be a means of solving these? If so, how?*

6.2 Methods employed and data

6.2.1 Qualitative research methods

Based on the nature of the research problem, a qualitative research approach was selected. The main reasons for this were as follows: -

The study involves investigation of a little understood or rarely studied phenomenon (Marshall and Rossman, 1995) or/and a rare and unique situation, (Jankowicz, 1995) of which little is known (Gill and Johnson, 1997).

Indeed, this condition particularly applies to the phenomena studied in this research. Family business, as a separate scientific discipline, is practically unknown in the Czech Republic. A small survey into the study programs of Czech economics, management and business universities supported this assertion. None of the leading universities and faculties cover the topic of

family businesses in their curricula, nor do they undertake family business oriented research: -

- The Prague School of Economics (www.vse.cz),
- The Faculty of Economics and Administration of the Masaryk University of Brno (www.econ.muni.cz),
- The Management and Business Faculty of the Technical University of Brno (www.fbm.vutbr.cz) and others.

The area of family businesses in the Czech Republic is generally untouched. No specific data on the contribution of Czech family businesses to the national economy and employment, no studies investigating their current state, character, probable features or problems are available (Narwa, www.genusresources.com). The number of studies on Eastern Europe is still very low (Donckels and Lambrecht, 1999). Another problem arises from the fact that the generally accepted western family business-related theoretical concepts have not yet been tested under specific Czech (or Eastern European) conditions (for more on the specific societal, political and economics Czech conditions see Clark and Soulsby, 1999).

There is little reliance on literature and empirical evidence (Gill and Johnson, 1997)

Another argument for a qualitative study is the fact that there is very little literature and empirical evidence available on Czech family businesses. Although western libraries offer an extensive range of books and papers on this topic, the only publication on family businesses known to the researcher was written at a Czech institution is one by Korab et al (1998) from the Management and Business Faculty of the Technical University at Brno. The book offers a comprehensive introduction into the area by presenting a core of general family business-related theories and knowledge. Nevertheless, it has significant drawbacks too. This author regards all family firms as small businesses which means that certain important issues in this area, such as corporate governance (for more on this see for example Neubauer and Lank, 1998), are omitted. Furthermore, and importantly, only general knowledge and examples from the developed western economies (mainly Spanish) are available to the Czech reader, although non-Czech related and specific information is provided.

The study aims to identify a range of variables (problems) and an in-depth understand of their causes (Marshall and Rossman, 1995) or gaining insights in a new area (Adams and Schvaneveldt, 1991)

To identify and comprehend the various problems Czech family businesses face, an in-depth investigation facilitated by qualitative research approach allows is necessary. Such a study would then have the potential of generating a hypothesis for further research in this field (Marshall and Rossman, 1995)

Influence of personality and emotional matters

Family businesses, contrary to other forms of public business, represent a complicated intersection of business, ownership and family matters (Tagiuri and Davis, 1996, Neubauer and Lank, 1998) where, in extreme cases, the family and emotional matters overrule the business imperatives (Kets de Vries, 1996). To be able to examine these family and, therefore, emotionally-related issues, a qualitative rather than quantitative research method was chosen. As Miller (1986) states: "...the best known 'classics' in family studies relied on qualitative analysis of in-depth interviews ...".

6.2.2 Case study approach

From the range of research methods used in qualitative research design, such as ethnography, that primarily focus on the study of culture (Gill and Johnson, 1997), phenomenology, this time understood not from a philosophical perspective but as a research method focusing on investigating the people's subjective experiences, field research that focuses on observing the studying phenomena in its natural setting (Gill and Johnson, 1997), participant observation and other, *a case study method* was chosen.

In the literature, case studies are defined as: -

- A highly focused in-depth exploratory research method that intensively investigates one or a few situations similar to the researcher's problem situation. (Zikmund, 1991)
- A set of detailed information about one individual or a group. (Coolican, 1999)
- A study that places more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. (Cooper and Emory, 1995)
- A global description and explanation covering multiple issues of certain situation or phenomena. It attempts to gain all the data available concerning the studied phenomena. Its aim is to describe all its aspects and their links. (Syrovatka, 1992)
- A specific instance, which is frequently designed to illustrate a more general principle. (Cohen, Manion and Morrisson, 2003)
- An empirical study that investigates a contemporary phenomenon within a real-life context especially when the boundaries between phenomenon and context are clearly evident. (Yin, 1994)

The last definition gives a particularly good reason for the general application of the case study approach. As Murray (Barbara Murray, PhD Thesis) points out in her dissertation, other methods than case studies tend to separate out phenomenon from its context and to control the context by focusing only on a few variables. Case studies also have the advantage of coping with many more relevant variables than data points. As a result, the case study approach allows flexibility (investigating many - often newly emerging - variables) and depth (insights) that are needed to investigate certain (especially rare or outstanding) phenomena. Discussing the same issue, the importance of context is strongly represented in research by Nisbet and Watt (1984) and Cohen, Manion and Morrisson (2003) who state: -

“Case studies can establish cause and effect, indeed one of their strengths is that they observe effects in real contexts, recognizing that context is a powerful determinant of both, causes and effects.” (Cohen, Manion and Morriison, 2003)

Apart from the issue of context, case studies also allow for a detailed understanding of studied phenomena and, due to this ability, they often serve as pilot studies for more substantial, often quantitative research (Zikmund, 1991, Cohen, Manion and Morriison, 2003). In addition, due to their rigor and depth, case studies are capable of catching the unique features of studied phenomena that may be lost in larger scale data but that could hold the key to understanding the situation (Nisbet and Watt, 1984). As one of the qualitative research methods, case studies therefore are useful tools for analyzing little known or unique phenomena for which initial insight is missing and where the effects of research context might be important (Jankowicz, 1994).

However, it is also fair to mention that case studies as a scientific method are often criticized. The main reasons for their criticism are as follows (Coolican, 1999): -

- their low reliability and validity, since many cases cannot be replicated and it is not easy to generalize,
- subjective selection of cases investigated and the data presented,
- close interviewer-interviewee interaction that can interfere the objectivity of the interviewer (Coolican, 1999) etc.

Nonetheless, case studies have a significant scientific role (Cooper and Emory, 1995) and in certain instances their advantages outweigh their weaknesses. One piece of evidence supporting the importance of case studies is that, especially in the field of philosophy, well-designed single counter-instance case studies often challenge established theories (Cooper and Emory, 1995).

For the purpose of this work, the case study method has been selected as it allows the investigation of little-known phenomena – certainly the case with Czech restituted family firms. It also considers the context which could be extremely important for the study in and that it allows a rigorous and detailed analysis and is important for the correct interpretation of the researched phenomena – the main purpose of this study.

Strengths of case studies	Weaknesses of case studies
The results are more easily understood by wider audience and are immediately intelligible – they speak for themselves	It might not be possible to generalize the results.
They catch unique features that might otherwise be lost in larger scale data and that might hold the key to understanding the situation	They are not easily open to cross checking, hence they might be selective, biased, personal or subjective
They hold strong on reality	They are prone to problems of observer bias, despite attempts made to address reflexivity
They provide insights into other similar situations and cases, thereby assisting interpretation of other similar cases	
They can be undertaken by a single researcher without needing a full research team	
They can embrace and build in unanticipated events and uncontrolled variables	

FIGURE 32 Strengths and weaknesses of case studies as identified by Nisbet and Watt (1984)

In this instance, a multiple case study of three cases is to be applied. The first in-depth case is to be used as a “pilot” study to discover the basic pattern and character of the challenges the restituted Czech family business face (for more see section on research sample). The two additional cases investigated in the second stage of the research will be used as comparative cases to supplement, support or contradict the findings discovered in the first case. In other words, three cases will allow for triangulation, which is important for the reliability of this study. More than three cases would certainly add additional value to the results, but could not be achieved due to time and economic limits imposed on the study.

Triangulation has been used in this study where possible, specifically on three occasions: -

- Triangulation between cases
- Triangulation between documents
 - o Personal semi-structured interviews
 - o Historical sources, newspaper articles
 - o Internet resources
 - o Final questionnaires etc.
- Between informants
 - o The owner-managers and other family members
 - o Non-family members

6.2.3 Research sample

All three cases – the pilot case A and the two comparative cases B and C – were selected on the basis of four criteria: -

- Family business.
- Restituted or bought back from the state by the family owners in the early 90's.
- Over 100 years of existence.
- Mid-sized or large business.

The individual cases should also represent different industries to increase the probability that the challenges discovered would be more general in character, rather than simply industry-specific.

The question of what kind of business could be considered as a family business is also important. As previously explained, there so far exists no consensus as to what kind of criteria define a family firm (Shanker and Astrachan, 1996 or Cuevas, Cumplido and Carrasco, 1995, Litz, 1995). Various definitions cover a long list of factors such as the percentage of share capital owned by a family, the number of generations involved in the business, the employment of owning family members, the intention to maintain family involvement in the future, the size of the enterprise, the power over strategic decisions and the number of family members involved in the business (Neubauer and Lank, 1998). For the purpose of this study, a family business is defined as a business with the following elements: -

- Majority of shares owned by one family (blood or law relatives)
- Strategic direction of the business set by the owning family.
- At least 1 generational succession in the past.
- At least 2 family members employed in the business.

To define a medium-sized (or large) business an adjusted definition by the Agency for Protection of Fair Competition (Verejna, 2000) in the Czech Republic has been used, as follows: -

“A medium-sized business is a business with 50 to 250 employees, total turnover of which is lower than 1,445 million Kc (40 million EUR) or a total sum of its assets lower than 185 000 Kc (27 million EUR) and not more than 25% of its shares is owned by one or more businesses that do not comply with the definition of a medium-sized business.”

6.2.4 Data collecting methods

The data for all three cases were gathered in semi-structured, key-person interviews. To verify and further refine the information gathered in the interviews, other supplementary data collection techniques were applied too. In particular, these were the analysis of historical and other documents (including the internet), questionnaire interviewing and participant observation.

Semi-structured interviews

Semi-structured interviews were the main source of information on both the history of the companies and their present situation, both necessary as background for further analysis, and the specific research issues (i.e. the challenges the studied firms have recently been facing). Being in between two extremes – structured and unstructured interviews – semi-structured interviews provide the advantage of holding interviews in an organized way according to a thematic guide (Fielding, 1988, Syrovatka, 1992) whilst giving enough flexibility for clarification, elaboration of the answers and/or going beyond the issues of the thematic guide. As May states: -

“These types of interviews are said to allow people to answer more on their own terms than the standardized interview permits but still provide greater structure for comparability over that of the unstructured interview.” (May, 1997).

The first couple of the interviews were recorded in written form. An attempt was been made to record as much of the exact wording from the semi-structured conversation as possible. The field notes were supplemented with the researchers personal observations such as the environment (where possible, the interviews were held at the factory site), the interviewee’s conversation with employees, non-verbal communication and other (Disman, 1993) observable facts. After each interview the field notes were computerized and translated into English.

Another set of interviews were then tape recorded. The purpose of trying both forms of recording was to compare the advantages and disadvantage of these two methods and to select the one that would better suit the practical needs of a study. Recording in a written form did not allow for a detailed record of the interviews, nor was it capable of capturing the overall context and atmosphere. In addition, note-taking was done at the expense of the researcher’s ability to maintain a fluent conversation. Tape recording, on the other hand, allowed for a detailed record of the interviews but, at least initially, prohibited a relaxed atmosphere and the openness of the interviewees before the interviewees got used being recorded.

Structure of interviews

The semi-structured interviews were in all the cases (pilot and comparative) freely held around the key issues defined within the four categories of possible challenges explained in the integrated model introduced in chapter 5: -

- challenges related to unprofessional management
- challenges related to the family factors
- challenges related to owner/manager’s entrepreneurial skills and attributes
- challenges related to external transitional challenges.

A sample of the semi-structured questions used is available of appendix 5.

Questionnaire interviewing

In addition to semi-structured interviews, data were gathered also via questionnaires. They were used on two occasions. First, questionnaires with open questions were used in the case of company B that, through the course of the interviews, asked for this change (interviews to questionnaires) due to the time constraints of the owner-manager and the non-family managers who were interviewed. Open questions were used purposefully in order to get as close as possible to the conditions of the semi-structured interviews and to obtain data of similar quality.

Secondly, questionnaires with closed questions were used in the ultimate phase of data analysis. The aim was to assess several issues that were not mentioned by all of the cases and emerged only during the analytical phase after the main data collecting process (interviews) was completed. Such questionnaires were used for all three cases.

Participant observation

In order to supplement the data gathered in the semi-structured interviews and to get a better (deeper) understanding of the overall business and its management, a complementary data gathering method called participant observation was used. As Madge states (Madge, 1953): -

“... It [participant observation] enables a great deal of depth in research since it allows the researcher to get very close to the phenomena of interest ‘catching reality in flight’ by experiencing the often hidden experience...” (Madge, 1953).

Participant observation can enable access to what people actually do (the informal organization) as opposed to what they claim they do (Mintzberg, 1973). In this way, participant observation was used as a second level of triangulation, methodological triangulation (the first level can be considered to be the triangulation of interviews amongst different family members and managers).

Participant observation was, in principle, used on two occasions: -

- Where possible, the interviews were held at the factory site which gave the researcher an opportunity to see the interviewee interacting with subordinates when solving operational problems or dealing with various ad-hoc issues on the phone. More important information was also gained from the overall look and the way the offices and other non-production facilities were arranged and equipped.
- An official excursion to the factory during which all the achievements mentioned in the interview, the work conditions and the various production-related problems could be seen first hand. Many interesting supplementary pieces of information were also gained during the guided tour of the factory facilities etc.

Documents incl. internet sources

A very good source of information regarding each company's history and current operations was through an analysis of documents and other supplementary sources of information. The main ones were as follows:

Historical documents

These provided much interesting information on each company's history, family and culture, the growing production volumes and product range, after-sales activities, customer care and even activities that, in the modern terms, might be called public relations.

Internet resources

The Czech Business Register administered by the Czech ministry of Justice (available on-line at www.justice.cz) was used to collect information on the current ownership structure of the company, its past development and its legal form. Also, each company's website was a useful source of information.

Other sources of information

Extra information was found in local county newspapers in which a series of articles has been published covering the history and presence of the companies.

6.3 Overview of interviews and questionnaires

Figure 33 give and overview of semi structured interviews and questionnaire interviewing performed in the three cases researched.

Company and interviewee	Form	Date	Duration	Code	Note
A - owner-manager	Interview	20 January 2001	3.15 hours	1/1	
A - owner-manager	Interview	3 Feb. 2001	2.45 hours	2/1	
A - owner-manager	Interview	6 April 2001	2.30 hours	3/1	
A - owner-manager' mother	Tel. interview	6 April 2001	0.30 hour	4/2	
A - family distant relative and friend	Interview	14 April 2001	2.00 hours	5/3	
A - owner-manager' son	Interview	6 April 2001	1.30 hour	6/4	
A - owner-manager	Interview	20 April 2001	2.45 hours	7/1	
A - PhDr. Alena Beckova - local historian	Interview	20 April 2001	0.45 hour	8/5	
A - owner-manager	Interview	8 June 2001	3.15 hour	9/1	
A - owner-manager	Interview	8 June 2001	1.00 hour	10/1	Company visit
B - sales manager (current president)	Interview	22 March 2002	1.50 hour	1/1	
B - sales manager (current president)	Interview	5 April 2002	2.00 hour	2/1	
B - sales manager (current president)	Interview	7 June 2002	2.30 hour	3/1	
B - production manager	Quest. 1	July 2002	N/R	4/2	
B - sales manager (current president)	Quest.2	July 2002	N/R	5/1	
B - Personnel manager	Quest. 3	July 2002	N/R	6/3	
B - sales manager (current president)	Quest. 4	July 2002	N/R	7/1	
B - sales manager (current president)	Quest. 5	July 2002	N/R	8/1	
B - IS/IT specialist	Quest. 6	July 2002	N/R	9/4	
B - finance manager	Quest. 7	July 2002	N/R	10/5	
B - sales manager (current president)	Quest. 8	July 2002	N/R	11/1	
C - owner/manager	Interview	4 April 2002	1.30 hours	1/1	
C - owner/manager	Interview	10 April 2002	3.00 hours	2/1	
C - owner/manager	Interview	17 April 2002	2.30 hours	3/1	
C - owner/manager	Interview	24 April 2002	2.30 hours	4/1	
C - owner/manager	Interview	7 June 2002	4.00 hours	5/1	Company visit
C - owner/manager	Interview	7 June 2002	2.00 hours	6/1	
A - owner/manager	Final quest.	June 2004	N/R	FQ A	
B - owner /manger	Final quest	June 2004	N/R	FQ B	
C - owner/manager	Final quest	June 2004	N/R	FQ C	

FIGURE 33 Review of interviews and questionnaires

Note to figure 33: The codes in column four represent the order of the interviews in each particular company (number before slash) and the interviewees (number after slash) as given in column one. The code FQ stand for final questionnaires in the individual companies. In all cases, these were completed by the owner-managers.

6.4 Data analysis

Data analysis is a demanding job. It is particularly true of qualitative research that generates voluminous, complex and often unstructured data (May, 1997, Disman 1993). The aim of data analysis is to reduce the accumulated data to a manageable size, to develop summaries and, in particular, to look for patterns in the collected data (Cooper and Emory, 1995).

To analyze the data, this study uses the *content analysis approach* - a research tool for the scientific study of speeches, records and other communication to determine key ideas, themes, words or messages (Adams and Schvaneveldt, 1991). It is a method that seeks to reveal the patterns in content through repetition (Ericson, Baranek and Chan, 1991) or a multipurpose research method developed specifically for investigating a broad spectrum of problems in which the content of communication serves as a basis of inference, from word counts to categorization (Cohen, Lawrence and Morrison, 2003). In line with Ericson's, Baranek's and Chan's definition, content analysis is not only understood as a simple counting of obvious aspects such as words or attributes, but also as a method to understand the often latent and manifest content and the symbolic meanings of messages.

The data analysis of this research started with case A. In the first step of the analysis, the data were carefully and repeatedly read through before being allocated with a set of codes⁴⁴ to divide them into categories that freely corresponded to the categories used in the integrated framework introduced in chapter 5. In addition, newly emerging categories or sub-categories were added and the categories contained both, either confirming the issues⁴⁵ or not.

When all the relevant issues discovered were categorized, they were re-visited and certain issues (with categories that were too basic or fundamental) were clustered into groups with higher level denominators. This step both reduced the vast array of fundamental categories (about 80 in case A and exceeding 100 in cases B and C) and helped to identify the patterns that were emerging.

Following this phase, the refined categories were rearranged into logical clusters with generic denominators. The new issues and factors arising from this analysis - whether confirming or not - were used as a basis for adjusting the basic theoretical framework applied for the data collection and analysis of the subsequent cases B and C. Adjustments to the lower level categories were also made where appropriate.

⁴⁴ It is possible to keep up to ninety codes in the working memory at any one time. Coding can also be performed on a second or third reading, as codes that were used earlier on might have to be refined in light of codes that are used later, either to make codes more discriminating or to amalgamate codes that are unnecessarily specific (Cohen, Lawrence and Morrison, 2003).

⁴⁵ The theory being developed becomes more robust if it addresses negative cases as it sets the boundaries to the theory; it modifies the theory and sets parameters to the applicability of theory. (Cohen, Lawrence and Morrison, 2003).

After collecting the data for cases B and C the analysis was performed using the same logic. The generic categories from case A were used as a base for their coding. Newly emerging issues including those that rebutted others were attributed new codes. As with case A, in the second step was to cluster into more generic categories. Where required, adjustments and rearrangements of the categories used for case A were made.

The analysis of cases B and C, and related adjustments to the categories, was already a gradually proceeding process of triangulation. Triangulation was completed by reviewing and comparing the generic categories that emerged from the three cases. Later, the categories were further, albeit marginally, adjusted to their final structure as presented in chapter 8. Issues that emerged for one or two of the cases but for which there was not enough evidence in the other cases were enclosed into a final questionnaire that followed this stage. The results were then added to the final summary to either support or refute the individual issues.

The relevance of each category was pondered in the light of reviewed literature by using the abductive logic (which means two-way effects between empirical observation and theoretical conceptualization)

6.5 Interpretation

In line with the research approach, data collection and interpretative methods used in this study, the interpretation of data is based on the *hermeneutical tradition* (www.metodix.com). Its core assumption is that no observation or description is free from the observer's interpretation based upon his or her presuppositions and projections of his or her values, theories, etc. onto phenomena (Gill and Johnson, 1997). In fact, the researcher's sound judgment plays an important role in interpreting the empirical findings. This hermeneutical call for researcher's personal commitment and engagement contradicts the positivism that insists on the researcher's total disengagement from the subject matter (May, 1997).

6.6 Thoughts on validity and reliability

An important concern for every research design is its quality. In this respect Yin (1994) points out the importance of two fundamental criteria - reliability and validity, which in turn can be broken down into internal validity, construct validity and external validity, i.e. being able to generalize. The aim of the following sub-chapter is to look more closely at the notions of reliability and validity, including the latter's various sub-categories, and to outline the main

aspects of validity and reliability that are related to the method of case study and this piece of research.

6.6.1 Reliability and validity defined

6.6.1.1 Reliability

Different authors define reliability in various ways. In most contexts the notion of consistency of results or measurement emerges (Cooper and Emory, 1995). In other words, reliability is the degree to which (i) the “measurement” of phenomena has been correct; (ii) the result can be replicated; and (iii) the findings are free of error or variation. In line with this concept literature defines reliability as: -

- the extent of measurement stability (Foret, 1994)
- measure’s consistency in producing similar results on different but comparable occasions (Coolican, 1999)
- a criterion referring to the consistency of results obtained in research (Gill and Johnson, 1997)
- probability with which repeated measurement of the same phenomena leads to the same result (Syrovatka, 1992)
- precise measurement where the same results are obtained on re-measurement, assuming the situation has not changed (Jankowicz, 1995)
- degree of stability of empirical results (Geist, 1992)
- reliability means that the operations of a study can be repeated with the same results, in other words that other researchers can replicated the study with similar results. Reliability show the degree to which a finding is independent of accidental circumstance. (Niemelä, 2003)
- the concept of reliability is usually connected with quantitative research. Traditionally it refers to the ability of the used method to give non-random results, in other words the concept refers to the methods and meters’ capability to gain the results needed (www.metodix.com).

To assure reliability of work, Niemelä (2003), based on work of Huuskonen (1998), points out that overall reliability of a study is enhanced when the following conditions are applied: -

- Are the concepts identified and labeled correctly?
- Are the contents of the concepts understood correctly?
- Is the reciprocity of the concepts understood correctly?

6.6.1.2 Validity

In the same way as reliability research literature, there are also many forms of validity concerned with different aspects of measurements. These include (1) face validity, where the measurement is simply inspected to see whether it does indeed measure what it is supposed to measure, (2) content validity, which quantifies the extent to which the measuring instrument provides adequate coverage of the topic under study, (3) criterion validity, which reflects the success of measures for prediction or estimation covering concurrent validity and predictive validity, (4) construct validity, which entails demonstrating the power of used constructs to explain a network of research findings and predict

further relationships etc, (5) sampling validity and (6) empirical validity and other sub-forms (Cooper and Emory, 1995, Coolican, 1999, Zikmund, 1991, Nachmias and Nachmias, 1992).

There are three major meanings to validity as defined by Campbell and Stanley (Coolican, 1999) and considered in this research: -

- internal validity
- external validity
- construct validity

The notion of internal validity often defined in literature as validity *per se*. Its definitions are multiple, but all of them express the idea of an internally valid piece of research being one that indeed measures what it is supposed to measure. Validity (or strictly speaking internal validity) is then defined in following way: -

- validity has to do with whether a measure is really measuring what it was indeed to measure (Coolican, 1999),
- valid is such a question which asks what we really want and need to ask (Foret, 1994),
- validity means relatedness of results to the researched problem or to what extent the gained data really related to the research question (Syrovatka, 1992),
- validity expresses the accuracy of measurement such that the process or event you intend to measure is indeed properly measured (Jankowicz, 1995),
- a notion related to the degree of inter-relatedness of researched issues (Geist, 1992),
- validity is concerned with a question whether we measure what we want to measure (Nachmias and Nachmias, 1992),
- the criterion refers to whether or not what is defined as the case or stimuli actually produce what have been interpreted as the effect or response (Gill and Johnson, 1997),
- internal validity refers to whether the experiment treatment was the sole cause of observed changes in the dependent variable (Zikmund, 1991),
- internal validity is the extent to which a researcher is able to use his or her method to study what s/he intends to study rather than studying something else (Niemelä, 2003) etc.

A problem with internal validity arises because measurement in the social sciences is indirect, i.e. the researcher can never be completely sure whether s/he is measuring what s/he intended to measure.

Niemelä (2003), as above in relation to reliability, defines conditions for enhancing validity: -

- Are the concepts or constructs of concepts chosen carefully, taking into account the context and the study as a whole? Are all the central elements of the studies domain considered and taken into account in the study?
- Are the interplay and the interdependencies (reciprocities) of the elements considered to be taken into account in the study?

External validity is tied to the question of whether the research findings can be generalized. The matter of external validity is often further subdivided into population validity, concerned with the possibility of generalizing the research to a wider population, and ecological validity, which expresses the degree to

which it is possible to generalize from the actual social context in which the research takes place to other contexts and settings (Gill and Johnson, 1997, Nachmias and Nachmias, 1992).

Niemelä (2003) defined these following criteria for a qualitative case study to be internally valid: -

- Concepts, theories and models are empirically realistic, and applicable to the studied phenomenon.
- Researcher's basic assumption related to research questions is based on the knowledge of the field.
- Interviewees being selected by accounting for their experience and knowledge of the researched issues.
- Evidence of natural changes concerning the researcher, interviews and the researched issues in course of the study.

For the purpose of this study the external validity has been defined as the extent to which the research findings can be generalized or extrapolated beyond the immediate research sample or setting in which the research took place (Gill and Johnson, 1997).

The notion of construct validity of a scientific work expresses the extent to which inferences can legitimately be drawn from operationalization to the theoretical constructs (Niemelä, 2003) or, more simply, the balance between the theoretical and operational concepts. Construct validity is defined as: -

- A term used to refer to the vertical correspondence between a construct which is at an unobservable, conceptual level, and a purported measure of it which lies at an operational level and a purported measure of it which lies at an operational level
- Construct validity involves relating a measurement instrument to a general theoretical framework in order to determine whether the instrument is tied to the concepts and theoretical assumptions employed. (Niemelä, 2003, based on Peter, 1981)

For construct validity to be met Niemelä (2003) defines these following criteria: -

- The representativeness and distinction of concepts.
- The concepts are clarified in the progress of the analysis.
- The conceptual consistency and logic in and between the sub-concepts and key concepts
- Many of the resources referred to revealed among the best papers and refereed journal in the field.
- The phenomenon of the conceptual study being discussed by using literature and empirical studies anchoring on several disciplines.

Niemelä (2003), based on the work of Hirsjärvi and Hurme (1991), further states that construct validity may be improved by gaining knowledge of the interviewed persons and the related earlier theories ex-ante the research interviews. In line with this statement, the content validity could be poor if the researcher is unable to discuss the phenomenon with sufficient relevant themes, concepts, constructs or questions.

Similar tests for proving the various types of validity and reliability are also proposed in Kidder and Judd (1986) and in Yin (1994): -

- Construct validity – demonstrating that correct operational measures for the concepts being studied have been chosen.
- Internal validity – establishing causal relationships, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relations.
- External validity – establishing the domain to which a study's findings can be generalized.
- Reliability – demonstrating that the operations of a study – such as the data collection procedures can be repeated, with the same results.

Interrelatedness of reliability and validity

Reliability and validity are closely linked. It can be said that reliability is a necessary but not a sufficient condition for validity. The meaning and relation between reliability and validity can be demonstrated on a simple example of a scale. If the scale repeatedly measures the weight correctly, it is both, reliable and valid. If it consistently overweighs by an exact number, it is reliable since it gives the same result constantly. However, as the measurement is not correct, the result is not valid. Finally, if the scale's measurements are erratic, the results are neither reliable nor valid (Cooper and Emory, 1995).

6.6.2 Reliability, validity and qualitative research approach

Different research methods have different strengths and weaknesses and are suitable for the investigation of different research questions and settings. Different research methods also vary in their ability to generate reliable and valid findings. Generally it is true that, when making methodological choices, inevitable trade-offs between internal validity, external validity and reliability have to be made. The main distinction between methods is based on the extent of control and naturalism they employ (Gill and Johnson, 1997). Through venturing into the field of naturalism the ability to manipulate and control the variables as well as to structure the research is lost. By structuring and controlling the research, naturalism diminishes.

In this way for instance, at one extreme, the highly structured nature of classical experiment, with its manipulation and control of independent and dependent variables, scores highly in internal validity and reliability. Being well-structured it is relatively simple to replicate. Control of variables then enables the researcher to observe the effects of manipulating an independent variable while maintaining a high degree of confidence that the effects of any potential extraneous variable have been ruled out. However, in this way experiment loses its naturalism and, because of its artificial nature, is low in ecological validity.

On the other hand, methods such as ethnography, with its commitment to naturalism, induction and unstructured methods of data collection, create severe problems concerning replication and therefore the reliability of data. Using this method the small sample makes population validity difficult. However, its ecological validity is high.

Where case studies fall into the non-positivistic qualitative group of methods, potential dangers exist concerning both validity and reliability of research findings. Case studies face these potential problems: -

- because of their uniqueness many data cannot be replicated and (Coolican, 1999) and therefore are not reliable,
- because of their low standardization their internal validity can be low (Disman, 1993),
- because of a small and often randomly selected sample, possibilities to generalize are often limited.

There are however ways to improve these inherent weaknesses.

The problem of reliability of data has been dealt with in this study by using triangulation, broadly defined as the use of one method to cross-check the results of another (Jankowicz, 1995). Triangulation has been employed in this study at three levels: -

- triangulating the cases
- using different data-collection methods (interviews, participant observation and written documents, questionnaire interviewing)
- using different sources of data within these methods such as, for example, interviewing several interviewees to check on the same issue (this was done where possible).

Internal validity has been maintained by including direct and full quotations of the interviews in the analytical phase in order to provide a clear reasoning for the conclusions made and to maintain clear chains of evidence. In addition, the procedures applied in this research were kept sufficiently explicit to allow the reader to assess their appropriateness. An important aspect has also been researcher's pre-understanding and experience of the unique phenomenon (above all Czech restitution and renewal of traditional family firms, including hardship) and the context (Czech business economic transformation and its problems, and the field of family business generally from the western prospective).

Even though the requirements of internal validity and reliability have been satisfactorily met, it must be acknowledged that the study is of a low external validity and it cannot be therefore easily generalized. Strictly taken, there is guarantee beyond the three cases. Less strictly taken, a cautious generalization might be possible to other old manufacturing family firms of a medium size. In addition, it may be possible to generalize the triangulation method and conceptual model more than the results. It could however be argued that the primary purpose of this study is not to generalize from and to a large number of cases or to create tested general theory. Rather, its purpose is to discover and comprehend unknown phenomena and propose a theory that is yet to be tested in a wider setting than in the three initial cases. In other words, this study is to explore and discover, not to test. Despite this it is of a value in that it aspires to bring important issues to the surface in an area that, until now, has been practically unrecognized – the area of Czech family firms. As such it may serve as a basis for further quantitative research.

Construct validity in this study, in line with Niemelä's (2003) suggestions, was enhanced by paying close attention to the representativeness of concepts, their distinctiveness, clarification, and consistency between sub-concepts and concepts.

7 DESCRIBING THE CASES

7.1 Case A - The soft drink producer

Company history

Company A is a medium sized producer of soft drinks, located in a large town in Southern Moravia, in the Czech Republic. The company was established in May 1879. The company's founder, Ferdinand, inherited from his father a sole proprietorship - a shop selling groceries and other necessities. As a supplementary business activity Ferdinand decided to establish a proprietorship under the name [Czech name here] ("Factory of spring and sparkling water and fruit juices"). Ferdinand therefore became the first producer of spring and sparkling water in the South-west Moravian region (Vodickova, 2000).

In the initial production phase the whole factory was based on limited facilities. Most of the work was done by hand. The range of goods comprised sparkling water with a raspberry and apple flavor, made from purely natural ingredients (wild raspberries, apples) and natural syrups. Later on another lemon flavor was introduced. As the consumption of soft drinks was increasing in the 1880s, the company started purchasing fruit bases from Greece and Italy. These were more resistant to yeasts and therefore easier to store.

In its first year of existence the factory produced about 20 thousand bottles of soft drinks. During the second year production increased to 31 thousand bottles and production continued to increase gradually until 1902 (Vodickova, 2000), when a sudden increase in sales of other soft drinks (such as Cola) took place.

The company carried out the production of its syrups itself, from buying the berries from the surrounding villages, to storing, cleaning pressing and preserving them. From the start the company maintained the highest possible quality for its syrups and flavored sparkling water products (Beckova, 1999).

In 1901 a trade mark (in the form of a star with FK initials and the year of establishment 1879) was registered. The company's products have been bearing this trade mark ever since. Most of the activities of the company's founder were focused on the production of products of a high quality that would be well known in the market while maintaining the company's reputation.

A year later the company registered its word-based trade mark, which was an abbreviation for "Zdravotni Osvezujici Napoj" ("Healthy refreshing beverage") (Beckova, 1999). At the same time the name of the business changed. All of these activities were aimed at assuring the highest possible quality of the products as well as maintaining the company's good reputation.

In 1902 the company took part in an international exhibition of soft drinks in Paris where it was awarded a gold medal, thereby gained its reputation as a high quality soft drink maker and positioning itself as one of the leading soft drink producers of that time. A number of other prizes were won both in the Czech Republic and abroad.

All these activities assured the company's profitability and good economic situation until the First World War. Then a lack of resources and a qualified work force meant that the company experienced great economic difficulties in this period. In 1919, after his return from WWI Bohumil, a son of the founder, took over the management of the company.

Economic revival and relatively favorable economic conditions in between the two world wars enabled soft drinks to gradually become more popular with the majority of population. For this reason the 1920 were characterized by relatively large investments in the company. The production capacity was extended several times compared to the original size. In addition, technology was improved and the company bought refrigerators, installed its own systems for cleaning and sterilizing water as well as machines for bottling drinks and washing bottles. Juice production was also established (Vodickova, 2000).

The company's sparkling water was famous for its quality and quickly started selling in the surrounding villages, towns and counties. The company's products were sold exclusively in restaurants and pubs. To make sure that the soft drink was being served to customers properly chilled, in the summer time the company also supplied 10kg of artificially made ice for every 100 bottles purchased. The ice was also made in the factory, where two freezers had been installed. At that time this was a very advanced approach, even though it was considerably detrimental to the company's profits. The ice replaced the freezing boxes that no longer used in pubs and restaurants.

During the 1920s juice production was also introduced. Lemon and orange extracts were purchased in Italy and Spain. The company also bought berries available in its home country in order to juice them and produce squashes. (Vodickova, 2000).

The economic recession in the 1930s negatively influenced the company. The purchasing power of the population decreased considerably and consumption of soft drinks decreased dramatically. At the end of 1930s and the beginning of 1940s a revival of production took place and the company purchase a Breitfeld Danek steam-barrel and steam-machine with an electric

generator. Sufficient supply of electricity allowed also the installation of a fully automatic Helman bottling machine and a Delta bottle washer. This machinery enabled an increase in production to around 4 million bottles a year (Beckova, 1999).

In 1941 a son of the owner Bohumil, Ferdinand Sr, entered the company and in 1943 took over management of the technical and operational issues, preparing himself gradually for an overall takeover of company's management.

In addition to the company itself, it is worth mentioning the wider family, the other sons of the founder, who were paid out from the business. Most of the sons belonged to the traditional families in the town, actively took part in the town's social life and were members of various communities and charities. Bohumil (the son of the factory's founder) and also his three brothers gained important positions in local society (Janak, 1981). One of them established a printing house. Later on he rented it and for 25 years (1880-1905) he became one of the most successful and well known mayors of the town. He was said to have developed the city substantially. Another of the three brothers became a school inspector and the third a secondary school director in a nearby city (based on an interview with Ferdinand Sr., the current owner).

Nationalization and expropriation

In 1948 the company fell under "national self-administration", which lasted until early 1949. The company was nationalized on 1 July 1949 and merged into Fruta group, national company Brno. The family followed the "business first" principle, one of the strongest values in the family. At times of economic difficulties all the resources were directed to the business on the expense of the family. As Alena (Company A, 5/3) noted, the family often suffered from a lack of financial resources. After nationalization the family found itself in a very difficult economic situation. The wider family members supported the family economically until the death of Bohumil and his wife (Company A, 1/1). One of the relatives, Alena, describes this: -

"For the family of Ferdinand Sr. the company was their whole life. He invested all his money and power and time to bring it to success and to make it flourish. All the other life activities were subordinate to this goal. He was working long hours ... he was hard to himself as well as the other family members. ... In 1945 the conditions in the Czech industry changed dramatically. In companies with higher number of employees the so-called national administration was introduced and later on all private firms were nationalized ... this applied also to ZON and the owner lost his control over the business. It was a terrible financial, but above all, psychological, loss to the family. ... The parents of Ferdinand Sr. were left with nothing; they did not receive their state pension, despite the fact that the mother of Ferdinand Sr. was seriously disabled. The whole family had to take care of them for years, also financially." (Case A, 5/3)

The intensity of the pressure of the communist regime is shown in the local archive, which does not contain any important documents about the company or the owning family despite the fact that both played an important role in the

local community. Local historian Alena Beckova explains that all the important documents were purposefully destroyed (Company A, 8/5).

Unlike other nationalized firms, the former owner of the company, Bohumil was not thrust from the company immediately after the nationalization. This was above all due to good relation with the company's own managing director, who was a fair person and valued Ferdinand as an expert in his field and supported him, despite his "wrong" social and political background. Ferdinand was made redundant only at the end of 1950, when his position was cancelled as part of a restructuring. His son stayed with the company, being responsible for production-related matters (Vodickova 2000 and Case A, 1/1.).

During the 1950^s the company was permanently moved from one national company (business group) to another, which caused the stagnation of both its production and its investment into equipment. In the mid 1950^s the director at the time, Frantisek Parizek, managed to obtain the surrounding facilities for the company. This led to the extension of the warehouse area, meaning that the ingredients no longer had to be stored outside the company facilities (Vodickova, 2000, Case A, 2/1).

In 1953 local production of fruit juices and syrups was abolished throughout the whole country and responsibility for production was taken over by the Ministry of Food. The management of the company, supported by representatives for the local authorities, insisted on being granted an "exception". The company succeeded and the production of syrups at the company continued.

At the same time, the company also lacked the financial resources necessary for further investments. Its operational manager, Ferdinand Sr., was trying to address this by using his own conceptual proposals. The most serious problem was the lack of crown bottle caps. On this basis of a technical proposal and technical documentation from Ferdinand Sr. the company maintenance workshop produced a press machine that was able to restore old caps so that they could be reused. The company then organized the collection of used caps. These were then restored and disinfected, which helped to overcome the shortage. In the same way, also on the basis of a technical proposal from Ferdinand Sr., a fruit press device was produced. The carefully thought through approach of the company's management at the time guaranteed that the company would retain the traditionally high quality of its products (Beckova 1999, Vodickova 2000 and Case A, 2/1).

These projects brought success at an international presentation exhibition of soft drinks that took place in Prague in November 1955. The company gained first place in the flavored soft drinks category for its most common beverage – an apple flavor soft drink.

At the end of the 1950^s, within a framework of the Regional soft drink and sugar company, a major change in the production and storage took place, allowing special ingredients to be stored with no added preservatives. A new storeroom was also built and the current press facilities were modernized (Beckova, 1999).

In January 1961 the company was once again transferred, this time into a group of Brno breweries, and in 1964 a reconstruction of the company's bottling facilities, storage, packing line, raw materials and social facilities took place, while keeping the company fully operational. The whole restructuring process was managed by Ferdinand Sr. (Vodickova, 2000).

In the 1970s a problem emerged when there was no suitable candidate for the managing director position. In 1979, after completion of the reconstruction, the role of Ferdinand Sr. was cancelled as a result of changes in the organizational structure - the company was divided into two parts and joined partly with the Znojmo and partly with the Jihlava breweries. Being redundant, Ferdinand Sr. had to leave the company and the industry. The end of 1960s and the beginning of the 1970s were characterized by a period of instability. Frequent changes of production managers as well as changes to the organizational structure of the factory negatively influenced the technological quality of the product. (Beckova 1999, Vodickova 2000 and Case A, 1/1).

In the second half of the 1970s the standard of production and, as a result of this, the quality of the product increased again due to the good management of Miroslav Urgane (production manager) and Miloslav Pelican (technical foreman). The operation was gradually equipped with automatic bottle unloaders and loaders, a storage facility for empty bottles and finished products was completed and a new electricity station and stokehold were constructed. (Vodickova, 2000 and Case A, 2/1). At the same time, the company ceased its own fruit pressing operations.

Due to the continued growth of production (under the central state plan) the company reached its production and technology possibility frontier in the early 1980s.

Privatization

Although the family remained tied to the company until 1967, when Ferdinand Sr. left the company, due to the political climate in the Czech Republic the family did not believe that it might ever run the company again (Interview with Ferdinand Sr. and Alena). Ferdinand Sr., who dedicated most of his life to his company, was watching it from a distance (Case A, 1/1), but the family generally believed that their involvement with the company had been consigned to history.

However, after the Velvet Revolution the Czech restitution law in 1991 created a legal framework for former owners to have nationalized companies returned to their private ownership.

The driving engine and the initiator of the whole privatization process was Ferdinand Sr., father of the current owner (Case A, 1/1) and his son (and the manager), Ferdinand Jr. Ferdinand Jr. comments on this matter: -

“... Taking over the business again was a natural continuation of his [Ferdinand Sr.'s] life-long work. ... he wanted to keep the company alive to save the family tradition ...” (Case A, 2/1)

The restitution process was a time demanding one. It took almost two and a half years for the company to be returned to its former owners (Beckova 1999, Vodickova 2000 and Case A, 1/1.). Ferdinand Jr. describes the process: -

“The central idea of the 1949 nationalization was ... that a company that was a subject of it [nationalization] had to be employing at least 50 employees. Our business was at that time, employing less than 40 permanent workers and so in order to make the company eligible for nationalization, about 15 temporary employees were recruited. After the company has been nationalized, these were made redundant again. We managed to prove the fraud, on the basis of which the company was returned to us.”
(Case A, 1/1)

In March 1993 after the successful completion of all the legal requirements, part of the company was returned to the family and the remainder was purchased by the family from the state for 20 million CZK. To finance the buyout the family took a bank loan and managed to repay it by 1995 (Beckova 1999, Vodickova 2000 and Company A, 2/1). Immediately after privatization the company's legal form was changed and a new limited company was founded. Ferdinand Sr. became one of the company's owners and an acting secretary and his son, Ferdinand Jr., became the managing director (Case A, 1/1.).

Family and business

The next chart shows the family tree of all the important family members involved or potentially involved in the business.

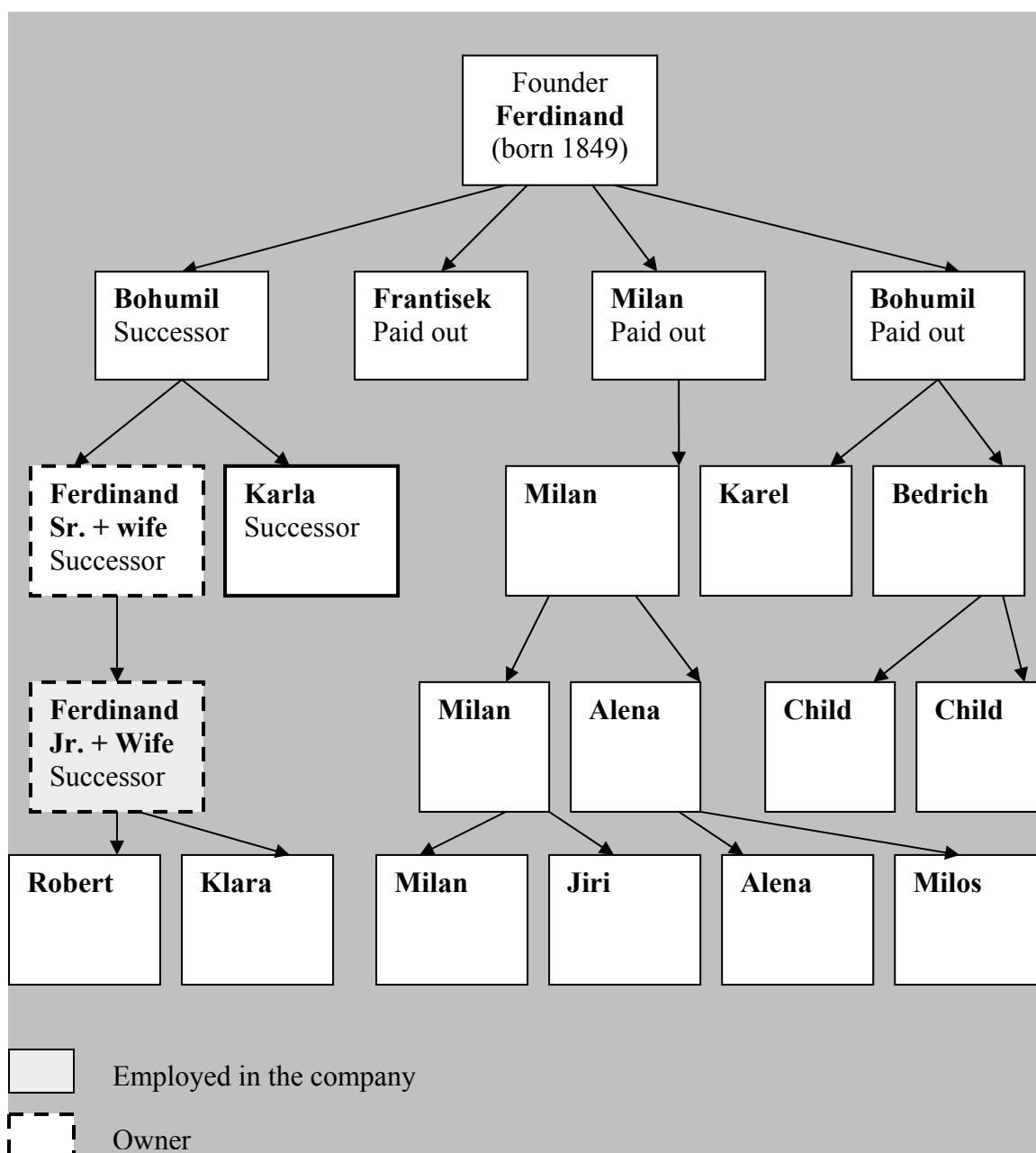


FIGURE 34 Family tree of case A

After privatization the business had four owners and there are two at present. One of the owners works in the business as CEO: -

- Ferdinand Sr., initiator of restitution program - was company's legal secretary and production manager from 1993 until 1997, when he died. His share was twenty-five percent.
- His wife Ruzena - had neither formal working nor managerial position in the company. Her share after restitution was twenty-five percent and at present she owns fifty one percent of the company. She has not been formally involved in the business.

- Karla, sister of Ferdinand Sr. – her share after privatization was twenty-five percent. After her death her share passed to Ferdinand Jr. and his mother Ruzena. She had no formal or managing position in the company.
- Ferdinand Jr., – his share in the company after restitution was twenty-five percent and it is now forty nine percent. Since restitution he has formally held the position of managing director of the company.

The only family member who is a non owner and is currently working in the business is the wife of Ferdinand Jr., Renata, who has held the position of regional sales representative since 1994.

Present position

Since the takeover by the family, the company's primary focus has been on investing heavily in the development of technology and services. Keeping technologically ahead and retaining the traditional high quality of its products has been regarded as the company's main competitive advantage and strategic focus (Case A, 1/1).

Since the 1990s, commercial activities have been gaining more and more importance. The company has therefore been trying to continue to develop its traditional business relations with its wholesale buyers as well as with the newly emerging retailers.

The company is also trying to change its products as much as possible according to the requirements of the market. It constantly widens its product range with new flavors (e.g. cola, multivitamin drinks). Since 1989 new flavors have been developed in the company's own laboratory (using fruit bases to mix flavors with the optimum amount of sweeteners and citric acid).

The company has also changed its bottling process substantially, switching a major part of its production from the traditional 0.33 liter glass bottles (the production of which is seasonal) to 1.5 liter plastic bottles (Vodickova, 2000). This required a substantial change in the bottling technology used. A major restructuring process started in 1995 and was completed in 2000.

At present the company's business activities cover almost the whole of the Czech Republic. The only regions that have not still been sufficiently covered are North Bohemia and Moravia.

Ferdinand Sr. died in 1997 and he managed to realize his investment intentions to a great extent. After his death his son, Ing Ferdinand, took over the management of the company in full and is still running it at present (Beckova, 1999, interview with Ferdinand Jr.).

The company currently employs 52 permanent and 8 seasonal employees. After a slight decrease in production at the beginning of 1990s, which was a result of changing market conditions and restructuring in the Czech commercial sphere, the company's production has increased to 120,000 bottles of soft drinks a year (for development of production volumes see the chart below).

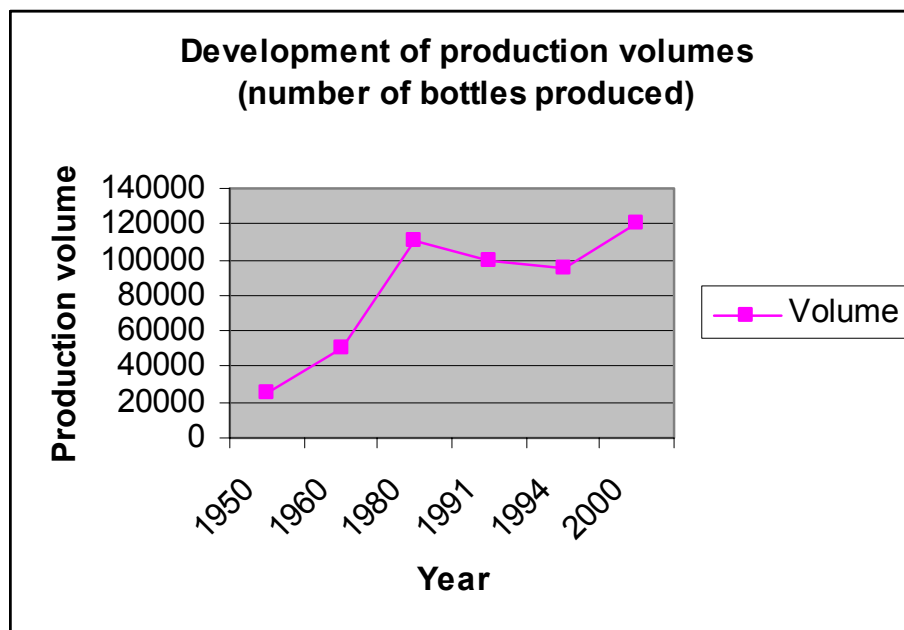


FIGURE 35 Development of production volumes of company A

The company is currently in relatively favorable economic health. Its profits have been stable since 1993, although at a relatively low level. This has been caused by conditions in the Czech food market leading to lower prices and thereby reducing the level of profitability.

The company's current organizational structure is shown at figure 36 below.

Very latest developments

Compared to 2002 the position of the company has not changed very much. It still faces strong competition and pressure from the supermarkets in relation to prices. Its main priority is cost reduction and permanent investment.

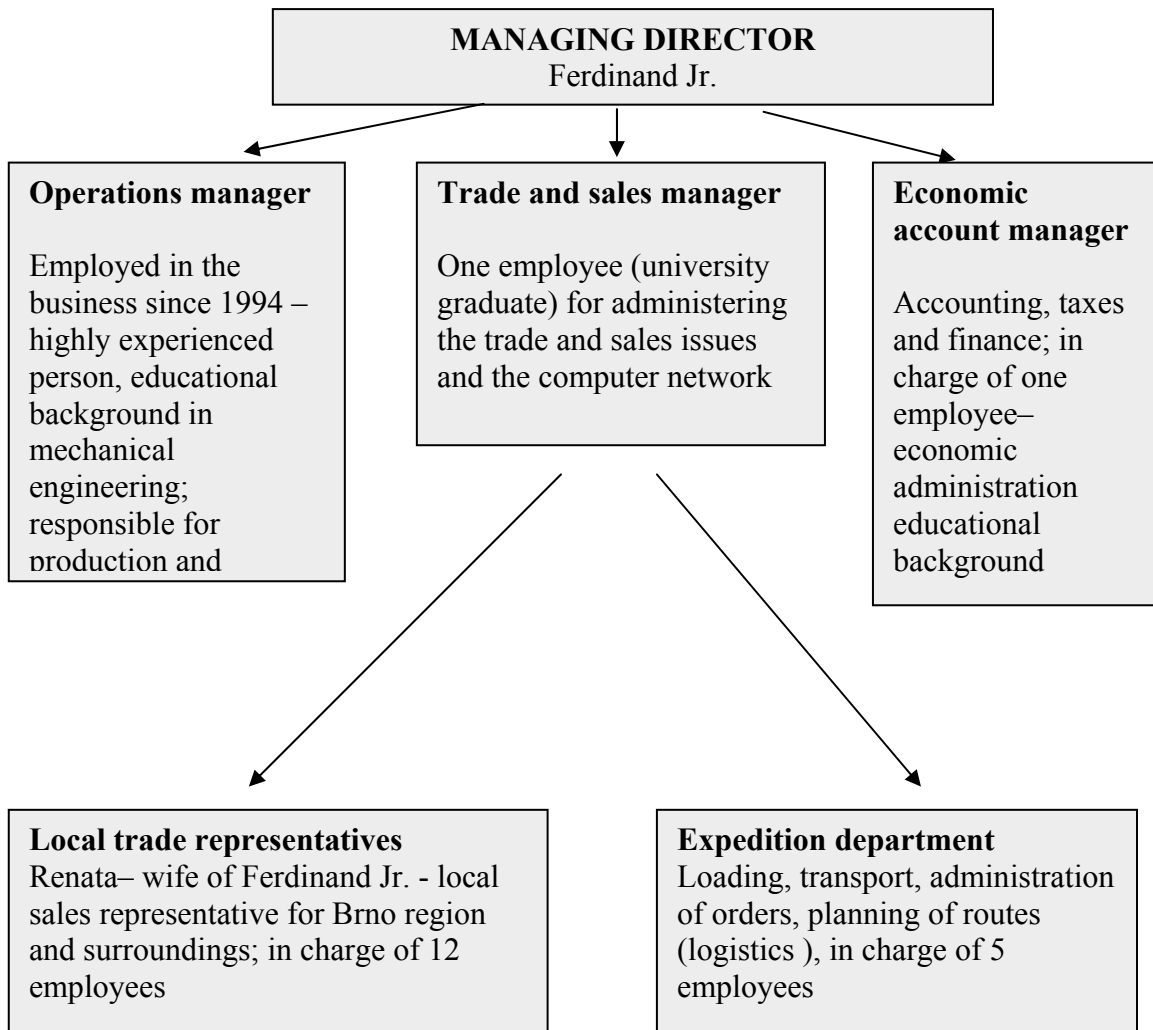


FIGURE 36 Organizational structure of company A

7.2 Case B - The piano producer

From company's history

Company B, located in one of the Czech Republic's large cities in the Eastern Bohemian region, is a producer of musical instruments with a history of more than 135 years. It is thought that the company was established in 1864. In this year the founder constructed his first piano, which was sold to a local burgess.

Immediately after its establishment the company started developing dynamically. During the first year of existence six pianos were built and sold, which was considered a success. In 1865 the original small craft shop was registered as a new trader. This trading certificate remained valid until 1932. In 1866 the founder's father, who helped his son with the business, suddenly died from cholera and the young founder took over the business entirely.

The following years were happier for the founder. He got married and six children were born. In 1847 the oldest son of the founder (and the future successor of their business), Jan, was born. The founder's marriage was important for the development of the company, as the founder's wife brought resources into the family, which allowed further development to occur. She was also a help to the business.

During this period social and economical conditions created a good environment for the business to further expand. Various associations were established and cultural life was on the increase, as musical instruments were gaining in popularity. As production increased, more employees were taken in. In order to further expand the business, the founder decided to move location. He chose an area with a lot of space and good prospects for the development of infrastructure etc. Ten years after its establishment, in 1874, an old inn was purchased and he manufacturing of pianos began there. The inn was the basis of the later production plant.

In the following years, the founder carried out a lot of modernization. He began to use steam engines and his business became the first steam engine company in Bohemia. In conjunction with one of his suppliers he also made the first full piano armor plate in the former Austro-Hungary. This invention led to a considerable increase in the quality of pianos. The production of keyboards also began. The company flourished and received numerous international prizes - amongst others, it won a medal at the Industrial and Agricultural Exhibition of Terst in 1882, in 1889 it was awarded a golden medal from Linz, in 1890 it received a golden medal from Styrsky Hradec and in 1892 it won a medal of credit in Wels. In 1896 a store room was opened in Vienna.

In 1881 the founder's second son, Antonin, is born.

The founder was well aware of the fact that a good education for his sons was important for the further development of the company. For this reason Antonin began his studies at an economic secondary school. After his admission into the business he started as a worker in order to learn all the processes of piano building in detail. He then worked as an economist. In addition, Antonin went abroad to learn piano building techniques from the company's competitors, as well as foreign languages.

In 1890 the business expanded further when a new three floored production building was constructed. In 1894 the company began to export its instruments abroad and in 1895 a new production plant was established in Hungary.

In the following years the founder's two grandsons, Ivan and Dmitrij (sons of Jan) were born.

In 1914 the company celebrated its 50th anniversary. At the same time, the 30,000th instrument was produced and delivered to the successor to the Austro-Hungarian throne, Franz Ferdinand d'Este. However, the celebrations were only modest, as the First World War began in the same year. 1915 was a poor year for the company - production decreased and the company was required to produce ammunition cases for the army. Another hard blow was the death of the founder the same year, followed by his wife a few months later.

After the death of the founder his oldest son, Jan, became CEO. Jan's two younger brothers also took part in the management of the company - Antonin took care of the commercial side of the business and Vladimir became responsible for technical matters.

The company struggled during the war but by 1918 it was exporting its products throughout Europe as well as to South America, South Africa, Egypt, China, Japan and Australia. Further extensions of the production plant also took place. In 1927 another five floored building was built attached to the north side of the factory. In 1928 the company employed 355 employees and produces up to 230 instruments annually. In the same year Jan's sons, Ivan and Dmitrij, began their three-year apprenticeship with the company.

In 1933 an important decision was made when the owners agreed that only the oldest son could take part in the management of the business. As a result of this decision Jan's oldest son, Ivan, aged 23, left the factory. As a result of his talent he soon became a partner at another company.

In 1938 Eugen, son of Vladimir, entered the firm as an apprentice trainee.

In 1939, following the establishment of the Bohemian and Moravian Protectorate, the musical instruments business began to change and sales in Bohemia and Moravia increased. However, at the beginning of the Second World War the factory was converted to war production.

In 1945, after the war, a General Meeting of all employees was held, a statutory meeting of the new factory board was convened and the company returned to its normal mode (company web pages, Archiv, 2001).

Nationalization and expropriation

The critical year in the history of the company is 1948. In this year the communists seized power in the former Czechoslovakia and nationalization - the expropriation of private property - began. The aim was to get all private businesses and national property under the control of the state.

As with all other private businesses, company B did not avoid nationalization. The national administration was imposed on the company on June 14, 1948. The company's owners were prohibited from having any contact with the company and were deprived of all their rights to the business.

For the family nationalization was a real tragedy. They lost a family business they had been building for more than 80 years and for 3 generations. One of the descendants describes this: -

"My grandfather took it all very badly. It was he who was thrust from the company. He was living in the neighborhood. He got bitter about the whole government, political life and society, he did not want to know what was happening around him. He only listened to the Voice of America and Radio free Europe and hoped that he might get back." (Case B, 1/1)

Apart from psychological losses, the family also lost their only source of income. In the 1950s as well as during the latter years the former business

owners were persecuted in various ways. In this respect one of the descendants notes: -

“After the nationalization most of the relatives were arrested, 4-5 years. My grand father was taking care of most of the other family members – children of those who were imprisoned.” (Case B, 1/1)

On another occasion she describes: -

“My father has been educating himself for the whole of his life, he never stopped. As a schoolboy he often had to repeat examinations because of his origin. He studied at university part-time, he was not allowed to do it differently. He was such a person that if he wanted something, he always reached it despite the fact that they were throwing obstacles in his way.” (Case B, 2/1)

“ ... But also, everybody was envious about our name, without thinking about what it was our family had to live through or that we did not have anything any more. People thought that we had to be rich with this name ... that we would have gold buried at home. There were related problems at school and in society. People were not able to understand the position the family was in, what we had to live through. Yet, we were totally ordinary people!” (Case B, 2/1)

“... And then he [Jan, son of Dmitrij] remembers mainly the 1950s when they [communists] imprisoned all his relatives.” (Case B, 2/1)

Straight after the company was put under national administration and the owners were driven away from the business, the Ministry of Industry of the Czechoslovak Republic established a national company termed “Piano factories” and set up a new plant, which at that time produced four types of grand piano, three types of upright piano, three types of harmonium and one type of organ. Accessory production covered mechanics, keyboards, hammers and small metal parts. 280 workers worked in the factory.

In 1954 the company began to fall behind foreign competition more and more as its quality had deteriorated due to low investment and restraints to research and development. In the 1960s production grew further (800 grand pianos in 1964, 900 in 1969) but the quality lagged behind. The company was exporting mainly to Eastern markets.

In 1964 Antonin Junior died at the age of 83 after his return from communist imprisonment (Company web pages).

For almost fifty years the family could watch its factory only from the outside, as there was a strict ban on all the family members entering the factory site (Company B, 2/1). All that was connecting the family with the business were stories that the older generation was passing down to the young.

“... They were telling us, what it was like then, what it is like now and that it is not like that any more. We were always terribly interested; we were watching old films, where our grandfather was a director, what people he had around.” (Case B, 2/1)

Privatization

After the Velvet Revolution in 1989 it seemed that conditions might change and the family saw a small chance to win their family business back. The milestone year was 1991, when the former CEO of the state enterprise contacted one of the present owners, and the leading personality in the privatization process, Jan (son of Dmitrij) and offered him a managerial position in the company (hoping that, by giving the prospective owners a positive impression of him, he would keep his current managerial position). In this way the first of the family members entered the factory site after almost 50 years (Jan had last entered the company when he was 8). As one of the family members describes: -

“For the company as well as for the other business partners it was very exciting to have a “life” member of the former family owners back in the business.” (Case B, 2/1)

In 1991 the family started striving continuously to win their company back as allowed by the restitution law. Jan, son of Dmitrij, became the driving force of the whole privatization process. The rest of the enlarged family were unsure and hesitant and some were even against the idea, not wanting to leave the certainty they were living in. They also were worried that the regime might turn back to communism yet again. However, Jan's close family was supportive of the idea, even though also they were slightly worried of what the future would hold. In addition, Jan's cousin and his wife Ludmila provided great mental support to Jan while he completed his demanding task.

The privatization was very complicated and took almost eight years to complete. One of the family members, a daughter of Jan, describes it: -

“We were working for almost 8 hours a day, for 6 to 8 years. ... My father had a whole room equipped only for the purpose of working on the privatization. He dedicated a terrible amount of time to it.” (Case B, 2/1)

It also was very demanding financially. The family received only four percent of the value (equal to the value of the company in 1948) of the business back in the privatization process - the rest had to be bought back from the state. The family complained to the government about the small share they got back, but the government was worried that increasing the share would create a precedent. The rest of the company was bought back for ¼ billion CZK, decreased by the government from the initial ½ billion CZK. To be able to finance this, the family took a huge loan and committed themselves to repaying it for several years to come. As they have explained though, indebting themselves and taking all the risks related to the takeover was the clear choice for them. Zuzana, daughter of Jan, describes her father's attitude and determination: -

“My dad was the main driving force. He used to say that our processors would have “turned in their graves” if we had not done it! Because of them he always used to remind us that we must not miss this chance”. (Case B, 2/1)

In the meantime the company tried to start catching up with the almost 50 year gap in its development. One of its priorities was to build a new export market and to establish itself in the Czech market. In 1992 the first Piano salon was opened in the company's hometown and in 1994 a modern research center was opened with its own large-capacity reverberation-free measuring chamber.

In 2001 the privatization came to a climax with Tovarna na piano and a newly established limited company owned solely by the family merging into a single unit.

Family and business

The chart below shows the family tree of all the important family members involved or potentially involved in the business. Over the years the wider family grew extensively. Family members who did not want to continue in the business were paid out.

At present the business has five owners – the cousins, Jan, Olga, Antonin and Alexandra (each has a fair share) and a minority shareholder (4%), a lawyer who helped to privatize the company. Ten family members are employed in the business, as described below. The main role is played the family of Jan, the initiator of the restitutions. Jan himself is the President of the business, His daughter, Zuzana, is the sales and marketing manager. The rest of the family members hold positions at middle-management levels or are employed as line employees.

The following family members are at present employed in the business.

Person	Position	Employed since
Jan	President	1991
Zuzana - daughter of Jan	Sales and marketing manager	1990
Ivana - daughter of Jan	Export department	1998/1999
Wife of Jan	Home market	1996
Jarmil - son of Olga, Jan's sister	Assistant to production director	n/a
Gabina - daughter of Olga, Jan's sister	Financial department assistant	2002
Olga	Member of supervisory board	n/a
Antonin, cousin of Jan	Head of maintenance	n/a
Alexandra, cousin of Jan	Head of storing	n/a
Husband of Alexandra	Head of transportation	n/a

FIGURE 37 Overview of family members – case B

Present position

At present, 14 years after the Velvet Revolution, Company B is a modern business in all respects. It exports its products to 80 countries worldwide and the production of instruments reached 1750 grand pianos and 12,000 upright pianos per year in 2002. The company has been growing and selling successfully in the world market. With its 210,079 square meters of factory site, five plants and about 1000 employees it is one of the largest European piano manufacturers.

The company has its eyes on the future and invests a lot of money in research and development. Besides the production department there is also an acoustic research department and design and development departments. The efforts of the company are aimed at the manufacture of quality grand and upright pianos for mainly foreign, but also domestic, markets. New technology and the results of applied research and development are used including protection of industrial rights arising from the above activities. On the 130th anniversary of the founding of the company a brand new and up-to-date research centre with its own high-capacity anechoic measuring chamber, the largest of its kind in the Czech Republic, was opened. The company pays great attention to design of its instruments.

The complete range of pianos that the company offers satisfies all needs, from large concert halls to those who simply want to play at home.

The commercial side of the business has developed considerably and is now managed in a highly professional manner. The business has paid careful attention to managing its finances, using modern financial management techniques, as well as to marketing, sales, logistics, supply management and development of IS/IT etc. The company successfully pays off its loans and is now becoming slightly profitable.

Very latest developments

Despite the fact that the overall development of the company in recent 10 years has been very successful, serious problems have occurred recently. In March 2004 the company announced that it would make 250 out of its approximately 1000 employees redundant, which caused heavy trade union protests and finally led to a one day strike. At the same time, a new position of crisis CEO was established and was taken by one of known Czech crisis managers (www.idnes.cz). These steps were taken due to serious problems with company's largest American buyer. The crisis manager in one of the major Czech economic newspapers commented on this: -

"Restructuring and lay-offs in the company were exacerbated by problems with the biggest trading partner in the US ... It was taking 30 percent of our production. ... We have not reached an agreement about re-establishment of supplies and the whole matter will be settled via legal steps. ... Unless an agreement is reached during negotiations, we will prospectively start searching for a new partner in the US".
(Moucka, HN, 2004)

In addition, at the end of 2003, the company decided to close down its two smaller side production plants, located in two smaller Czech towns, as a part of company restructuring. The company also faces serious problems related to the exchange rate of CZK to American dollars. The strong Czech currency makes exporting to America, one of the company's biggest markets, expensive and leads to a loss of buyers (www.idnes.cz). Cheap competition from China has also had a negative impact on the company's performance.

Another serious problem came when production had to be stopped for several days in November 2003 as a consequence of a blackout of company's only heating supply. According to the company's CEO, this power failure came at the busiest time of the year. Daily losses totaled millions of Czech crowns (Firma, www.ihned.cz).

The company's revenues are predicted to decrease from 880 million in 2003 to only 700 million in 2004. Whereas in 2002 the company generated a profit of 1.8 million CZK, it is expected that it will generated loss for 2003 (www.idnes.cz).

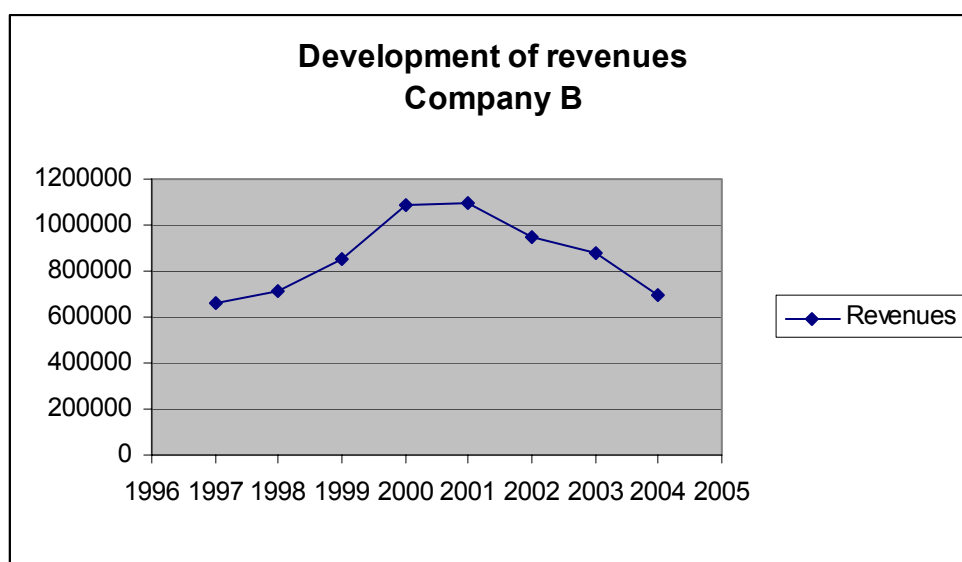


FIGURE 38 Development of revenues of company B

Shortly before this thesis was completed, in June 2004, another important change took place when the company's president retired and his daughter Zuzana took his position.

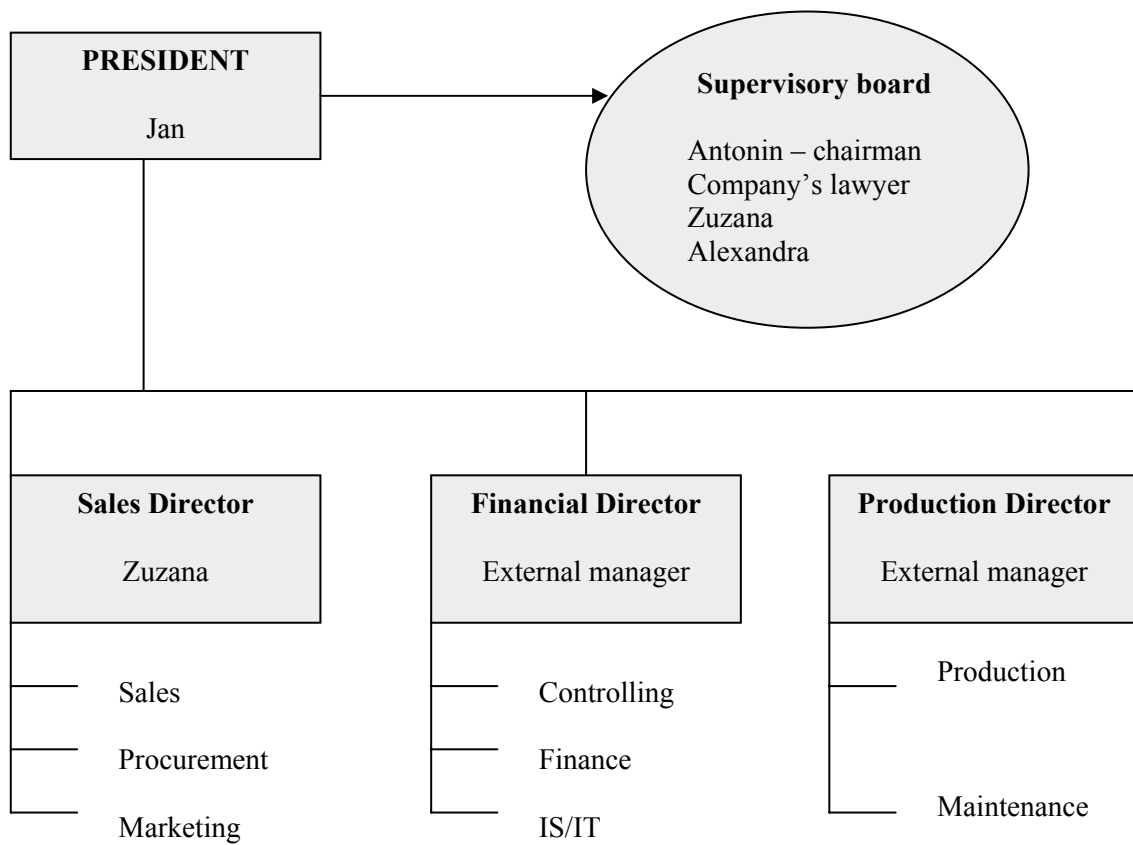


FIGURE 39 Organizational structure of company B after complete takeover (January 2001)

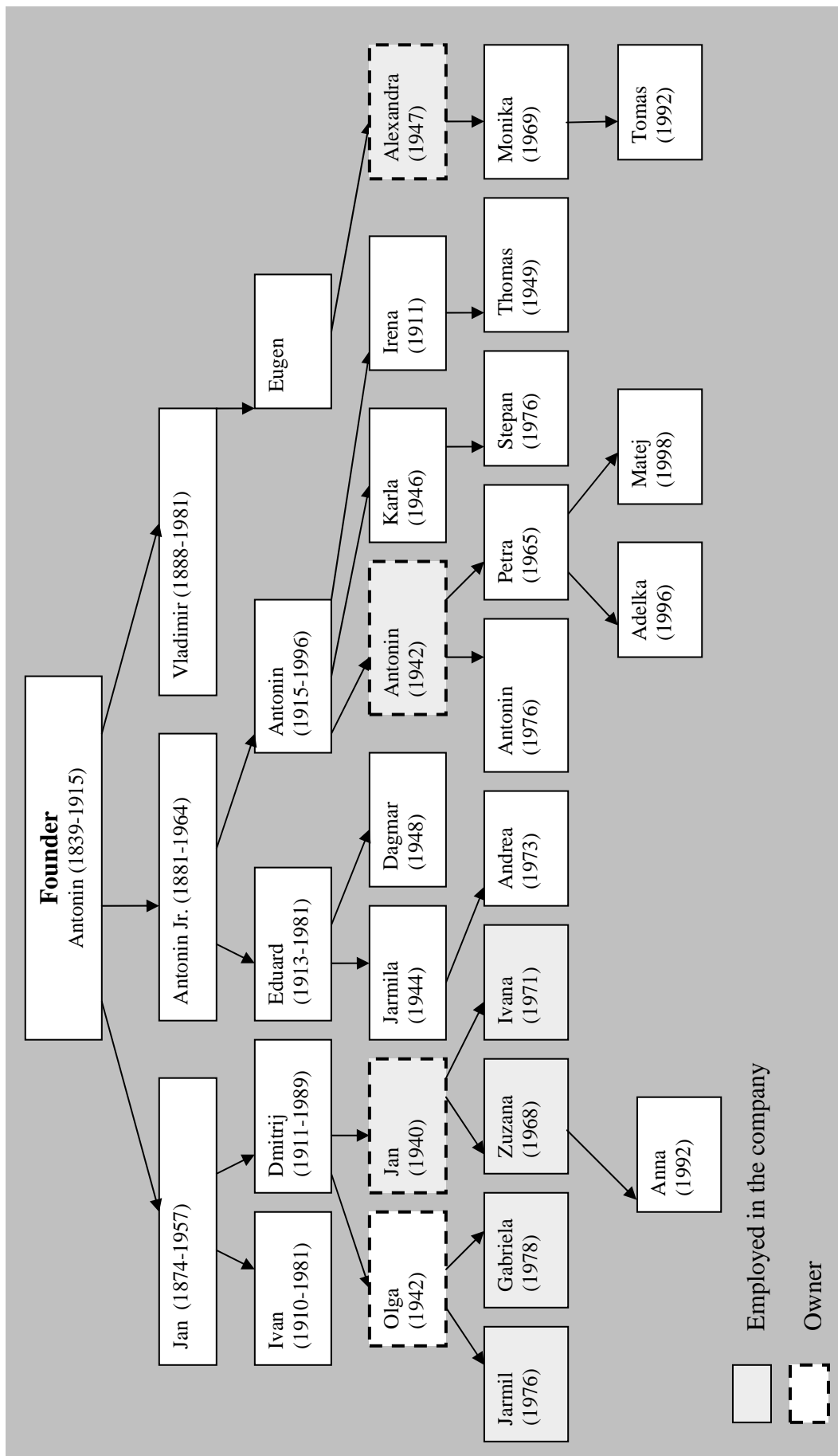


FIGURE 40 Family tree of company B

7.3 Case C - The producer of traditional kitchen appliances

Company's history

In 1817 Count Frantisek Kolowrat-Libsteinsky established a blast furnace that he named after his wife, Ruzena Ruzenina hut, ("Rose iron works"). Iron ore mined in the neighborhood was processed at the works. The business mainly relied upon small mines. Transport of wood was very difficult. The owners either ran the business at their own expense or rented it out.

In 1859 Josef, the later founder of the company, who has just graduated from a mining academy, was called from Abertamy, a small town in the Krusne Mountains. He became a manager of the business. Despite the new manager's efforts, profitability continuously decreased, but the owners were not ready to invest in the iron works. Finally the operations of the Ruzenina hut iron works were stopped in 1880 due to poor production profitability (Einige, 1932).

In 1881 the Ruzenina Hut works were rented by Josef and his business partner, an accountant. They added two cupolas to the blast furnace and for a short time both operations were running simultaneously. About one year later the partners realized that their opinions differed and Josef's business partner left the company. Josef then gradually rebuilt the buildings, extended the operations cupolas, and stopped using the blast furnace (Porkert, 2001).

In 1882 Josef brought his son, Villem, and later also another son, Eduard, into the company. Based on customer demand, various casts were made in the foundry - plates, crosses, stands, pulleys, parts for machines etc. In 1895 the production of cast iron piano frames was established. As mentioned by Villem in his recollections, this was highly innovative at the time. (Company web pages). Villem describes this period: -

"Work of not only myself but above all of my good father was from today's viewpoint clearly unbelievable, because according to a daily regime we were getting off at five in the morning and worked until late at night. But we did so according to our father's old saying 'With joy and love to work'". (Porkert, 1932, from German translated by Kubesova)

In 1895 Josef died and the firm was overtaken by his sons Eduard and Villem. At that time about 40 workers worked at Ruzenina Hut.

After a great effort the two brothers, Eduard and Villem, succeeded in buying the iron works for 23,500 gold coins from Countess Olga Kolowratova - Libsteinska in 1878. Even though the buildings were in very bad shape, the purchase seems to have been a bargain (Einige, 1932).

After the purchase Eduard and Vilem established a public company - a foundry with iron and metal works - at Ruzenina hut. They made the necessary repairs to the old-fashioned buildings and gradually reconstructed the foundry and extended production. In 1899 about 80 workers worked in Ruzenina hut (Company web pages).

In 1901 a great part of the foundry and modeling department was burnt down. After reconstruction the production of mass casts was established. In particular, the company made casts of meat mincers that were supplied to two companies in Austria. Many innovations were carried out. Gradually, the piano frames began to be supplied to all piano producers in Austria Hungary.

“Yet before the death of my father we started production of piano frames and we were the first ones who these frames produced from grey cast. It was breaking news, because until then piano frames were produced only from pulled iron..”(Porkert, 1932, from German translated by Kubesova)

In 1906 the brothers purchased another site, fitted it up to conform to the production of manual kitchen machines and put it into operation as an affiliated company. Soon the company became famous for its products all over Austria Hungary. By 1911 the factory was producing 100,000 various machines each year. It was the meat mincer, based on the American system Enterprise, that has always been the most important product in the factory production program, and still is to this day (Porkert, 2001).

In 1911 the new site burnt down. A few years earlier – another, third, plant had been purchased (Company web pages). At this time, Eduard was already seriously ill and in 1912 he died. Eduard was the one who contributed the most to the technological development of the company (Porkert, 2001).

After Eduard’s death the company passed into the possession of Villem who, despite many difficulties, continued running it and developed. He struggled through difficult periods – fires of complete plants or reduced production during the First World War (as most workers were called to arms or moved to the nearby Skoda plant for war production). One of the plants – where the production of the meat mincers was carried out - had to be closed down during these years. Considering the key nature of this product, this closure was a real disaster. In 1917 the cupola was blasted to pieces by a grenade that exploded there. In 1918 a great part of the foundry and the warehouse of models caught fire and burnt down (Einige, 1932).

“Unfortunately already during the first year [WW1] aver 70 workers [out of 100] were called to arms, and during second call except of a couple of old or weak people all other workers were taken, as well as white collars, so nothing else would had been done then closing this plant until the end of war ... In Skuhorv it looked very sad then, because most of the employees and administration staff were called to war. That is why all of the plants had to be closed down at first. Then I concentrated all the remaining old and teenage workers in the foundry Rosahutte and in the plant producing home appliances and was trying to keep the production in these plants within given circumstances. In order to retain home at least the rest of my workers I was trying to gain military orders. It was very hard because most of my technically skilled workers were at war and I could not meet the requirements of the military leaders. For this reason I lost even the remaining ones as they were transferred to Skoda works ... The railway commission in Vienna distributed to foundry works covers from gannets, we also received several wagons of these. They were used as an additive and it happened that during casting one of the granites exploded ... such unsecured granites we found then yet 9 in the consignment.” (Einige, 1932, from German translated by Kubesova)

During the war the family was engaged heavily in various beneficial activities and charities.

“During the war I was the major of the village that was why I was not called to war. I was responsible for supplies for the village. It was a very hard work, because the supplies were not sufficient and I was sending my children to the surrounding villages to get what ever was possible to eat. Also my wife was helping; she was giving the modest inventories we had way to those who needed them. They were coming to our villa. To our clients belonged also refugees from war prisoner camps and deserters of all nations. They were coming above all at night and we had, due to these humanitarian activities of my wife, problems with the state offices.” (Einige, 1932, from German translated by Kubsova)

After the war operations were renewed and plants modernized.

The establishment of Czechoslovakia and the split of Austria Hungary had a considerable impact on selling opportunities in the area of kitchen appliances. The domestic markets reduced substantially and foreign countries protected their markets by imposing heavy duties on imported goods (Porkert, 2001).

In 1921 Villem established a new plant in Hradec Kralove, producing photographic material – Fotochema. Originally it was only intended to supply the Czech market, but soon the company grew so much that it started exporting to several countries and was able to compete successfully with its German competitors (Einige, 1932, from German translated by Kubsova).

At the end of the 1920s Villem's sons, Josef and Vilem Jr., entered the company.

“In 1942 I sent my youngest son Villem to the world. After traveling through almost the whole United states and acquiring there business know how in the same way as before in Vienna, Hamburg and England, he returned in 1928 back home to later on take over the management of the plant producing home appliances.” (Einige, 1932, from German translated by Kubsova)

As the company became prosperous again, the number of employees increased and in 1929 a record number of 400,000 pieces of machinery were produced (Einige, 1932). In 1928 a company in Nachod was purchased and, despite great initial difficulties, it soon became prosperous producing radiators (Einige, 1932, from German translated by Kubsova).

In 1931 Villem's sons became his partners and a new public company was created. They managed to overcome the period of world economic crisis together, but then in 1935 Villem died unexpectedly of an embolism. Before his death he managed to write his memoirs and he concluded: -

“My greatest wish is so that my followers would continue in hard work and saving and contributed so in an overall rise of this hilly region and all my colleagues whom I at this occasion would like to express my greatest thank. ... I believe the conviction that with persistent and hard work as well as fairness one has to reach its goal.” (Einige, 1932, from German translated by Kubsova)

Modernization continued under the management of Josef and Vilem Jr. In the years that followed, the assortment of kitchen machines was enlarged with electric appliances and, after World War II, a universal kitchen robot – perhaps

the first in Europe – was produced. During the war production of armaments was included in the production program. During this period students were employed in the company and were in this way avoided the "Totaleinsatz" – displacement in the Third Reich. The company survived the war with relatively little damage (Company web pages).

Nationalization and expropriation

After the war another period of development could have started if not for disputes and difficult negotiations between the owners and the plant trade union committee. The situation came to a head by the illegal imposition of the national administration in the factory. Although this was later called off, the owners were practically excluded from the company's management. All the arrangements were confirmed and in 1948 the company was nationalized (Porkert, 2001). Villem Jr., in his unique memories, describes this period and the practices of that time in detail: -

"Severe change started right after the putsch [communist]. The company committee was formed with new members. The company chairman became Fr. Pavel from Kvasiny. In June 1945 he came up with a categorical requirement related to an immediate dismissal of [several white collars] ... that he pronounced as 'asocia'. They were all very capable and had been mostly working in our companies for over 20 years, but our struggle was in vain ... It seemed that also in Skuhrov the revolutionary wave quickly weakened, but not for too long. Already in 1945 the company committee had gained exceptional power, nationwide. Every important decision had to be co-signed by the committee, including financial transactions, as the committee was the co-owner of the company. Because they were simple/ordinary people and were not capable of taking effective measures, they were simply prohibiting all our decisions.

We were not allowed even to carry out increased withdrawals and payments of income tax, despite the fact that it was our lawful right to do so. This however drew matters to a critical point in June 1946 ... when the nationalization of the Skuhrov Company was approved [at a highly emotional company-wide meeting]. Only a couple of brave white-collar officers voted against.

... First nationalization ... was defined for foundry works with 400 and metal works with 500 employees. For this reason with our 200 employees in Skuhrov and 49 employees in Nachod this first nationalization did not involve us. This proposal [to nationalize the company] was therefore illegal ... as was the imposition of national administration ... and so negotiations ... continued. We were saying openly that they would have to cancel the national administration, but we were concerned that we would get into such trouble that it would be impossible for us to carry out other business activities, unless we signed [an agreement]. According to this agreement we were excluded from our personal activities in the factory for two years and we were only allowed to enter the factory outside working hours, accompanied by the company committee. The agreement also covered the splitting of profits, of course in favor of the company committee, but that was not important. All this was a bit of a gamble to see whether the conditions would consolidate within these two years. In 1948 it became clear that the agreement was totally discriminatory to us ... The new management [artificially] generated high profits ... that considerably increased our income taxes in new currency, and that the company committee did not allow us to pay from withdrawals and we had no new post-war currency. This [debts] caused many problems in the subsequent fifteen years." (Memories, 1997)

After nationalization the company became a plant of a local company, Zbrojovka Brno (a munitions factory). It was later transferred to the national company Moravia. In 1963 the company became a part of the national company Elektro-Praga and in 1973 it became a plant of the national company Orlicke strojirny. In 1991 the company was removed from state control. Not only did the company's organizational structure change during the 44 year period under state ownership, but its strategy remained volatile (changing from reduction with the aim of liquidation back to renewal). The production program, which at the time of nationalization consisted of about 74 kinds of manual kitchen machines and many of other appliances, was for the most part passed over to other state companies, which thereby obtained the intellectual property rights of the company free of charge. During this time the company grew obsolete and its profit level substantially decreased (Porkert, 2001).

The original owners, Josef and Villem, were not allowed to step over the threshold of their former company and they and their families were persecuted in the course of the totalitarian regime. Josef Jr. describes this: -

"When we restituted it, we found out, that we had gone into something we did not know at all ... my father was imprisoned, my uncle was allowed to study, but only part-time ... My father was imprisoned in 1959 for speculating with gold. His child was said to play with golden coins. He got six and half years for that, he was imprisoned for 4 years. Also my grandmother and granddad, they got 7 years. All on the basis of speculation." (Case C, 1/1).

On another occasion Villem Jr. mentions: -

"In 1952, at the age of 47, despite being excluded from military service and having serious health problems he [Vilem Sr.] was called to an extraordinary military exercise and was included in the PTP unit [special unit for politically unwanted citizens, characterized by very hard work] ... In the mean time his family was involuntarily moved to a solitary place in Orlicke mountains. After his return my father worked as a non-qualified worker ... Life in Orlicke mountains was very rough ... especially in the autumn and winter seasons ... In 1960 he was imprisoned ... the process was artificially constructed ... and had purely political background." (Memories, 1997).

Josef and Villem did not live to see the Velvet Revolution.

Privatization

In 1992 the state company was privatized according to Law 87/91 of Col. and 92/91 of Col. through a partial restitution of part and purchase of the remainder. Based on the laws, the restitution claim was only applicable to lands and original buildings. The rest (technology, stock, semi-finished products, etc) had to be bought by the former owners. The total price of the share that had to be purchased was set at 40 million Czech crowns. The family paid 20 million and is currently bringing a claim against the state. The family regards the method of calculating the purchase price as discriminatory. The family regards the restitution as only a partial recovery of the injustice done by the totalitarian regime. Josef Jr. comments on this when replying to the question what came to his mind upon hearing of the proposed restitution: -

“Do not talk to me about restitutions ... restitutions, they were restitutions in the Czech way. Imagine someone steals a car from you. It gets found later on and you, in order to get it back, have to pay it out. Under such conditions one should not perhaps even get it ...” (Case C, 1/1)

Similarly as in other cases, the privatization was a lengthy and time demanding process. Josef Jr. in this respect comments: -

“My father got very tired, he got old faster, and uncle died suddenly. They worked 12 - 15 hours a day, but we would probably have to go for it again. It is a family business. Have you read Tolkien? The one who carries the burden? Read it, you will understand why ... no one else could have done it. It is our duty to our predecessors and people that are here! ... it is simply an obligation to renew it.” (Case C, 1/1)

Members of the fourth generation of the family established a new joint stock company. The business was in very bad shape and the equipment was out-of-date (Case C, 1/1). The company was bought with the help of a loan that the family had to repay over several years. Its operation and recovery required a lot of effort.

The management of the company was taken over by Josef as the Chairman of the Board of Directors, Jiri, as the director and, for the fifth family generation, Josef Jr. as the economic and business manager. This period was characterized by a hectic struggle for recovery. The company managed to complete many building repairs, introduce gas into the furnace rooms and lower leakages to prevent further earth contamination etc. New machinery was purchased and the old equipment was renovated. Technology was modernized and the whole company was computerized. Sales and marketing developed substantially as a new exporting company, [] limited, was established to take care of company C's exporting and commercial activities (Porkert, 2001).

In 1998 the firm was hit by a flood that caused tremendous damage to operations. In the production hall the level of the river reached up to a height of 220cm. Thanks to the great effort of the employees, other companies and a settlement of insurance, the company has been gradually restored. In 1999 the company was awarded the quality certificate according to ISO 9001 (www.porkert.cz).

Family and business

After the restitution the ownership was divided in half and passed to the families of Vilem Jr. and Josef Sr. At present the company is owned by 6 shareholders - Josef Sr. and his daughter Olga and the children of Jiri (who died in February 2002), Jiri Jr. and Jan, and Jiri Jr.'s two brothers, Jan and Karel, who are not interested in succeeding to the business.

The following family members are directly employed by the company or involved in another way (above all membership of the board of the company): -

- The leading personality is Jiri Jr., who took the position of company director after the death of his father's cousin Jiri in 2002
- His father, Josef Sr. takes the position of the Chairman of the board of directors

- Jiri Jr., as a member of the board of directors
- Olga, daughter of Josef Sr., as a member of board of directors and as a director of the newly established trading company, [] limited
- Marcela, sister of Josef Sr., as a member of the supervisory board (Case C, 1/1) and as an independent accountant and tax advisor for the company, as well as the newly established trading company (Case C, 2/1)

For a short time one of family's distant relatives, Milan, a son of one of Jiri Sr.'s brothers was involved. However, he left after disagreements with the management of the company (Case C, 5/1).

Present position

Currently the enterprise is divided into three shops and has around 400 employees. With an annual turnover of 200 Million CZK, it is classified as a middle-sized company. However, within the foundry industry it is a small player.

The first of its shops, the Ruzenina hut foundry, produces casts of grey iron. In the second shop casts of kitchen appliances made at the foundry are worked, lined, assembled, packed and shipped to customers. In the third shop various machines are produced, such as mixing machines, tile breakers, grinding machines, conveyors etc. It also provides technical support to the other two shops.

Export of the products, which used to be carried out exclusively by the state foreign trade company, Merkuria, is now performed by the affiliated company, [] Limited, founded solely for this purpose. The company either deals with individual contractors in a particular country or via re-exporting. Its business activities have been extended by the import of stainless steel dishes, which are sold to the domestic customers of the Skuhrov Company.

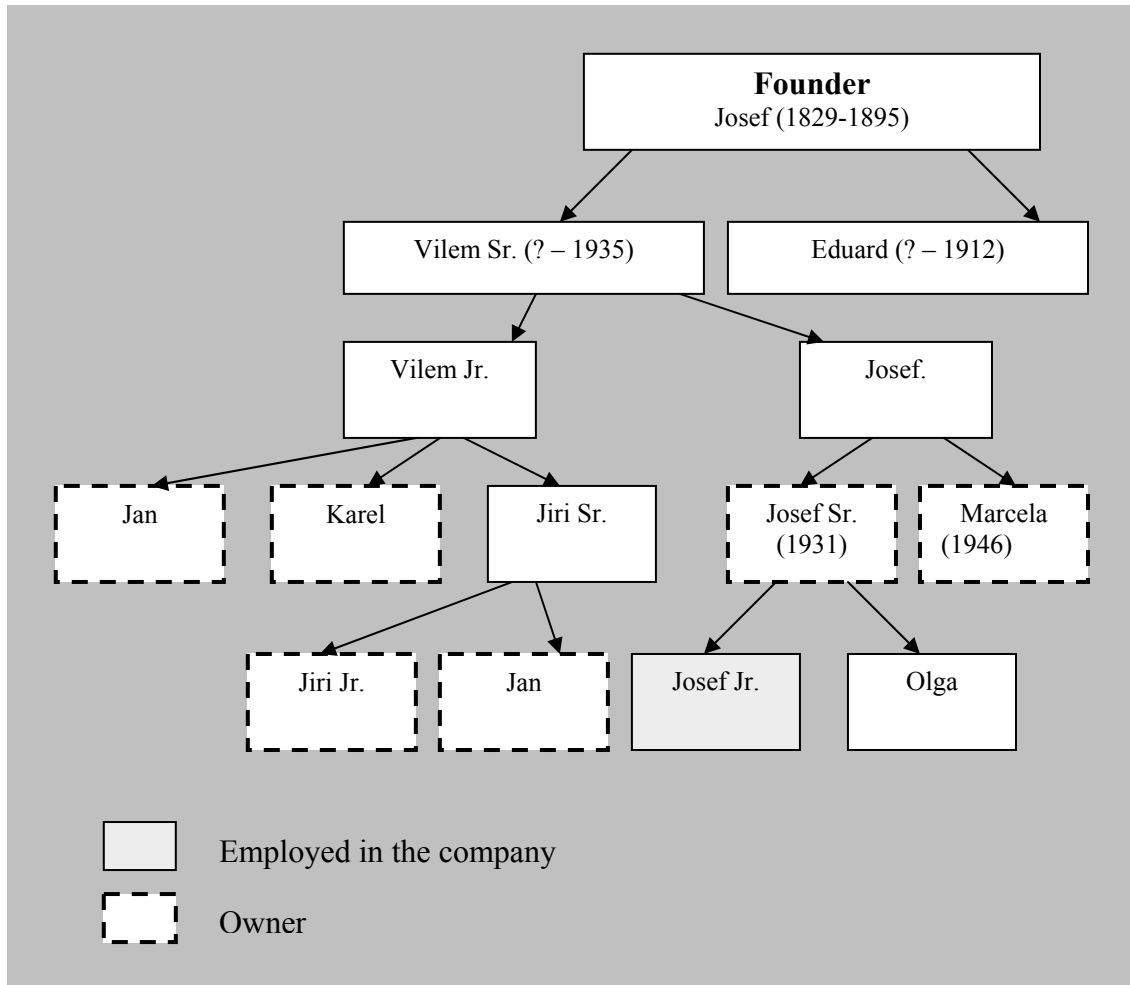


FIGURE 41 Family tree of company C

Apart from the Czech Republic, the manual kitchen machines are sold in approximately 84 countries around the world. Exports account for approximately 80% of company's production. The products are favored for their high quality, which is their strongest competitive advantage.

Over the years, the production levels of the company's main products - kitchen machines - have been, with a few exceptions, increasing. The following chart shows the development of company's exports, representing around 80% of the company's overall production.

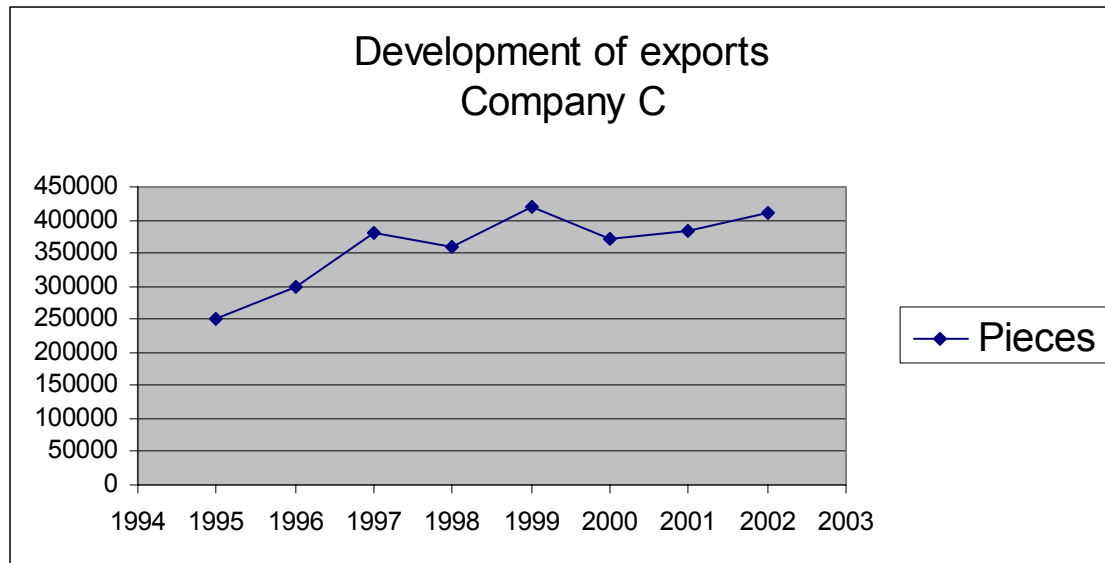


FIGURE 42 Development of exports of company C

The company's range of products dates back from an age-old tradition. The traditional kitchen machines represent the key product line. The currently range covers about 15 different types of appliance, each produced in different versions. The company's trade make is well known in many world countries. In the domestic market these are distributed by the company's own sales department. Most of the products go to wholesalers, the rest to individual shops.

The piano frames cast in the foundry are appreciated for their quality by both local and foreign piano producers. These are supplied to all Czech producers and 10 producers abroad, mainly in Germany and Austria. Currently 15,000 piano frames are produced each year. The ambition of the company is to double this number in the future.

Overall the company is aiming at gradually enlarging its product range according to the requirements of its customers.

Since privatization the company has made substantial progress, not only in relation to its production and product range (including their development and construction), but also in relation to the management of other areas such as finance, human resources, marketing and last but not least sales and their mutual cooperation and coordination.

The company has been reasonably profitable over recent years (Annual reports).

Based on analysis and consultations the organizational structure was modified in 2000 in order to come closer to a process-driven approach.

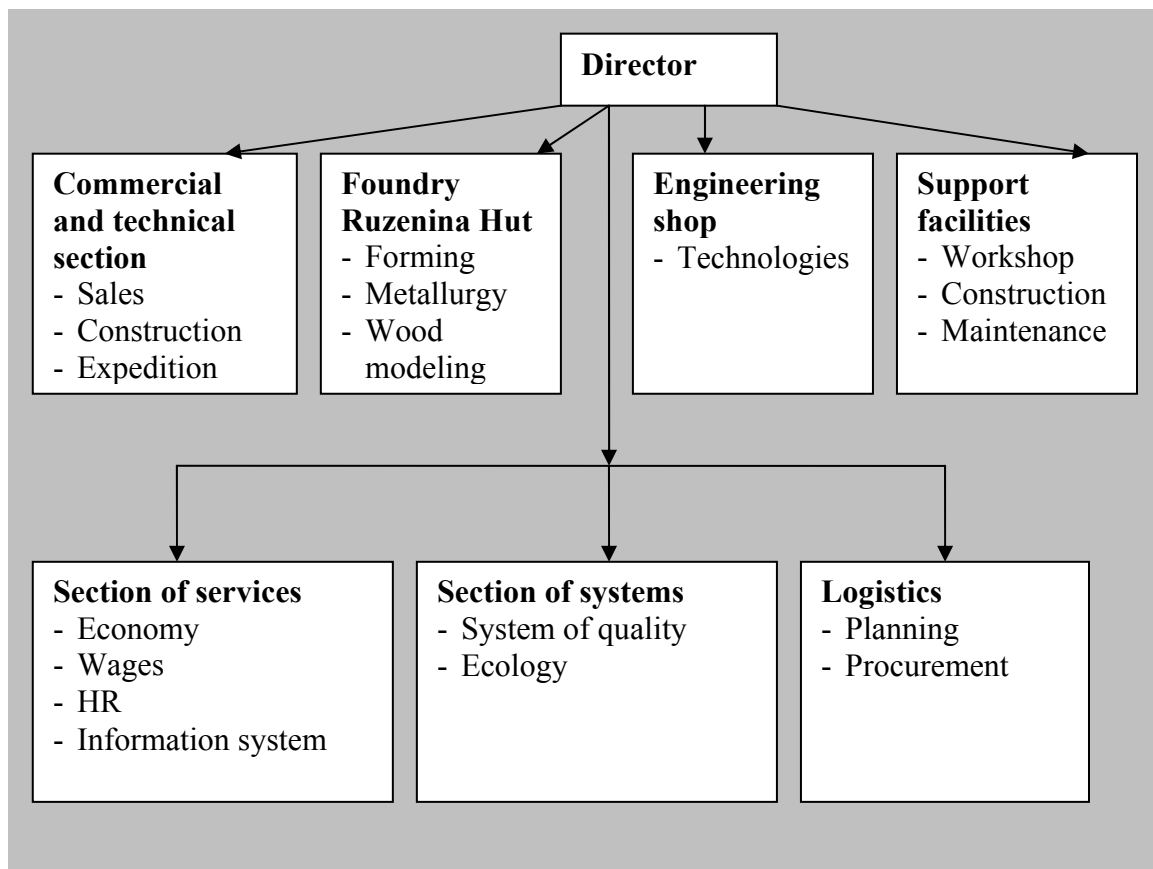


FIGURE 43 Organizational structure of company C

Very latest developments

At present Company C is still struggling for its long-term survival. Increasing costs of input material and strong price competition from China are having a negative effect on its main product lines. Major investments are also an issue. Despite these fundamental difficulties, the company is still developing. The company regards the fact that it has managed to keep increasing the numbers of its customers as well as standard of services it offers to them as a success (Case C, Questionnaire, 2004).

8 ANALYZING THE INTERVIEWS

Using the theoretical model in Chapter 5.4 this chapter aims to describe the challenges revealed by an analysis of the interviews and other information sources related to cases A, B and C. The findings related to the individual cases are presented separately as described in figure 44. Chapter 9 then presents the triangulation of the results from in the individual cases, together with their syntheses.

As with the theoretical model, the analysis identified challenges falling into all of the four main categories - challenges related to external factors, management related challenges, family business challenges and challenges connected to entrepreneurial skills and attributes.

Challenges/Case	Case A	Case B	Case C
External	8.1.1	8.2.1	8.3.1
Internal	8.1.2	8.2.2	8.3.2
Family business	8.1.3	8.2.3	8.3.3
Entrepreneurial	8.1.4	8.2.4	8.3.4

FIGURE 44 Findings related to the individual cases

8.1 Analysis of case A - The soft drink producer

Firstly the data related to case A - the soft drink producer - was analyzed. The analysis revealed that company A faces of the greatest challenges in all of the main categories included in the analytical model.

8.1.1 External challenges

Three sub-categories related to external challenges faced by company A were identified: -

- Challenges related to state sector

- Challenges related to business sector and society
- Challenges related to the economy

8.1.1.1 State sector

There are several hints throughout the interviews that the company sees at least some activities of the state and state sector as inefficient and not really effective in reacting to the specific needs of the business sphere and food industry in particular.

Inefficiency of state sector

Related to the state sector, company A is calling for the regulation of prices in the food industry. There is a lot of rhetoric about price regulations, but no really effective measures are being taken by the state to protect the food producers.

“Regulations of prices in the food industry would be suitable, but unfortunately so far all of this has been just at the level of rhetoric, but in practice nothing is really done.” (Case A, 3/1)

“The market is totally free [food market] and regulations would be necessary.” (Case A, 3/1)

In addition, company A has complained about the rather steep increase in the minimum wage, that does not take into account the specific conditions in the food industry.

“... Minimum wages required by the law grew a lot in a short period of time and in the field of food industry these are quite a burden.” (Case A, 7/1)

Confusing legislation

It is very problematic for the company to comprehend the extensive legislation regulating conditions in the food industry. In the company's opinion the legislation is confusing and messy.

“Big problem is also the area of legislation. Since 1997 many norms involving food industry have been substituted with notices and the legislation is totally confusing and in a mess.” (Case A, 9/1)

8.1.1.2 Business sector and society

In the category of challenges that overall apply to the Czech business sector and society as a whole two potential areas of challenges have been identified - lack of trust and low payment morality of buyers.

Lack of trust

The company's owner mentioned a lack of trust related to the issue of appointing an external manager for the business.

“Have you ever thought of taking in an external manager? [researcher] ... I do not know anybody whom I could trust to. So that it would be beneficial for the company and not just additional trouble.” (Case A, 9/1)

Low payment morality of buyers

The owner/manager of company A sees the payment morality of buyers as problematic.

“Very common are problems with re-payment of outstanding credits by the customers and their bankruptcies.” (Case A, 9/1)

8.1.1.3 Economy

It was revealed that company A faces several economy-related challenges. These cover above all the low availability of credit, high prices of inputs coming from the European Union, challenges related to the entry of the Czech Republic to the European Union and the non-professional approach of suppliers.

Decreasing availability of credit

The decreasing availability of credit, due to the strict policies of domestic banks when providing credit to the business sphere, is a challenge that company A sees as important.

“There are ever stricter requirements from the banks to obtain credit, more and more detailed analysis of the business are required. The situation is developing and changing all the time and is more and more complicated.” (Case A, 3/1)

High prices of inputs from the EU

The prices of ingredients and technology imported from the EU are substantially higher than prices in the Czech market and this creates a problem for the company's economy. This fact is more serious for the company with regard to the fact that its production gets sold solely on the domestic market, i.e. at generally lower prices.

“Problem is also the fact that many inputs come from the EU for higher prices but the outputs are being sold for the prices common at the Czech market [lower].” (Case A, 3/1)

“Technologies from the EU are extremely expensive. Czech producers are preferred for this reason.” (Case A, 1/3)

Entry into the EU

Related to prices is the issue of the Czech Republic's entry into the European Union and the associated changes in company's costs and the difficulties in predicting them.

"The greatest question related to the entry of the Czech Republic to the EU is what will happen to the costs." (Case A, 9/1)

Low quality of external suppliers

Company A suggests has experienced various problems related to cooperation with its suppliers for goods and services. In the interviews the owner/manager described frequent problems with deliveries of low quality goods. He also expressed dissatisfaction with work of marketing agencies that he regards as incapable of independent and creative work.

"There are generally many problems at the operational level, none of which can be pointed out as the most serious one. There is for example poorly-refined sugar with connected warranty claims, low quality glue on labels ..." (Case A, 7/1)

"The company uses several [graphical] agencies since if the same one was used all the time, it would not be able to think outside the box any more. We had to tell them everything to the last detail what we wanted graphically to be done." (Case A, 9/1)

Strong competition

Company A sees very strong competition as one of the greatest challenges it faces. Its competitors are not only numerous local or nationwide Czech producers of soft drinks, but also giant global companies such a Coca-Cola that, after the Velvet Revolution, rather powerfully entered the previously unexplored Czech soft drink market.

"The main problem of production of soft drinks has been very strong competition between the producers ..." (Questionnaire, 2004)

"Sales were increasing until 1992 when a sudden increase of sales of other soft drinks such as Coca Cola took place." (Case A, 1/1)

"Concerning prices, the situation is very tight, great competition.." (Case A, 3/1)

"The segment [soft drinks] is overall characterized by excess production." (Case A, 3/1)

"Strong is also competition from the capitally strong players as Coca Cola.." (Case A, 6/4)

"... permanently problematic is also the commercial part of the business. Competition is very strong." (Case A, 7/1)

"No matter where there are competitors everywhere." (Case A, 9/1)

"Competition is very strong and the prices are very equal." (Case A, 9/1)

Highly dynamic and complex business environment

Company A sees the very dynamic environment in the soft drink industry as a serious challenge. As the owner/manager suggests, the changes are so fast that it is highly demanding to keep monitoring them and to react to them. Any predictions or planning is almost impossible.

“Life goes faster than you can predict – nothing can be planned ahead. Producers are dependant on the development of the industry.” (Case A, 3/1)

“As for the future of [company A] it is hard to predict, everything is changing fast, to make predictions two years ahead is already too much.” (Case A, 6/4)

“... the product life cycle is shorter and shorter.” (Case A, 7/1)

“Everything is connected to everything.” (Case A, 7/1)

“In the everyday life it is not possible to apply any theories or to do any kind of an economic research or analysis, there is not time for that. In this field everything develops incredibly fast. A good example is for example the glass bottles ... the slump was so sudden that all what was possible was to react on it. There is not time for theoretical considerations what would happen if ...” (Case A, 7/1)

“When you recognize that there is something going on, you have to be permanently ready to act and to watch the trends and economic development as well as the development of the market. You must not let yourself to calm down. ... Nowadays there are quite changes in the range of products sold in the market.” (Case A, 7/1)

“At the moment the greatest problem is lack of time and things getting more and more complicated.” (Case A, 7/1)

“He [Ferdinand Jr.] does not think too much about what will be in five years because the conditions are changing incredibly dramatically. Five years ago he would not, even in his most crazy fantasies, have been able to imagine what is happening at present.” (Case A, 9/1)

“... it is absolutely specific here [business conditions in the Czech Republic] and different from the EU. The economic conditions are hard here and this is nothing other than a tough business.” (Case A, 2/1)

8.1.2 Internal challenges

Internal challenges represent a rather extensive category of challenges. For company A these cover challenges related to eight sub-categories – product and production program, technology, finance, human resources, planning and information, storing, marketing and the other miscellaneous challenges.

8.1.2.1 Product and production program

Loss of original production programs

One of the serious challenges the company faces is a loss of its traditional production programs and the connected competitive advantage – soft drinks made from its supreme quality in-house produced syrups. Alena, a close

family friend and a distant relative, describes in one of the interviews the focus on quality syrups as follows: -

“Another of his big goals [of Bohumil, pre-war owner] was also to constantly enhance the quality of the product and making tremendous effort to make sure that the inputs were of a supreme quality. All the ingredients were purely natural and the lemonade contained only natural ingredients. To get berries, he was hiring people from rural areas who were picking berries for the company - wild strawberries, blackberries, raspberries and so on. At the factory these were then processed into a high quality aromatic juices that were added to the soft drink. You could smell the berries throughout the factory.” (Case A, 5/3)

“Right since the beginning the company was maintaining the highest possible quality of its products - syrups and flavored sparkling water.” (Case A, 1/1)

Despite the fact that the company, being aware of its importance, managed to defend its own production of syrups in the 1950s when a decision was made that production of syrups in the whole country would be the responsibility of a single producer, production was eventually terminated in 1980s. As a result of this the company became one of many non-differentiated soft drink producers in the country.

“In 1953 throughout the whole country local production of fruit juices and syrups was abolished and the responsibility for the whole production was taken over by resort of ministry of food industry. The manager of the company, supported by the representatives of local authorities, insisted to be granted an exception. He succeeded and the production of syrups in the company was continued.” (Case A, 1/1)

“In the 1980s ... its own pressing of fruits was terminated.” (Case A, 1/1)

At present, in order to extend its product range to gain competitive advantage and a better bargaining position with the supermarket chains, product development and innovations are another serious and difficult issue for company A to cope with.

“The company develops new products in its own laboratory on the basis of experience and what the market requires - it is complicated.” (Case A, 3/1)

“The solution is to introduce new, non-traditional soft drinks but this is quite difficult too ... To survive means to keep researching and to concentrate on constant innovation..” (Case A, 7/1)

Unclear product competitive strategy

After the years of communism the company was left with no significant competitive advantage, either cost or differentiation related (see also the issue of remaining middle sized and the importance of cost competition and economies of scale). It seems to be highly important for the company to define a competitive strategy based on which it may be able to compete in the long term. Various statements of the owner/manager related to the issue of company's competitive advantage often seem to be rather contradictory, suggesting that no clear product strategy has yet been defined.

For example, in relation to the importance of product quality, on one hand the owner/manager seems to stress the high quality of the product, but on the other he claims that quality plays no role in the market as a competitive advantage and that, in fact, it is not possible to reach high quality, because then the price is too high.

“To keep technologically ahead and to retain the traditional high quality of the products is the main strategic focus.” (Case A, 1/1)

“What the current customer requires is a low price and larger bottles. Also additives as multivitamins increase the demand.” (Case A, 3/1)

“Advertising makes no sense. All it is is a reminder for yourself, but it is a tough business and all that matters is price and quality.” (Case A, 3/1)

“There has emerged a kind of a standard - low price and taste ‘not too bad’. If a product of a higher quality and better taste is produced, their price is usually too high..” (Case A, 3/1)

Another discrepancy seems to exist in the attitude of the owner towards differentiation. Even though he claims that it is important to get differentiated (to find vacancies) in order to attract, for example, the supermarkets, it seems that, by copying new tastes developed by mainstream players and a ‘just ok’ taste and quality, the company in reality is positioning itself in the mainstream, where, being a relatively small player, it cannot cope with the strong pressures on costs.

“To gain a better bargaining position for a small company such as [company A] when entering these supermarket chains, it is better to find a vacancy in the product range of these chains, this increases the possibility of success [to be let in]. On the other hand, also the price being pushed down plays an important role.” (Case A, 3/1)

“As an outcome of it, when [company A] came to offer its product range of goods, what the supermarkets were looking for was already saturated. For this reason [company A] tries to come up with new products that have not been yet in the market to gain better position to enter the supermarket chains.” (Case A, 3/1)

“What is very important is to get differentiated, to find yourself some specialization and differentiate from the main stream. [Company A] is older than Coca Cola for example but in practice this does not mean much.” (Case A, 6/4)

“It constantly tries to widen its product range with new flavors - cola, multivitamin drinks ...” (Case A, 1/1)

“Nowadays differentiation for example does not matter; all the products are the same. All products have to meet certain parameters. To compete for example on the basis of high quality water is not possible.” (Case A, 7/1)

“Advertising makes no sense. All it is is a reminder to yourself, but it is a tough business and all that matters is price and quality.” (Case A, 3/1)

“The clear trend is towards huge volumes of production and low prices.” (Case A, 7/1)

The owner’s statement related to the cost advantages gained from the economies of scale of large producers also seems to be slightly contradictory.

"As for costs, we try to extend the production. There is not a considerable advantage from the economies of scale for large businesses. The big companies have to invest large amounts of money into more efficient production. Bigger ones also have to invest quite a lot into innovations and extension of their ranges." (Case A, 7/1)

The final issue that does not seem to be clear is the issue of choosing distribution channels. It is evident that the supermarkets suppress prices too much for a small player such as company A seems to be. In addition, supermarkets tend to require new products to be in large plastic bottles, the margins of which are worse than those for the company's traditional small glass bottle soft drinks. Despite this, the share of supermarkets in the distribution mix is gaining in importance.

"Profits have been stable since 1993, although at a relatively low level. This is caused by the prices pushed onto the level of profitability because of large supermarket chains ..." (Case A, 1/1)

"At the moment, 40 percent of production is delivered to these smaller buyers, 60 percent to supermarket chains." (Case A, 7/1)

"The traditional 1/3 liter glass bottle soft drinks at present represent only 30 percent of the total turnover of the company ..." (Case A, 10/1)

"The 1/3 glass bottle soft drinks are as for their price fine, their margins are more favorably set, but for the future these will be just a marginal product. Their production line is in operation only 2-3 days a week which perfectly covers demand." (Case A, 10/1)

With regard to the statements above, and without any ambition on the part of the researcher to assess the correctness of the individual statements, it seems that another challenge for company A lies in defining and pursuing a clear product competition strategy.

Production capacity

A key issue to deal with is inappropriately set production capacities. Whereas for some products the production capacity is not sufficient (i.e. plastic bottles), particularly during the summer season, for other products the capacity is too high.

"It is necessary to ensure that production can meet the seasonal summer demand. ... Another already mentioned question is resolving the problem with capacity involving the production of plastic bottles." (Case A, 9/1)

"... the machine for the production of plastic bottles is of a lower capacity than the soft drink production and therefore it is necessary to produce the bottles beforehand and to store them, which is another problem since there is not enough space." (Case A, 9/1)

"There are two production lines in the factory, one for the traditional glass bottles - its capacity is too high and the production runs only a few days a week." (Case A, 10/1)

8.1.2.2 Technology

Obsolete technology, written off machinery

Stagnation and low investment during communism meant that, by the early 1990s it's the company's machinery was almost all written off and more or less obsolete. This effected the bottling technology most of all.

"During the 1950s [company A] was being permanently moved from one national company to another which caused stagnation of both production and its investments." (Case A, 1/1)

"The company was then also facing a lack of financial resources necessary for further investments. Its operational manager [Ferdinand Sr.] was trying to compensate it by his own conceptual proposals and their realization.." (Case A, 1/1)

"The instability in the 1960s and the beginning of the 1970s negatively influenced the technological quality of the product ..." (Case A,1/1)

"Worse off was the business from the point of view of technology, as the average age of its machinery and technology was 10 to 20 years. This was negative not only from the view point of the further production possibilities and necessity of investment but also from the view point of the overall value of the business - its almost written off fixed assets were decreasing its accounting value and this was important in order to obtain a bank loan.." (Case A, 2/1)

"Some of the producers already in the early 1990s were using plastic bottles, whereas [company A] has been traditionally using glass bottles. It was necessary to follow this trend and to restructure the whole bottling line to introduce plastic bottles too. It took time though and the ones using plastic bottles right since the beginning gained so better bargaining position in the large supermarket chains that prefer plastic bottles. The outcome it was that, when [company A] came to offer their new range of goods, the market was already saturated." (Case A, 3/1)

8.1.2.3 Finance

Necessity of high investments

One of the most serious issues the company has to deal with was the pressure to find constant investment. This was necessary as the company's technology was growing obsolete and the company was under pressure to innovation in the highly competitive environment of the soft drinks industry.

"The bigger producers have a classical assortment, high production volumes and low prices, the field requires heavy investments."(Case A, 7/1)

"Decreasing costs and increasing labor productivity by large investments into technology is absolutely inevitable. This investment process has been continuing permanently since 2002." (Questionnaire, 2004)

"The production has been made quicker and more flexible. In the future it is planned to take advantage of automation. Investment is an issue at all times, it is being solved on a yearly basis." (Case A, 7/1)

"... Investments have so far been to such an extent necessary - there was no real choice and investments these had to be made even when they were not necessarily financially advantageous. ... the company has had to invest in order to survive. ...

within two years the purchase of more machinery for the production of plastic bottles is planned." (Case A, 9/1).

"The production facilities currently used for the production of glass bottle soft drinks will have to be replaced by the production of plastic bottles at some point. Some of the old machinery can be used for this, but this will still require an investment of at least 5 to 6 million CZK. For this reason the company will prospectively take another loan within 1 to 2 years." (Case A, 2/1)

Lack of sources of finance

The technological obsolescence mentioned above has not only required large investments, but has also complicated the company's chances of being granted a bank loan which, due to the poor economy of company's products (see section of profitability), has been the company's only sufficient source of investment finance. Together with the ever stricter risk rules of the banking sector in relation to providing loans, obtaining external sources of financing is an issue that company A must deal with.

"Worse off was the business from the point of view of technology, as the average age of its machinery and technology was 10 to 20 years. This was negative not only from the view point of the further production possibilities and necessity of investment but also from the view point of the overall value of the business - its almost written off fixed assets were decreasing its accounting value and this was important in order to obtain a bank loan.." (Case A, 2/1)

The company's overall ability to obtain credit and its overall financial situation were substantially damaged by the fact that a substantial part of the company was not covered by restitution, but had to be bought back from the state. In order to be able to finance the buy out, the family had to take a loan of 20 million CZK. This led to the company's higher indebtedness and inability to invest in the initial years after privatization. At present the company is trying to make up for this lack of investment.

"In March 1993 after a successful completion of all the restitution requirements the company was returned to the family, the original part of it within restitution program, whereas the second part built during the socialistic area had to be purchased. To be able to do it, the family took a bank loan." (Case A, 1/1)

"... The family obtained a bank loan to finance the buy out of the business - 20 million CZK ..." (Case A, 2/1)

Apart from long term financing, especially in functional areas such as marketing or human resources, there seems to be apparent a lack of operational finance.

"Nationwide campaigns are too costly." (Case A, 9/1)

"They try to cover marketing expenditures in the budget, but corrections are necessary and change during the accounting period..." (Case A, 9/1)

"... The company does not hold enough financial resources to take an external or a new employee [to introduce formal planning]." (Case A, 3/1)

"... An external manager would probably be too big a luxury." (Case A, 9/1)

Profitability

Hand in hand with strong competition and excess production go prices. The owner regards this as the main competitive criteria. Prices are currently very low and this is affecting the company's profitability.

"Profits have been stable since 1993, although at a relatively low level. This is caused by the prices pushed onto the level of profitability because of large supermarket chains ..." (Case A, 1/1)

"The situation in the Czech food industry is quite volatile. One of the biggest problems is prices that are not appropriately set, involving both prices of inputs and outputs. Concerning the output prices, because of a severe competition in this field as well as the powerful distribution network, prices are constantly being pushed down. The prices being too low are the biggest problem!" (Case A, 2/1)

"Concerning prices, the situation is very tight, there is great competition." (Case A, 3/1)

"There are great pressures on prices that are at the edge of acceptability now and are stacked." (Case A, 7/1)

"The prices are set by the commercial side, not the end customers. The profit margins are very low." Case A, 7/1)

The owner-manager sees decreasing costs and increasing labor productivity as a solution to this trend. This can only be achieved via investment in technology.

"The main problem related to production of soft drinks is the very strong competition and the prices dictated by the supermarket chains. Decreasing costs and increasing labor productivity by large investments into technology is absolutely inevitable. This investment process has been continuing permanently since 2002." (Questionnaire, 2004)

8.1.2.4 Human resources

Company A also faces certain challenges in relation to human resources.

Accepting responsibility and poor working morale

Company A mentions that it is important to get rid of "some of the old working habits". At the moment the company feels that the employees are unwilling to accept responsibility for their own work.

"After the take over it was necessary to get rid of some of the old habits and to define new rules." (Case A, 6/3)

"... Sometimes everybody tries to get rid of the responsibility by saying that it is not his or her mistake and so on." (Case A, 7/1)

Missing motivation system

Without wishing to judge the owner/manager's opinion about the company being too small to have a formalized motivation system, it seems that the issue of motivating the employees is neglected, or underestimated, by the owner. The challenge for him in particular therefore might be to review this standpoint and to at least reassess whether or not a well suited motivation system might be one of the means by which the company's productivity can be enhanced, thereby decreasing costs and increasing the currently low profit margins.

"There is no formalized system in the company introduced involving motivation. The company ... is too small for a formal motivation system." (Case A, 9/1)

Inability to attract an external manager

A further challenge is the fact that the company is not, as it points out with regard to its economic situation, currently able to attracting an external professional manager.

"... The company does not hold enough financial resources to take an external or a new employee [to introduce formal planning]." (Case A, 3/1)

"... An external manager would probably be too big a luxury." (Case A, 9/1)

8.1.2.5 Planning and information

The company faces a serious set of challenges in relation to information and planning.

Lack of information

One of the greatest challenges the company seems to face in the area of information and planning is the difficulty in obtaining external information related to signals and trends from the market. Proper anticipation and, as the owner stresses, timely reaction to the trends in the market are strong prerequisites for company's survival.

"The greatest problem in the business is monitoring of the development of technologies used and monitoring of trends." (Case A, 6/4)

"Of a key importance is to recognize that there is something going on! And to recognize it in time." (Case A, 7/1)

"There are various market signals. ... The key thing is to recognize when it is the time to act, when to change the production program." (Case A, 7/1)

"... There is not much [information] in the highly competitive environment - no one wants to release too much information. ... Sometimes there is not enough information for a decision to be made ..." (Case A, 7/1)

"... It is difficult to obtain information about prices, production and so on. Information is hard to get, even from the confederation of producers." (Case A, 7/1)

"The area of management has been evolving all the time around the same issue, which is in which direction the bottle will develop - will it trend towards glass or plastic? If we do not manage to recognize this in time, this might be the end of the company." (Case A, 9/1)

"The current number [of dealers] is sufficient. As for the future development, it is difficult to say whether it will be enough or not. It is a question of the development of the industry and the market." (Case A, 3/1)

In the same way as the company lacks external information, hints also appear in the interviews that essential internal information might not be available to company A, for example, very basic information related to the volumes of different flavors sold. Another challenge for company A would therefore be to understand the importance of its internal information system, to establish it and use it actively as the basis for its strategy and planning.

"It is most difficult to estimate what the business can do with the resources it has." (Case A, 7/1)

"I cannot tell which kind [of company's soft drink] sells best." (Case A, 7/1)

"[Ferdinand Jr. is not able to say which of the flavors [of soft drinks it produces] makes the largest proportion of the company's turnover." (Case A, 10/1)

Lack of strategic management

Throughout the interviews there were several hints that suggested a lack of strategic management and planning. The owner/manager clearly states that he does not plan. He claims that a lack of time, the small size of the company and the fact that the market develops so fast make planning impossible. A lack of a clear strategy is also apparent in relation to products. Despite this, in one statement the owner/manager declares the importance of planning.

"For the same reason [company being regarded as too small], the company has minimum of formally set ... rules as well as formal plans." (Case A, 3/1)

"The owner does not have enough time to get engaged with formal planning ..." (Case A, 3/1)

"Timing [for changes in product range and technology] is very important, for that planning is of a key importance." (Case A, 7/1)

"He [Ferdinand Jr.] does not think too much about what will be in five years because the conditions are changing incredibly dramatically. Five years ago he would not, even in his most crazy fantasies, have been able to imagine what is happening at present." (Case A, 9/1)

In addition to strategic planning itself, there are suggestions that another important part of the strategic management process described in chapter 4.1 has been neglected - strategic analysis.

“What are the strengths of the business? [researcher]. That will only become apparent in the years to come.” (Case A, 7/1)

“In the everyday life it is not possible to apply any theories or to do any kind of an economic research or analysis; there is not time for that. ... There is not time for theoretical considerations as to what would happen if ...” (Case A, 7/1)

Due to the fact that strategic planning influences business success to a great extent, it is one of the greatest challenges for company A, and especially for its owner/manager, to increase its understanding of the importance of planning and to start managing the business strategically.

Lack of operational and tactical planning

Planning is being neglected also in various areas at an operational level.

“[About future labor needs] ... the owner does not consider these issues.” (Case A, 3/1)

“Seasonality is quite heavy and the stock normally covers only about one week of production. The period is so short because different flavors and kinds of product sell differently. The production therefore has to monitor immediate orders of these different kinds of products. No planning is possible. I cannot tell which kind sells best.” (Case A, 7/1)

“So far they [company A] have not managed to introduce any kind of marketing management system or marketing planning.” (Case A, 9/1)

Storing

Insufficient storing capacity

A challenge for business A is how to deal with its low storing capacity, as the owner/manager highlights this as a complication in the production process. Extending the storage facilities is made more difficult by the historical location of the company, as it is close to the town center and surrounded by houses.

“Also the storage space is not big enough, it will be extended. There is a problem though with space, some surrounding buildings have already been bought up.” (Case A, 7/1)

“There is currently problem with space - there is not enough capacity in the factory and especially in the warehouse, which complicates production.” (Case A, 9/1)

“Its capacity [of storage of final products] is too low, they want to extend it to the inner yard. ... For that it is necessary to bring down a small house and to agree about this with the neighbor She does not want to sell it. ... To be able to install automation in the warehouse it is necessary to extend its area.” (Case A, 9/1)

“... Machine for production of PET bottles is of a lower capacity than the soft drink production and therefore it is necessary to produce the bottles beforehand and to store them which is another problem since there is not enough space.” (Case A, 9/1)

“The ingredients are stored in large bins, the capacity of which is not sufficient.” (Case A, 10/1)

"... storage area should be extended but there is a whole number of problems connected to it ... there is a problem with old lady who owns half of building that is planned to be turned out into additional warehouse. She does not want to sell her half ..." (Case A, 9/1)

8.1.2.6 Marketing and commerce

Neglect of marketing and the commercial side of business

Throughout the interviews one of the most common issues raised by the owner/manager was production and technology. Despite that fact that technological progress is certainly very important for the company's future development, he gave the impression that technological development was being prioritized at the expense of other, equally important, business areas, especially marketing and promotion.

"Since then [restitution] the company has been investing all its resources into the development of technology and services. To keep technologically ahead and to retain the traditional high quality of the products is its remain the strategic focus." (Case A, 1/1)

"Special attention has traditionally been paid to advanced technologies [traditionally] ... technological advancement was one of company's priorities." (Case A, 1/1)

"The company has started investing all its available resources into development of technology. Ferdinand Sr. was the main initiator." (Case A, 1/1)

"Since 1993 technology has been changed entirely." (Case A, 3/1)

"Technological progress is very important." (Case A, 6/4)

"What are the skills and knowledge in order to manage business successfully? [researcher] ... [company A] belongs in the field of soft drinks to medium businesses, knowledge of technology is very important." (Case A, 7/1)

"What are the goals in the near future, let's say 3-4 years? [researcher] It will be probably necessary to extend and speed up the PET bottle line." (Case A, 7/1)

"The production has to be made quicker and more flexible." (Case A, 7/1)

"The person responsible for the commercial side of the business only has administrative competence - no decision making power has been delegated to him." (Case C, 7/1)

The assertion that the owner/manager's approach to technology is rather one-sided and that the commercial aspects of business are being underestimated might be supported and explained by the owner's, as well as his father's, educational background in engineering. IN addition, the company has historically paid great attention to technological progress.

In the same way as technological progress seemed to be given great importance in the interviews, there were several suggestions as to the low importance that the owner/managers have been attributing to the commercial side of the business, and marketing in particular. The owner/manager's view of this area of business seemed rather skeptical.

"There is no use of regional or national advertising. The best possibility how to make the products known is to sell it in large supermarket chains such as Delvita, Kaufland and Tesco." (Case A, 3/1)

"Advertising makes no sense. All it is a reminder for yourself, but it is a tough business and all that matters is price and quality." (Case A, 3/1)

"It is not possible to play on peoples emotions for example, the character of competition is very different." (Case A, 7/1)

"...the commercial part of the business is also permanently problematic. Competition is very strong." (Case A, 7/1)

"The company does not utilize any CI rules." (Case A, 9/1)

"... if there is any organized promotion happening, the only effect is that the kids run on it, take the stickers and that is it." (Case A, 9/1)

"So far they [company A] have not managed to introduce any kind of marketing management system or marketing planning." (Case A, 9/1)

Understanding the importance of marketing and introducing a functional marketing management is another serious challenge company A has to cope with.

Neglecting tradition as competitive advantage

Related to the above issues is the fact that the company is underestimating its generally valued competitive advantage - tradition. As one of the recognized Czech economic magazines explains:

"If you want to do business in the same field as your predecessors, it is good to turn to your original name or logo, or simply to the traditional front board. In our [Czech] conditions the stress onto family and tradition is perceived clearly positively, in the same way as connection to the "golden times of the first republic" [prewar Czechoslovakia]." (Profit, 24.9.2003, www.profit.cz)

Utilizing tradition for powerful marketing or marketing communication means at least exploring the opportunities as a method by which the company can differentiate itself, and this is another avenue for the owner to consider. At present it seems that tradition has been highly underestimated.

"The tradition of [company's traditional products] is nowadays no competitive advantage." (Case A, 3/1)

"The original strong image of the product cannot be taken advantage any more. Image building is useless. The greatest barrier is the acceptance of the product by the distribution channels. The original light green [soft drink, that the company was famous for] is not good enough any more to be used as a base of commercial activities. Times are different and new approaches are utilized." (Case A, 3/1)

8.1.2.7 Other challenges

Remaining middle-sized

Company A has grown very little over the past fifty years and it remains in current terms a small or a middle-sized player. This is a considerable disadvantage in a competitive market based on economies of scale and large production volumes.

“[Company A] belongs in the field of soft drinks to medium businesses ... What matters is the economy of scale, the prices are low, therefore you have to sell bigger volumes.” (Case A, 7/1)

“For the company it will be better the bigger it is.” (Case A, 7/1)

Operational problems

The attention and time of the owner/manager is to a great extent taken up by the multiple everyday problems he has to deal with on an operational level. These include problems such as deliveries of goods that are often of lower quality, operational failures, problems related to disposal of waste glass and other more general problems. The challenge for the owner/manager is to replace these through systematic measures so that he is able to pay greater attention to other important parts of the business, such as strategic management, marketing and sales.

“The greatest stress is the operations ...” (Case A, 7/1)

“... there are problems on the operational side, failures to agree with the buyers, or when someone delivers low quality goods, or goods that are not required. There are generally many problems at the operational level, none of which can be pointed out as the most serious one. These are for example poorly-refined sugar connected warranty claims or low quality glue on labels - sometimes everybody tries to get rid of the responsibility by saying that it is no his or her mistake and so on.” (Case A, 7/1)

“The efficient utilization of the capacity of lorries and connecting the routes is one of the tasks to deal with in the future.” (Case A, 9/1)

“... ingredients are delivered on time and for prices that are being constantly reduced, sometimes at the expense of quality.” (Case A, 3/1)

“Another problem is buying out the glass bottles. Shops do not want to gather them and another problem is the waste glass. There is only one company in the surroundings that purchases waste glass for low prices, or in fact for nothing so [company A] does not get anything for waste glass as a raw material.” (Case A, 10/1)

Information technology

In a highly dynamic competitive environment that requires working with information and relatively complex middle sized business management, it is difficult to imagine managing the business without a computer. However, the owner/manager has not yet had a PC installed.

"... There still is not a computer installed in his [Ferdinand Jr.'s] office, there has not been so far time for that. He does not use any software as Outlook for example for planning or time management." (Case A, 9/1)

8.1.3 Family business challenges

Continuity and succession

One of the greatest challenges of the current generation is to assure business continuity. The person with the strongest connections with the business appears to have been the father of the current owner/manager, Ferdinand Sr. who experienced the business directly and worked in it as a technician until the late 1960s. He died in 1997.

"The father of the current owner, Ferdinand jr., initialized the whole issue and became the key driving force during the restitution law suit as well as the initial years of re-establishing the business." (Case A, 1/1)

"... [Ferdinand Sr.] was watching it [company] from the distance but the family generally believed that the family's involvement in the company had been consigned to history." (Case A, 1/1)

"Although the family has been tied to the company until 1967 when Ferdinand Sr. left the company, due to political climate in the Czech Republic the family maintained no hope that it might ever run the company again." (Case A, 1/1)

"Her husband was the main driving force and the initiator [of restitutions]. ... he was working in the business and was the only one who was also able to provide all the facts and documents necessary for the restitution lawsuit. He was brought up to dedicate everything to the business - that was regarded as the first priority, the family followed. The business was a strong value." (Case A, 4/2)

"The motive [in re-establishing the business] Ferdinand Jr. mentioned at the first place was to keep the company alive, to same the family tradition. Right after the Revolution many of the traditionally large soft drink companies as well as many breweries failed and the smaller ones were closed. This was a serious threat to [company A]. Privatization was a way to save it." (Case A, 2/1)

"Ferdinand [Sr.] died in 1997." (Case A, 1/1)

His son, Ferdinand Jr., seems to have had a much weaker connection to the business, mediated only through a positive and strong relation with his father. For him business has been a more rational than an emotional matter. As his mother Ruzena pointed out, he was brought up with the idea that the business belonged to the past. In addition he moved relatively far away from the town.

"For Ferdinand Sr. taking over the business was a natural continuation of his life. ... Ferdinand Jr. was taking it more rationally, from the economic point of view. Since part of the family business had to be bought out ... he was considering whether it was economically viable ... economic factors were the key ones." (Case A, 1/1)

"... SLEPT factors influenced the decision [to take over the business], above all the easiness with what bank loans could be obtained. Also the overall profitability of the business due to the good prices inherited from the communist area." (Case A, 2/1)
 "[Ferdinand Sr.] felt positive about helping his father, with whom he had a very strong relationship to develop the business..." (Case A, 2/1),

"Her son [Ferdinand Jr.] had a very good and strong relation with his father. When the idea to take over the business emerged, he went for it 'as a team with his father'." (Case A, 4/2)

"He [Ferdinand Jr.] accepted that the family tradition would be kept, he agreed to work in the business. He probably subconsciously related himself to the business too but since he studied in Brno and was quite detached from it, he rationally regards [company A] as something that is more or less his employment and a part of his father." (Case A, 5/3)

"In the socialistic times the business belonged to the past, in this way also the children were brought up. They [family of Ferdinand Sr.] did not talk to the children about it. Ferdinand Sr. also perceived it in this way, that the business belonged to the past." (Case A, 4/2)

"The son of Ferdinand Sr., Ferdinand Jr. graduated from the Technical university of Brno and his life story went in a completely different direction than ZON. Because of the strong relation to his father, who still had a strong attitude to the business, he decided after 1989 to help him in re-establishing the business. ... Ferdinand Jr. has been managing the business in spite of heavy competition successfully, but it seems that he is not so tightly connected to the business as his father. It might be also as a result of the changing social environment that is much more commercially oriented." (Case A, 5/3)

With respect to the children of Ferdinand Jr., especially his son Robert, the connection with the business is not clear. There are certain suggestions that an awareness of the family business and a pride in it was passed onto Robert by his grandfather, with whom he had a very positive relationship and who used to tell him a lot about the business when Robert was a small child. On the other hand though, both Ruzena and Ferdinand Jr. regard the connection of the third generation of the family to the business as at an end.

"Robert also has a very strong relationship with his grandfather. He is intending to take over the business one day, which is for him a kind of voluntary obligation to his grandfather." (Case A, 5/3)

"...His [Robert's] relation to the business is stronger since his grandfather used to tell him about business when he was a small child, Robert strongly appreciated the idea of taking over the business and intends to enter the business one day." (Case A, 5/3)

"At the moment it is the grandson, Robert, who has the strongest attitude to the business. He loved his grandfather very much and who was told by him a lot about the business when he was a small child. He even promised to his grandfather to complete the university to gain certain professional credit so that the employees would accept him, taking him easier as an expert. ... The company regards him as the one who would continue in the family tradition, but only after he gains certain experience outside the company." (Case A, 5/3).

"For the children [company A] is nothing more than their father's employer. They have never been brought up to have any relation (sentiment) to it ..." (Case A, 2/1)

"For Robert, son of the current owner, the return of the company was quite a normal matter, he did not care about it, he was fifteen. For him [company A] was nothing more than his father's employer. As for the prospective that [company A] might become one day his business, he considers this as a possible future development, but so far it's too early to start considering this seriously. He cannot say to what extent his father expects him to enter the company in the future. ..." (Case A, 6/4)

It seems from these statements that re-establishing family pride and assuring business continuity in the youngest generation is one of the greatest challenges for the current owner/manager or the older generation.

Apart from re-establishing the relation of the children to the business, this family firm also faces another, subsequent, challenge - management succession. This succession includes not only passing on the management of the business (as well as other soft attributes such as business know how, business personal contacts etc.), but also handling the division of ownership. These aspects seem to have been overlooked by the current owner/manager so far and the expectations of the different generations do not seem to have been articulated properly.

"She [sister of Robert] is also a student of business and economics and as Robert puts it, it might happen that she will be interested in entering [company A]. ... It is though a distant future too. ... They will start solving the problem when it occurs." (Case A, 6/4)

"As for his [Ferdinand Jr.'] son entering the company, he does not influence him in any way, and lets it develop as it develops. ... if he is interested he is welcome. But it is hard to say how this will all develop. ... He does not push his son in any way, it is him who has to decide. As for his daughter, he comments 'You know what it is like with women. ... Girls will have their family. It also depends on her future partner.'" (Case A, 2/1)

"As for the suggestion that [company A] might one day become his business [of Robert], he considers it as a possible future development but so far it is too early to start considering this seriously. He cannot say either to what extent his father expects him to enter the company in the future. ... he is leaving this to the future. ... [company A] is at the moment just his father's employer." (Case A, 6/1)

"At the moment he [Ferdinand Jr.] manages the company on his own and so far there is no reason to change this, since he can manage." (Case A, 7/1)

Values

Closely related to the previous issue is another challenge - re-establishing traditional values in the family and the business. To the representative of the older generation, Ferdinand Sr., the business seemed to be a strong value in itself and he was described by other family members as having also other strong moral values. However, in the case of the youngest generation the issue of values seems to be weaker.

"He [Ferdinand Sr.] had a strong sense of duty and responsibility. He was a very strong person. He also had very strong moral values, since his family background was also quite conservative and traditional." (Case A, 4/2)

"The business was a strong family value." (Case A, 4/2)

"For the family of Ferdinand Sr. the company meant the whole life. He invested all his money and power and time to bring it to success and to make it flourish. All the life activities were subordinate to this goal ... every unit of profit that the business gave he re-invested instead of spending it on the family needs." (Case A, 5/3)

"Family was a strong value for him [Robert's grandfather]. ... and he always played fair! ... he also appreciated people that understood their professional field well and who were trying hard.." (Case A, 6/4)

"If he [Robert] had to say what three values his father would want to pass on to him, he does not know, saying that his grandfather did not try to put any rules or principles on their shoulders." (Case A, 6/4)

"... This company is not a family business in the right sense ..." (Case A, 9/1)

Sibling relations

Related to the issue of future succession is also the issue of managing the relationship between the siblings, their prospective future roles and their mutual cooperation in the business. Even though there do not seem to be any fundamental discrepancies in their relationships and Robert himself admits that he could imagine working with his sister, there are also potential traps. Their father explained that there is a potential danger of tension between them, as they both have dominant personalities.

"With his [Robert's] sister they have no problems with each other and theoretically he could imagine that they would work together." (Case A, 2/1)

"Would the children be able to cooperate? [researcher] I am not sure, I do not know! ... His son as well as his daughter are both dominant, there could be possibly a problem - tension." (Case A, 9/1)

8.1.4 Entrepreneurial challenges

Lack of business knowledge and experience

One of the challenges company A faces is a lack of sufficient business expertise, particularly in managing the various functional areas of the business. This appears to be true in relation to marketing and strategic management, as well as management and human resources (see chapter 8.1.2). Neglecting these areas may cause problems. The most urgent issue is that the company's product and overall competitive strategy is unclear. Wrong decisions are being made, with long term consequences. For example, the owner/manager explained that in 1994 a new glass bottle washer worth several million CZK was installed, regardless of the fact that, as the owner manager pointed out in one of his previous interviews, in the early nineties there were already signs of the coming trend - PET bottling.

"Some producers in the early 1990s were already using PET bottles, whereas [company A] had been traditionally using glass bottles. It was necessary to follow this trend and to restructure the whole bottling line to introduce PET bottles too." (Case A, 3/1)

"The problem is that in 1994 a new bottle washer was installed here and now it is not used to its full capacity." (Case A, 10/1)

The lack of sufficient business expertise may combine with the effects of relatively short experience of the owner and the whole family in business and market conditions.

Attitude to risk taking and challenges

The owner/manager's attitude to risk taking, one of the features of an "entrepreneur", has not been entirely positive. He does not regard the goals of "achieving something" or "coping with challenges" as motivators.

"Even though risk is a necessary part of this profession [being a businessman] I do not like to do things at any expense." (Case A, 7/1)

"Will to realize something 'big' in his life ... was no strong motivation for Ferdinand Jr., ...since the beginning [after taking over the firm] he has regarded the business as a set of hard ongoing every day work, rather than dreaming about big future personal achievements."(Case A, 2/1)

"What motivates or demotivates you? [researcher] Problems demotivate ..." (Case A, 7/1)

Lack of vision

Related to the issue above are also certain suggestions related to the lack of vision on the part of the owner/manager, both on a personal and a business level.

"He [Ferdinand Jr.] has never thought of any higher ideals or fantasies, everything stems from the possibilities. As for the future, there is nothing that he would be too attached to - a plan, goal, idea. Everything stems from current possibilities. This kind of consideration he does not allow. What one wants is not in such a situation so important. ... None of his predecessors had a vision 100 years ahead. Visions were not the driving forces." (Case A, 7/1)

"Will to realize something 'big' in his life ... was no strong motivation for Ferdinand Jr., ...since the beginning [after taking over the firm] he has regarded the business as a set of hard ongoing every day work, rather than dreaming about big future personal achievements." (Case A, 2/1)

Underestimation of networking

It seems that, despite the fact that in one of his statements related to positioning goods in shops the owner/manager stresses the importance of a good relationship with the shop owner, the owner/manager generally underestimates the positive role of networking in business.

"Personal contacts play no role in business, people in important positions exchange and it is necessary to negotiate with who is at the moment in the particular organization." (Case A, 3/1)

"It is possible to influence the positioning of the products in the shop but that has to be done individually with every shop.. ... it all depends on how ready the shopkeepers or owners are to help. Relations are important!"(Case A, 9/1)

As one of the important functions of networking is gaining often unofficial business information, it is likely that neglecting networking might explain the perceived lack of information.

"He [Ferdinand Sr.] does not know, if he can give the names [of closes competitors], all those operating in this field and who are visible. ... They are hard to specify, since it is difficult to obtain information about prices, production and so on. Information is hard to get even from the confederation of producers." (Case A, 7/1)

"There are no unofficial sources [of information] used for the business – since there are not too many in the highly competitive environment – no one wants to release information." (Case A, 7/1)

Attitude to learning and education

The owner/manager's attitude to learning or, strictly speaking, formal education is not generally positive. He regards learning and education as too detached from practical life and therefore not of any real help. Education does not seem to be a priority as, according to the owner/manager, there is no time left for it.

"One has to learn something all the time. The problem is time. What is done at the universities is far removed from reality, I would like a university lecturer to be in my place ... there is a big different between theory and practice. It is absolutely different." (Case A, 7/1)

"Education is what one is left with when he or she forgets everything that he or she has learnt." (Case A, 7/1)

"There is no time right now for further education!" (Case A, 7/1)

Slower decision-making

From his interviews there are hints that the current owner/manager would rather be a slower decision maker who takes his time, than a quick, impulsive one. Slow decision making might be potentially contradictory to the generally highly dynamic business conditions in which the business operates.

"He [Ferdinand Sr.] does not consider immediate decisions as optimum, he likes time." (Case A, 7/1)

"Decision making is based on a number of factors. Often there are two variants and a number of advantages and disadvantages. ... Some issues are evaluated analytically." (Case A, 7/1)

"He [owner manager] is permanently concerned as to whether they will succeed in what they want to achieve. 'Will it work out?' 'Was it a good decision?' 'Can we manage as for the costs?'" (Case A, 7/1)

Self employment as no advantage

The owner/manager does not see self-employment as giving him any extra advantages compared to being an employee. As entrepreneurial people usually prefer self employment as a way of gaining their desired freedom, this fact might be another indicator that the owner's nature is not truly entrepreneurial.

"This self employment does not give me any special advantages; in fact this is again an employment. If the business goes well it is good, but if there are problems it would be better to be a normal employee." (Company A, 7/1)

Lack of time and time management

Frequent complaints of the owner/manager about lack of time seem to suggest poor time management. This is supported further by the fact that the owner manager does not use any software or information technology for organizing his daily agenda.

"The owner does not have enough time to get engaged with formal planning ..."
(Case A, 3/1)

"One has to learn something all the time. The problem is time." (Case A, 7/1)

"There is no time right now for further education!" (Case A, 7/1)

"There was no computer installed in the office [researcher's observation]." (Case A, 7/1)

"At the moment the greatest problem is lack of time ..." (Case A, 7/1)

"... There still is not a computer installed in his [Ferdinand Jr.'s] office, there has not been so far time for that. He does not use any software such as Outlook for example for planning or time management." (Case A, 9/1)

"... He [Ferdinand Jr.] said that he would like to learn English. Unfortunately there is no time for that." (Case A, 10/1)

Coping with stress and relaxation

It seems that doing business imposes permanent stress onto the owner.

"He [owner] is permanently concerned as to whether they will succeed in what they want to achieve - will it work out? Was it a good decision? Can we manage as for costs?" (Case A, 7/1)

"How do you relax? [researcher] There is not too much time for relaxation, I like being at home or going to the cottage." (Case A, 7/1)

Leadership

Certain difficulties concerning leadership also seem to be apparent.

"It is always difficult to work with people. It is important is to direct them and persuade them to go for a new and perhaps not very popular thing." (Case A, 7/1)

8.2 Analysis of case B – The piano producer

The second of the cases analyzed was the case of the piano producer. Case B was analyzed using the same theoretical framework. This classifies the challenges into four basic categories, related to external factors, management related challenges, family business challenges and challenges connected to entrepreneurial skills and attributes.

8.2.1 External challenges

External challenges identified in Case B can be seen as falling into four sub categories: -

- Challenges related to the functioning of the state sector
- Challenges related to the business sector and society
- Challenges related to the Czech economy
- Other challenges

8.2.1.1 State sector

Company B sees the state sector as inefficient. The company's current president, former sales and marketing manager Zuzana, points to the inability of the government to help Czech exporters handling the depreciating Czech currency as well as the lengthy and highly complication restitution process, which took almost ten years. In addition she draws to attention the limited support that the Czech government provides to traditional Czech firms, while also favoring firms with foreign capital. She has also called for tax breaks in order to appeal to the relatively large investors that company B needs to attract. Finally, company B believes that the flow of information from the government to the business sphere and relations with the local municipal authorities are poor.

Inefficiency of the state sector

One of the greatest challenges companies B faces is the inefficiency of state sector. The company regards the approach of the government to handling impacts of the strongly appreciating Czech currency and the Czech pro-export policies generally as highly inefficient. It also criticizes the non-existent export strategy of the Czech Republic for its entry into the European Union.

For company B the situation involving the permanently appreciating Czech currency is a serious matter. 95 percent of the company's production goes abroad. As the majority of contracts are agreed for fixed prices beforehand (see also Finance section relating to the Czech currency exchange rate), unpredictable fluctuation in the exchange rate cause huge loses. Financial risk instruments that the company uses only help to decrease these losses and cannot compensate it entirely.

As a result of this dissatisfaction, company B became one of the founding members of the Export association, the aim of which is to take effective measures in making the government aware of and dealing with the difficult situation Czech exporters find themselves in.

“At the moment we struggle with the Czech currency exchange rate. There are, for well known reasons, no attempts of the government to solve this situation.” (Case B, 5/1)

“Do you regard state support to Czech exporters as sufficient? [researcher] No, what would help are tax holidays.” (Case B, 7/1)

“When in April Czech exporters in the so called Turnov appeal [that announced the establishment of the Export association] asked the government to prevent the Czech currency from further appreciating, they hit a wave of criticism. The exporters did not expect though that the government would, via a weak currency, sweep the pathway to the world for them. All they asked was a stable economic and currency environment where they could produce quality and competitive products. ... ‘Problems of export are added to exchange rate problems. Various instruments assuring the exchange rate risks only decrease our losses, but are not an ultimate solution. That is why we founded the Export association, through which we want to lobby for more efficient activities of the key institutions that influence the business climate.’ Adds the financial director of [company B].” (Profit, 7.10.2002)

“Governmental strategy before our entry into the EU will considerably influence the starting position of home producer after opening the market. From the [Export] association we expect the possibility of influencing this strategy....Our position is dependant on multiple factors and so far I have not seen that anybody [the government] will pay attention to it in a complex way’ said Ivan Tvrđik, general manager of Foma Bohemia. The financial director of [company B] is of the same opinion ...” (Tyden, 21.10.2002)

In addition, the complex restitution process provides evidence about the state's inefficiency.

“Restitutions took over 8 years - it was a complicated process.” (Case B, 1/1)

“Privatization had two phases. It was very complicated, in the restitution we got only 4 percent returned.” (Case B, 2/1)

“We worked [on the privatization process] almost 8 hours a day for 6 to 8 years. Unfortunately we did not manage to make it shorter. My father had the whole office equipped only for the privatization of the company. He dedicated a terrible amount of time to it.” (Case B, 2/1)

Finally, company B feels that the relationship with the local government does not function very well. Regardless of the fact that company B feels it is helping the city and the local community in various ways, there is very little will on their part to cooperate. This is the case despite the fact that company B is one of the most important businesses and one of the biggest employers in the city.

“At the beginning we were trying to give some hints to the magistrate that we were striving for privatization to gain their support, this did not work out though ... But I have to say that the city does not try to assist... everything is a problem, they have no money ... I do not want to complain, but ... we always helped ...” (Case B, 2/1)

Discriminatory practices

The fact that the Czech government favors foreign capital and the different level of support received by Czech and foreign firms is another complaint that company B mentions in relation to state business policies.

“It perhaps is not even worth describing that the state does not support the traditional private Czech firms in any way, state support is only provided when foreign capital enters a business.” (Case B, 4/2)

Taxation

In respect to taxation, company B, as a relatively large investor, has called for tax holidays.

“Tax holidays would help us.” (Case B, 5/1)

“Do you regard state support to Czech exporters as sufficient? [researcher] No, what would help are tax holidays.” (Case B, 7/1)

Late delivery of information

A serious issue that company B has to cope with is the poor or late flow of information from the government to the business sphere. This has been commented on by the company’s financial manager in a major nationwide daily economic newspaper in respect to the country’s entry into the EU.

“The government must not be scared to say, what costs we should expect, for example costs related to work safety [after entering the EU]. Or how it wants to deal with leveling the wages. We can only presuppose that. If changes get announced from one day to another we do not manage to handle them [financial director of company B].” (Hospodarske Noviny, 11.2.2003)

8.2.1.2 Business sector and society

Within a cluster of challenges related to the business sector and society, three major challenges were identified - envy, persisting poor payment morality and the low standard of skills and knowledge of the Czech workforce.

Envy

Coping with envy was an issue Zuzana, daughter of the post-revolutionary founder and the current sales and marketing manager, stressed as one pervading issue. She mentioned envy both in the interviews with the researcher and also in an interview for one of the major Czech weekly economic magazines.

“But also, everybody was envious about our name, without being capable of understanding, what it was the family had to go through. That we had nothing. People thought that with this name we had to be rich ... that we had gold buried at

home. There were also connected problems, both, at school and in society.” (Case B, 2/1)

“Is that you the bourgeois? she [Zuzana] was welcomed at school. All of the sudden she turned out to be in two worlds – one at home and the other outside. ‘I was solving the issue of relations for my whole life. Many times I was surprised myself when I found out that some friends were not taking me such as I really was only because of the family I was from. ... Nowadays I do not perceive it that much. People that I keeping touch with know that it is not easy, and the rest, they can think what ever they want to ...” (Hospodarske Noviny – Vikend, 27.9.2003)

Bad payment morality

The poor payment morality of its buyers - both Czech and foreign companies - causes financial problems for company B.

“... Currently the greatest problem is ... delayed payments, especially from Germany and Spain ...” (Case B, 10/5)

“An average collection time is in the Czech republic around 70 days, in the past payment morality used to be substantially worse in the Czech Republic, currently though there are problems in the whole of Europe and around the world, the situation is becoming equal. it is important to have the majority of payments insured by letters of credit or own insurance.” (Case B, 10/5)

8.2.1.3 Economy

The most serious challenge that the company faces out of those issues related to the functioning of the Czech economy is the strong Czech currency exchange rate. Apart from this there are also other important issues such as coping with the instability of the Czech economic environment, strong competition from China, low quality of products and services from suppliers, or challenges related to the EU entry. Last but not least, company B has also had to deal with the effects of the generally unstable world market in musical instruments.

Strong Czech currency exchange rate

Company B's key challenge in the area of finance is the appreciating exchange rate of the Czech currency. Despite the fact that the company utilizes various risk instruments to cover the risk of exchange rate fluctuations, these, as its financial manager pointed out, do not cover the exchange rate losses entirely.

“So for example now the Czech currency is strong. That is our big problem.” (Case B, 3/1)

“The Czech currency activities affect us in all respects ... because it involves large sums and the Czech crown is strong, that is a terrible disadvantage.” (Case B, 3/1)

“At the moment we struggle with the Czech currency exchange rate.” (Case B, 5/1)

“Do you currently face any problems in the area of exporting? [researcher] Yes, the strong exchange rate of the Czech currency. ... 95 percent of revenues is in foreign currencies. As a result of the exchange rate we are losing tens of millions of CZK a year.” (Case B, 6/1)

"... currently the greatest problem is the strong Czech currency ..." (Case B, 10/5)

"... the greatest burden currently for us is repayment of the privatization loan, combined with decrease of revenues resulting from appreciation of the Czech currency exchange rate." (Case B, 10/5)

"What have currently been the biggest issues to deal with in the area of finance? [researcher] ... assuring the exchange rate risk for the appreciation of Czech currency, as 95 percent of revenues comes from abroad." (Case B, 10/5)

"Do you use any financial instruments to cover the exchange rate risks? [researcher] yes, in cooperation with banks, but these instruments only reduce the losses that stem from the current appreciation tendencies of the Czech currency." (Case B, 10/5)

"The reason of this decrease [in profits] was the Czech currency exchange rate that took away about 72 million CZK in revenues away from the business." (Hradecke Noviny, 16.4.2003)

"As a result of appreciation of Czech currency planned revenues decreased by 15 percent [financial director]." (Hradecke Noviny, 19.2.2003)

The situation is also made worse by the fact that prices negotiated with buyers must be fixed in advance without the possibility of adjusting them should the exchange rate unexpectedly change.

"In the course of the whole of this year the Czech crown grew against the dollar, so our revenues decrease by 10 to 15 percent ... Purchasing prices of pianos were agreed with the foreign partners in advance, before the appreciation of the Czech currency and therefore these agreed prices had to be kept [financial manager]." (Hradecke Noivny, 26.11. 2002)

Availability of credit

Even though, due to its good credit payment morality and its long-term relations with banks, company B sees the availability of credit as good, it alludes to the issues of strict control imposed by the bank over its debtors.

"Are credits easily obtainable to you? [researcher] yes, totally. ... Because we have a very good reputation ... Since we repay, our payment morality is really very high ... when they saw, that everything is working well, after several audits of course, when the banks were here, because it a huge about that we borrowed, then today, it is no problem to borrow from them. Of course then monitor us permanently... but it is no problem." (Case B, 3/1)

"Possibilities are sufficient, as a result of the company's good credit, long-term relations and history." (Case B, 10/5)

Instability of Czech business conditions and world market

Even though, when directly asked about the instability of the Czech business sector, company B proudly answered that it was not an issue for a company with a long tradition such as theirs, there are hints that the instability of the Czech business sector may be an issue for company B in reality. This can be judged from the fact that company B became one of the founding members of the Export association, the main aim of which is calling for and influencing

development of a stable economic and currency environment in the Czech Republic.

“Do you think that the instability of Czech business sector is a serious obstacle to business development? [researcher] Not for us. We are respectable company with a long tradition.” (Case B, 5/1)

“When in April Czech exporters in the so called Turnov appeal [that announced an establishment of the Export association] asked the government to prevent the Czech currency from further appreciating, they hit a wave of criticism. The exporters did not expect though that the government would via weak currency sweep the pathway to the world for them. What they asked only for was stable economic and currency environment, where they could produce quality and competitive products. ... ‘Problems of export are simplified onto exchange rate problems. Various instruments assuring the exchange rate risks only decrease our loses, but are not an ultimate solution. That is why we founded the Export association, through which we want to lobby for more efficient activities of the key institutions that lead to stabilize of the business climate.’ Adds the financial director of [company B].” (Profit, 7.10.2002)

In addition to the unstable conditions in the business sphere, company B has also had to cope with the instability of the global musical instrument market.

“Lower sales were caused also [apart from the impacts of currency exchange rate] by the situation in the musical instruments market. in the case of small pianos for example, sales decreased by 852 pieces ... At present the market is endangered [according to company’s president] by the Iraq war.” (Hradecke Noviny, 16.4.2003)

“She [Zuzana] added that as a result of the war [in Iraq] transport conditions for example can change. ...’ A great amount of our consignments are directed to America. It can be said that these orders represent 35 percent of our revenues. If the American territory changes its policy of trading with Europe, then this will impact us too. So far we are not capable of predicting the development of the present situation.” (Hradecke Noviny, 21.3.2004)

“Everything will depend also on whether the conflict between the US and Iraq would start, which would negatively influence the interest of our American partners. Provided the conflict is ongoing, we could not probably do without making people redundant.” (Hradecke Noviny, 16.2.2003)

“[company B] is fighting above all with a disadvantageous exchange rate of the Czech currency towards the dollar and with a loss of some buyers in America ...” (www.idnes.cz; 8.4.2004)

“But the company’s management informed us already last year that demand for pianos has decreased and that the company has had to decrease their production by 2000 pieces a year.” (Mlada Fronta Dnes, Liberecky kraj, 30.1.2002)

“In the second quarter of this year, without any previous signs, demand for our pianos decreased by 25 percent. We therefore decided to close down the plant in Liberec, as it was out of our five plants in the worse shape.” (Liberecky den, 3.10.2001)

Strong competition from Asia

A serious future challenge for company B is dealing with price based competitors from China and other Asian countries.

"We have to adjust to the situation in the market. If the Czech currency further appreciates and Chinese products flood the world markets, it will have negative impacts on the utilization of the work force. Apart from rising work productivity, reductions [in number of people employed] would have to take place." (Hradecke Noviny, 19.3.2003)

"The production manager [of company B] sees the success of Detoa company [one of the largest Czech exporters to Asia] as a massive development of production of pianos in this territory..." (Hospodarske Noviny, 7.2.2003)

"In recent years they have been fighting Asian competition. Out of almost 450,000 pianos produced every year around the world, about 300,000 come from Asia, leaving 50-100,000 for Europe and America." (Hospodarske Noviny, 27.9.2002)

"Cheap competition from China also has unfavorable effects [onto company B]." (www.idnes.cz; 8.4.2004)

Low quality of external suppliers

Company B has also had to deal with low quality service or products that it receives from its suppliers. The clearest example is the case of the company's piano case supplier. The supplier has almost held a monopoly in this area and was therefore of key importance to the company, but the quality of its products and deliveries has been alarming. Company B was finally forced to enter the supplier's company as a shareholder in order to be able to influence the business.

"In some cases we had to become shareholders in the companies to keep what we need - quality! What did that involve? [researcher] These were for example ... piano cases ... and we had such great problems with their deliveries ..." (Case B, 3/1)

"How about quality? [researcher] That is a problem! They send us 25 cases, and we accept five of them, since 20 are faulty. And all of the sudden we realize, that we are short of 700 cases in production. That is how it is. And then we come to them, trying to apply various methods and sanctions or simply talking to them, simply just to handle the situation in some way, but it is terribly difficult!" (Case B, 3/1)

In other cases the company complained about suppliers maintaining behavior that might be described as a 'socialistic business attitude'.

"We only agreed about prices [with suppliers], only in two cases it was a bit sharper, but it was due to the relation, that was inherited from socialism. Where the connections still persist there is always an attitude of 'why should not you want it, if you have been always taking it'. And when you tell them that another supplier gives a better price and that also that quality has reduced, then they stare for a while and then they wake up ... one has to lead then ahead all the time." (Case B, 3/1)

Finally, unreliable supplies of electricity - a blackout in one case lasting for a week - from the local power plant has caused company B serious problems completing a consignment to its American partner in the highest season. The company suffered huge financial losses, as the order was not delivered on time or accepted by the American buyer. In order to increase the reliability of electricity supplies the business has had to start negotiating about installing a back up electricity accumulator close to its plant.

“A problem was also the black out of the Opatovice power plant, that caused a production lay off for more than ten days which was connected to a subsequent fall out of deliveries of pianos into the Christmas market, in the total values of 24 million CZK.” (Hradecke Noviny, 16.4.2003)

“The failure of the Opatovice power plant had a great impact on profits as [company B] was not able to meet its contractual obligations at the American continent. ‘Overseas they did not want to accept the goods that we were ready to ship only ten days after the deadline that we originally arranged. Unfortunately this had a great impact on the level of revenues and increase of final products on stock.[commented financial director].”(Hradecke Noviny, 19.2.2003)

“[about blackout in Opatovice power plant] If we deliver the consignment in November, then the transport to the US takes place is normal. However, because in December the transport takes place via frozen lakes, we have to purchase special containers. The cost of one container is 150,000 CZK. We were supposed to send the consignment in November, but now we cannot manage this. Our margins will therefore decrease.” (Hradecke Noviny, 22.11.2002)

Entry into the EU

The entry of the Czech Republic into the European Union will, in the longer run, influence the business substantially, particularly its price competitiveness.

“Can our entry into the EU influence you substantially? [researcher] Yes, we will have to increase the prices of our instruments and will lose our competitive advantage as a result of it.” (Case B, 7/1)

8.2.1.4 Other

Natural catastrophes

Like many other firms in the region, company B was affected by disastrous flooding in summer 1997, although the company was only affected indirectly, through suppliers of one of its key production components.

“... We got affected secondarily, when it affected them [suppliers] because we of course could not get supplies of [important strategic] material [piano frames and piano cases] on time ...” (Case B, 3/1)

8.2.2 Internal challenges

The internal challenges that company B has to cope with can be classified into several sub-categories:

- challenges related to production
- challenges related to technology
- challenges related to finance
- challenges related to human resources
- challenges related to information
- challenges related to storing
- challenges related to marketing and commerce

8.2.2.1 Production

In relation to production, company B has with two major problems to cope with - excess production capacity and loss of its original know how and its related traditional competitive advantage as and an advanced piano producer.

Unsuitable production capacities

At present, company B has to cope with production capacities that considerably exceed market demand. Excess production capacities occur in certain parts of the 'mother plant', but more importantly in the branch plants. Several of these have had to be closed down.

"There is excess production capacity in the production of metal components." (Case B, 4/2)

"This year, the greatest Czech producer of pianos and grand pianos [company B] made about 250 out of its 1000 employees redundant. Restructuring and redundancies in the company were ... exacerbated by problems with the company's largest business partner in the US, CIF company. This was taking about 30 percent of the production of [company B]. [company B] has already decided to terminate production at the Ceska Lipa plant and it is now planning to lose the plant in Moravsky Krumlov as well." (www.ihned.cz; 19.3.2004)

"In the second quarter of this year, without any previous signs, demand for our pianos decreased by 25 percent. We therefore decided to close down the plant in Liberec, as it was, out of our five plants, in the worst shape." (Liberecky den, 3.10.2001)

Loss of competitiveness

Before nationalization, company B was one of the world's leading piano producers in terms of the quality of its instruments as well as its innovativeness, technological advancement and know-how.

"This great [development] team I have remembered for the whole of my life, because out of their workshop really beautiful instruments were born. One was even played by the famous Arturo Benedetti Michelangeli, who liked Mr. Prach [one of the development team members]. He brought the piano with him to the Vatican when he played for the Pope. That was a famous evening - all the companies were competing so that their instrument would be played there. And thanks to Michelangeli it was [company B] ... commemorates seventy three years old artist [Mr. Moravec - on one of the world famous Czech piano players] who used to be a patron of [company's B] research department." (Mlada Fronta Dnes, 15.1.2003)

Even though at present quality and innovativeness are regarded as the company's core competitive competencies (this was stressed during the interviews - see section on obsolete technology - as well as strongly communicated at company's web pages), there are suggestions that the more than forty-five years of communism left its mark on the company's competitive potential, especially when compared to its western competitors. This is suggested by Mr. Moravec - a leading Czech pianist and someone who was personally involved with the company's research and development team before

nationalization. One of the company's managers also hinted that there were 'many opportunities for expansion in the area of innovations'. This view is also supported by an issue discussed in the next section – obsolete technology, where it is suggested that a common feature for the majority of former state enterprises in the Czech Republic is generally low investment during communism and the subsequent loss of competitive advantage.

"One development [at Frankfurt exhibition and trade fairs] that was most admired was the so called bar piano. ... This unique instrument was produced based on an idea of the current president [Jan, father of Zuzana] ... Another development at this year's trade fair was a small piano for nursery schools ... We call it a crazy playing piano ... it can be used also a toy. the various models look like a tree or a small house." (Hradecke Noviny, 21.3.2003)

"Do you regard innovations as a key to success? [researcher] Yes, of course! ... What goals do you have set for the future couple of years in the area of innovations? [researcher] Rather high ... Do you face also any problems in this area? [researcher] Of course we have many issues to solve ..." (Company B, 11/1)

"To the question of what he [Moravec, one of the top Czech, world famous pianists, who was in the past close to the company and its research and development in particular] thinks about [company B] he replies that it could have been an outstanding brand, if only there had not been the communist regime, that took all its original strengths and potential away from it." (Mlada Fronta – Ekonomika, 27.5.2003)

8.2.2.2 Technology

Obsolete technology and machinery

Technological obsolescence is a serious challenge for company B to cope with, especially with regard to the fact that there is great competitive pressure for cost reduction (see the section dedicated to finance) and supreme quality.

"How would you characterize your production strategy? [researcher] optimization of production and reaching supreme quality." (Case B, 4/2)

"The business [production of piano cases] ... has so many problems that it cannot even be possible ... there were changes in management and, I would say, no one invested into the company for a long time ... also before, it was a state business and then it was in liquidation for three years ... so the technology became so obsolete that the situation was simply critical." (Case B, 3/1)

"The greatest problem, and unfortunately a key one, is really the piano cases. The problem is complicated by the fact that the surface finishing is very complicated and there are not too many who can do it. Of course, our competitors also have problems with that, because it is very difficult to work with polyester ... but the business [supplier into which company B invested and where it is a share holder in order to prevent it from bankruptcy] is so terribly neglected, our problems are yet ten times bigger than those of our competitors." (Case B, 3/1)

"... Great amounts of money were expended by investment into the modernization of production and machinery." (Case B, 4/2)

"... The manipulation devices in stores are in a bad shape and obsolete." (Case B, 8/1)

"Store manipulation devices have to be exchanged." (Case B, 8/1)

8.2.2.3 Finance

The company has to cope with several issues in relation to finance. The company is significantly in debt as a result of the restitution buyout and is facing deteriorating profitability. There is a need for large investment and the reduction of costs.

High indebtedness

The company is highly indebted and identifies this as a burden. The greatest part of the debt comes from the restitution buyout - only four percent of the company was returned to the family and the rest, 96 percent, had to be purchased from the state. The huge loan prevents the company from obtaining the further investments it needs.

"The rest of the company was bought out by the family for ¼ billion CZK ... The family obtained a credit for the buyout from CSOB for 8 years. ... the credit is a burden on the company, it cannot freely invest until it is repaid.." (Case B, 1/1)

"We have huge debts, the restitution was 4 percent, the rest of the factory had to be bought out, so this itself meant a huge indebtedness." (Case B, 2/1)

"Overall volume [of loans] has been about ¼ billion CZK." (Case B, 3/1)

"The family got returned back only 4 percent - equal to the value of the company in 1948 - of the overall values of the business. The rest had to be bought out from the state. The family complained to the government about the low share they got back, but the government was worried that increasing the share would create a precedent. The rest of the company was bought back by the family for ¼ million CZK." (Case B, 1/1)

"... the greatest burden currently for us is repayment of the privatization loan, combined with decreasing revenues resulting from the appreciation of the Czech currency exchange rate." (Case B, 10/5)

"What have currently been the biggest issues to deal with in the area of finance? [researcher]repaying the privatization loan as fast as possible ..." (Case B, 10/5)

Decreasing profitability

A further challenge is coping with deteriorating profits. This is caused primarily by the disadvantageous exchange rate, low profit margins and decreasing demand (see also the issue of market instability).

"One hundred employees were made redundant by [company B] in the course of the year as a result of its decreasing profits, resulting from the falling [exchange rate] dollar ..." (Case B, Hospodarske Noviny, 20.5.2003)

"[company B] is going to make ... about 10 percent of its workforce redundant. According to its president ... the main reason for this is the deteriorating economic results last year. ... The company generated about 2 million CZK in profits with revenues around 1.1 Million CZK, whereas last year its profits were 19 million CZK." (Case B, Hradecke Noviny, 16.4.2003)

"The economic results of last year [2003] would probably be negative, the year before they reached about 1.8 million CZK." (www.idnes.cz; 8.4.2004)

In order to keep its products competitive and maintain a reasonable profit margin, one of the greatest challenges for company B is to identify internal reserves and to reduce costs.

"What are at the moment the greatest issues to deal with in the area of finance? [researcher] This really is monitoring of costs in production. ... So that we would know exactly where the costs occur. ... The currency is strong and we cannot increase prices endlessly... that is a matter of the market ... therefore we are searching for our own reserves, so that the company can flourish and be profitable." (Case B, 3/1)

"We have to build a joint distribution channel for the biggest partners and to decrease the costs for both, us as well as the buyers." (Case B, 8/1)

"We have to adjust to the situation in the market. If the Czech currency appreciates further and Chinese products flood the world markets, it will have a negative impact on the utilization of the work force. Apart from rising work productivity, reductions [in number of people employed] would have to take place." (Hradecke Noviny, 19.3.2003)

"We had to reduce costs [about closing down one of the plants]. We were deciding which of the plants to close. We chose the one in Liberec, since it would need investment in the near future amounting to 40 million CZK simply for the repair of the real estate." (Hradecke Noviny, 9.3.2002)

Need for large investment

Great demands are imposed on company in respect to large investments that are necessary in order to cope with the technological obsolescence that it has inherited. Many investments have already occurred, but many others are still waiting to be finalized.

"Overall things have been restructured, large sums are reinvested every year, 30 to 40 million." (Case B, 1/1)

"So this would mean, if we wanted larger supplies, investments or helping them in some way, to give guarantees for their investments, but that is all money, money So far the money is flowing into a black hole ..." (Case B, 3/1)

"... Great amounts of money are being expended by investments into the modernization of production and machinery." (Case B, 4/2)

"We had to reduce costs [about closing down one of the plants]. We were deciding which of the plants to close. We chose the one in Liberec, since it would need investment in a near future amounting to 40 million CZK simply for the repair of the real estate." (Hradecke Noviny, 9.3.2002)

"... We therefore decided to close down the plant in Liberec, as it was, out of our five plants, in the worst shape." (Liberecky den, 3.10.2001)

8.2.2.4 Human resources

Company B has to deal with several issues in relation to human resources – connected to the low working morale of their employees is a high level of absenteeism and general resistance to change.

Lack of responsibility and low working morale

The first of the challenges identified in the interviews in respect of human resources is the prevailing, still relatively poor (socialist) working morale.

“After the takeover the employees were unmotivated. Nowadays they try to overcome this through communication and by informing the employees about what is happening – bulletins and notice boards are used to building loyalty to the organization. In spite of this, a socialist working morale still prevails, despite the relatively high unemployment rate in the region.” (Case B, 1/1)

At the same time company B stresses the issue of employees not really connecting their own work performance to the performance of the business and therefore their own welfare.

“People did not think about which way it should go. Finally though at least some realized that if the owner would enjoy himself, then it would benefit them too ...” (Case B, 2/1)

Qualified workforce

Company B, in some areas of business, seems to lack a well-qualified workforce. There are various reasons for this. In one of its plants the company invested in highly qualified staff, who left during several years of instability. In the main plant a lack of well-qualified workers causes problems in some areas, particularly production and storage. This situation may have been caused by a poor HR manager as Zuzana, daughter of the post revolutionary founder and the current president, describes. The lack of a qualified workforce in production in particular may also be the result of a low supply of the certain specialized professionals that the company needs. There is not an excess of labor in general, as explained by the HR manager, and a local training center has commented that there is little demand for piano-building apprentice training programs.

“... In the meantime, people left the business and the workforce that knew it [production process] was irreplaceable since it required qualified work ... the company was lacking in qualified workers.” (Case B, 3/1)

“The levels of professionals and the number of people generally have not been well managed.” (Case B, 5/1)

“There are [in production] problems that can be improved by the selection of employees with quality skills.” (Case B, 4/2)

“The weak point in the company is the HR director” (Case B, 1/1)

"We should pay greater attention to human resource development [on a strategic level]." (Case B, 5/1)

"Is there enough qualified workforce in the region? [researcher] there is no surplus ..." (Case B, 6/3)

"Surprisingly, while there are apprentice training programs of study focused on the production of musical instruments, in which the graduates can find jobs in prestigious businesses, [company B] is still struggling with a lack of applicants." (Hradecke Noviny, 24.11.2001)

Absenteeism

Connected to the issue of low working morality is also the issue of high absenteeism.

"High absenteeism is a problem. Employees are being motivated - 600 CZK per month extra for no absence." (Case B, 1/1)

Resistance to change

Resistance change was mentioned once in the course of the interviews.

"That was terrible work [implementing ISO] ... people were swearing ... and it took so long ... almost 3 years. And it is very difficult to assert [implement]." (Case B, 3/1)

8.2.2.5 Information

Lack of information from market

Even though it is not as frequent a complaint, there were certain suggestions given during the interviews that market information might be difficult to get.

"... They [dealers] do not want to share information too much ... I use all of my skills to get the information out of them ... I have to do it in various subtle, indirect ways and keep asking, simply a system of analysis, and to ask through questionnaires in order to get what you want to know. Because everybody protects his or her know how." (Case B, 3/1)

"We sometimes miss exact statistics about the sales of pianos [in the Czech market]." (Case B, 5/1)

8.2.2.6 Storing and procurement

Storing and procurement generates various challenges. The significant issues are insufficient storage capacity, a poor negotiating position with some key suppliers and difficulties in assuring supplies of key components or establishing a system based on outsourcing.

Insufficient storage capacity

The company has to deal with insufficient storage capacity. This, as Zuzana points out, substantially complicates production.

“There are problems with logistics – not enough space for storing, low capacity and a related inability to satisfy demand. Production requires a certain amount of time, it cannot be sped up, timber has to be laid off for two years and the production of a piano takes 18 months.” (Case B, 1/1)

Monopoly suppliers

A serious challenge for the company to deal with is the fact that suppliers of some of its key components almost hold a monopoly in the market. This deteriorates the bargaining position of company B and means that they are dependent on suppliers for resources. The danger of this dependency was shown in 1997 when heavy floods badly affected one of the company's suppliers and this had a detrimental effect on company B's production.

“When a supplier has a monopoly then communication is always worse, because we are dependent on him. That happens? [researcher] Yes, that happens in some cases. And it is not good, so we try in some way to work on our mutual relations.” (Case B, 3/1)

“[about production of piano cases] Well, there are two others in the market, but, as an illustration, they [main supplier] produce about 13,000 piano cases, taking this year's numbers, and the other two suppliers are capable of producing a maximum of one thousand..” (Case B, 3/1)

“Concerning our key specialized inputs, there certainly is not [enough suppliers]. We are dependant on perhaps 2 to 3 suppliers from the whole world. Simply no one does it. It is done only by 2 to 3 larger companies. ... they manufacture all the important components of piano – mechanics, hammers and other components.” (Case B, 3/1)

“Are there any suppliers you are dependent on? [researcher] Yes, there are. We are looking for additional ones.” (Case B, 8/1)

Whereas with some of the monopoly suppliers the situation is relatively stable as these are monopolies that are well functioning and produce piano components for all piano producers worldwide, there is a home monopoly supplier of piano cases that company B has to deal with in a very special way. This company was the only producer in the Czech republic capable of producing volumes of piano cases that are sufficient for meeting company B's production requirements, and it came close to bankruptcy. In order to save its supplier, company B had to invest in the company and become its shareholder. At present the challenge for company B is to stabilize this important business.

“In some cases we had to become shareholders in the companies to keep what we need – quality! ... For example the producer of piano cases, as I said that had the floods ... there we had great problems with supplies ... and, in addition the business was in liquidation. Without wanting to be, we were dependant on them ... they were a key supplier, providing almost 75 to 80 percent [of piano cases]. Without them, simply, we could not survive. So we had to consider whether to start producing cases

ourselves or whether ... we could save in some way the company. ... So we are shareholders nowadays there [in the supplier company].... But it is no simple matter, it has created another problem. ... We for example wanted more cases, but they really could not deliver that ..." (Case B, 3/1)

Outsourcing

An issue to solve for company B in the area of procurement is the changing character of the industry and a trend towards outsourcing. Company B sees introducing outsourcing as a part of its production process as one of its future challenges.

"Another problem is that we still make many things ourselves. ... we have to make an analysis and establish whether, well, times are such, that it is better to have things produced somewhere else, leaving the burden and risk on the supplier ... than to have problems in your own yard. And to concentrate rather on the finish of the instruments ... but we so far have not managed to do this." (Case B, 3/1)

8.2.2.7 Marketing and commerce

Even though marketing and commerce were highly developed and managed professionally in company B, there also emerged hints that there is still tension between the production and the commercial side of business and a resistance to marketing, although the commercial side is apparently winning this battle.

Resistance to marketing

Zuzana, the sales and marketing manager, mentioned an interesting issue – coping with tension between production and sales created by the traditional dominance of production.

"There are problems between sales and production. Production used to have the main say and they still feel they should make the key decisions." (Case B, /1)

Similarly, an also initial resistance to marketing, as an activity that "only" takes money away from the business and brings no value in, was expressed by Zuzana.

"When the father of Zuzana saw the huge marketing expenditures [17 million CZK] he was against it, but he fully accepted the role of marketing when first sales success came." (Case B, 1/1)

8.2.3 Family challenges

Company B faces also several potential challenges related to the family and the family business, even though these are not substantial.

Ownership

Finding the optimum ownership structure is one of the potential challenges company B faces in the future. The family grew considerably during the 45 years gap and therefore, when dividing the ownership amongst the wider family, the company got rather fragmented. The natural methods of dividing the ownership of the previous generation became distorted during the communist era. In addition, the current members of the wider family do not seem to have the same goals concerning the business. Whereas the closes family members/owners are strongly dedicated to the business and make a tremendous effort to make the business flourish (several of the family members are active in the business – see case description), other relatives/owners are more detached from the business. As Zuzana points out, they only “jumped on the gravy train, when it was apparent that it would succeed.” (Case B, 2/1) This may cause potential tension in the future and concentrating the ownership in the hands of those, who are truly interested in developing the business further – i.e. the current closer family – might be one solution.

“The company is owned by four family members and a lawyer ... the rest of the cousins who did not want to participate were paid out.” She [one of the owners, cousin of Zuzana’s father] has the greatest share, she was the only child and herself again has only one daughter and she has only one son. The rest of us we were always a couple and so, well, the property always gets divided in two ...” (Case B, 2/1)

“... In addition a relatively large number of relatives were around, their number grew up over those 45 years – cousins, my sister, no all were sharing the same attitude, some were against [taking over the business]. They did not believe it; they were scared that it might turn back yet, that the state would not get stabilized. They had their families and background, which they did not want to leave ...” (Case B, 2/1)

Relationships with the wider family

Despite that fact, that the family was rather hesitant to disclose the nature of family relations and family as such, there are suggestions that relations amongst the wider family members are not entirely positive. Handling family relations in the wider family is therefore another challenge for the future.

“Problems among the relatives do exist - You do not choose your relatives.” (Case B, 1/1)

“Another value and glue is that we are a family and therefore we should pull the same rope. Now we all realize this, but I cannot say the same about all the relatives, unfortunately ...” (Case B, 2/1)

“The people who really gave him the support [during privatization] were his uncle and aunt. She is still alive and we all like her very much, but they were the only ones who gave him real support ... the other relatives were waiting ... and finally when it worked out well, they jumped on the train.” (Case B, 2/1)

“These relations are varied [in wider family]. Sometimes they are good, sometimes worse. It is as in any family.” (Hospodarske Noviny, 27.9.2002)

Managing succession and assuring continuity

Another issue the family has to cope with is assuring the continuity of the business and managing its future succession. As mentioned previously, during the years of expropriation many of the family members, especially those of the wider family, became detached from the business, not only psychologically, but also in other aspects of their life, such as their educational background. Above all the wider family members were brought up with the idea that the business belonged to the past and they went into very different fields of work. At present, careers in different professions are for many of them an obstacle to joining the business (either not wanting to or not having anything to offer). It is likely that this detachment, psychological and factual, may be transferred to their offspring. Zuzana, the current president and one of the family members with a strong connection to the business, admitted in an interview for an economic newspaper, that quitting her original job and field of specialization was not a simple issue to decide.

“Neither his son, [son of Antonin, cousin of Zuzana’s father] nor his daughter are in the company. He is a geometrician - that is a different field.” (Case B, 2/1)

“It took me quite long to decide’ admits [Zuzana] as a graduate of pharmacology and former successful representative of a German medical firm in the Czech republic. ‘I did not miss anything in pharmacy, I build myself a good position there, but I thought that when my father privatized the business and had no son, I had to go and help. ... She chose pharmacology when she was 18, convinced, that the factory, next to which they were still living, belonged to the past.” (Hospodarske Noviny, 27.9.2002)

Family and business roles

As Zuzana suggests, clarifying and accepting different roles in the family and the business was a challenge for both her and her father. This challenge remains in the future as the new, younger family members begin to enter the business.

“It took 2 years before he [father of Zuzana and current president] started taking me seriously as partner - I was all the time the little toddler.” (Case B, 1/1)

“...we are not only a family, but also subordinates and superiors and we have to manage to get along with each other in this respect too. Many times one encounters generational problems ... me and my father we went through a development, and it took us a while to get used to [cooperating], but today we are on such a level that nowadays we can mutually understand many viewpoints and this drives us forward incredibly.” (Case B, 2/1)

Lack of family property

As Zuzana pointed out on many occasions, although in society there has often been a prevailing feeling that the family is very rich, this is not in fact the case. Over the years of communism the family lost almost all its property, as well as its chances of earning more. At present this fact is a large obstacle to the company’s development, as not only can the family not aid the business with its

own resources, if needed, but has in fact had to draw considerable resources out of it in order to repay the privatization buy out loan.

“But also, everybody was envious about our name, without being capable of understanding, what it was the family had to go through. That we had nothing. People thought that with this name we had to be rich ... that we had gold buried at home ... Yet we were totally ordinary people. Our parents were getting ordinary salaries, we had ordinary salaries. Our candidates were saying 'she [Zuzana] has to be rich!' And we [Zuzana and her sister] were waiting just to be invited for a coke.” (Case B, 2/1)

“... But this means that the family, apart from salaries, does not earn a penny extra. My father has been working here for ten years and had a minimum chance to recuperate the money that he himself earns.” (Case B, 2/1)

Autocratic rule

Last but not least, Zuzana in one of the interviews mentioned the autocratic tendencies of her father, the post revolutionary founder of the business. These autocratic tendencies, if too strong, may create potential traps concerning the company's culture as well as the entry of the younger generations into the business.

“Also nowadays I sometimes say that he [post-revolutionary founder of the company, father of Zuzana] sometimes tries to manage things too much from the standpoint of power, and I sometimes lay it against him ... He means it positively, but I sometimes pointed this out to him ...” (Case B, 2/1)

8.2.4 Entrepreneurial challenges

There were no significant entrepreneurial challenges discovered in the case of company B. Contrary to that, in the course of the interviews several features emerged that may potentially be a great strength of company B for its further development. These we issues such as the excellent goal orientation of the post revolutionary founder, good education and a very positive attitude to learning in the whole family, a sense of vision, hard working and persistence, motivation in achieving something and overall positive thinking and attitude. These issues will be discussed in more detail in a later section comparing the three cases.

8.3 Analysis of Case C – The producer of traditional kitchen appliances

In the same way as with the previous cases A and B, using the four categories presented in the theoretical model set out in Chapter 5.4 – Challenges related to external factors, management related challenges, family business challenges and challenges connected to entrepreneurial skills and attributes – this chapter analyses and classifies the challenges for company C revealed by an analysis of interviews and other information sources.

8.3.1 External challenges

The first of the four groups of challenges investigated represents External challenges - i.e. challenges coming from the external environment of the firm. External challenges related to company C can be seen as falling into four main categories: -

- Challenges related to the functioning of the state sector
- Challenges related to the business sector and society
- Challenges related to the Czech economy
- Other challenges

8.3.1.1 State sector

One of the greatest external challenges company C faces is that related to the functioning of the state sector. Overall, company C perceives the state sector negatively, as being inefficient, bureaucratic and discriminatory towards Czech and restituted family firms. To this is then added messy and fast-changing legislation and the poor enforcement of law, as well as a low level of support to small and medium sized firms and a high taxation level.

Inefficiency

Company C sees the state sector as being highly inefficient, which substantially complicates its business activities. Though the interviews numerous examples of this inefficiency were given, such as the inability of the state to help companies dealing with the consequences of disastrous flooding in 2002.

"[about late payout of insurance after heavy floods and inability of state to help the affected companies to handle taxes] ... Because if you get the insurance from your insurance company on November 22, 94 million CZK, you had to try to work it so that you could turn it into a cost in the same accounting year! Other wise you had to pay taxes on it!" (Case C, 3/1; 4/1)

"... [the company] could not have waited [after heavy floods] for government help as, despite the minister's promises, this was taking an extremely long time, and the government started with its own renovations." (Hradecke Noviny, 2002)

Another example of the inefficiency of the state administration was the restitution that was not finally resolved for over a decade. Generally the company seems to perceive state interventions as being done from 'behind a desk', by people who do not properly understand the needs of the business sphere.

"We were created via a restitution buyout that was not resolved until recently. It is done purely in a Czech way, there is one trial per year at least." (Hospodarske, 2002)

"... The state interventions, it is all done from behind a desk." (Case C, 3/1)

Bureaucracy

Another challenge that complicates business activities and takes up the valuable time of the owner/manager seems to be extensive state bureaucracy, as describe in the quotations below.

"It is necessary to agree with Vladimir Iljic Spidla [nick name for prime minister evoking the name Vladimir Iljic Lenin as a symbol of 'old times'] as to what extent it is really necessary to fill in all those forms ... whether all this administration is needed [about wage administration] ... and the agenda related to it." (Case C, 3/1, 5/1)

"... [about complicated and unclear restitutions] if the state said that private property is intangible ... then it could do without all the bureaucracy and manipulation." (Case C, 1/1)

"[answer to the question what kind of state help they would welcome] ... To us it would perhaps be enough if they [the state] did not poke the nose into it [the business]." (Case C, 3/1)

"It does not make sense to complain about the internal environment in this state, although it definitely cannot be described as supporting business and growth, as it takes all our energy away from us - all the forms, permissions, explaining things to someone, controls of everything possible etc." (Questionnaire, 2004)

Discriminatory practices

In the interviews the owner at several points suggests that the discriminatory practices of the state administration stem from the unclear role of the state administration staff, which provides an opportunity for them to abuse their power. The incompetence of state clerks also plays a role. The owner manager also describes discriminatory practices experienced after the take over of the firm by the family that may potentially be a result of envy. Later on he describes similar practices in the case of a taxation office. Last but not least he notes that foreign investors are favored over Czech ones.

"The conditions, above all are such that they give the state administrator the possibility, if he wants to, to substantially complicate your life. And you, instead of planning cash flow for example, deal with how you can explain to the bureaucrat what you did seven years ago. The bureaucrat first holds you up for half of year with tax control and then, despite you drawing his attention to it, he finds out that the VAT really is beyond forfeiture ..." (Case C, 3/1)

"One more thing might be interesting ... if the state interfered with everyone in the same way! I do not understand what difference there is between businessmen from Delaware and Skuhrov and Belou. And if the one from Skuhrov is less good, well, they should at least tell us, so that we know! I have to pay taxes but another person, who seemingly plows money into here, but the money can be for example also in know-how, that someone has to appraise ... he does not have to pay taxes and someone pays for the training of his staff ..." (Case C, 3/1)

"... [before restitution] no-one tried to find out where the sewage actually went to. But as soon as we took over the business the regional hygienist arrived and started to claim that we were not allowed to make coffee for people [employees], since we had no license to do it. Previously, no-one cared about the kiosks where people could buy

sausages ... when the Porkers took over, the bureaucrats immediately showed us how to do it!" (Case C, 2/1)

"My relatives ... had a forest in Kleckov returned to them where there were the ruins of a medieval castle. ... Nowadays if you search very carefully you might find stones that possibly could have been a medieval castle [not much left]... Despite this, within a week of the property being returned, we received a letter saying that we had to take care of the ruin of the Kleckov medieval castle, keep it in a good state of repair and keep the tracks through the forest passable ... we now have to look after it and invest in it. 'If they want it let's make them look after it properly' [showing the way the state administration thinks]. But is there not other owner too [the state]?" (Case C, 2/1)

Confusing legislation

Monitoring and comprehending the rapidly changing Czech legislation seems to be a great challenge for the business. The owner suggests that changes in legislation are so frequent that it is in fact impossible to implement them in practice. This puts the business at a risk of not meeting the legislative requirements imposed on it. At the same time it might also prohibit its development.

"You know, you should read the headlines or names of all the legislation that has come out during the past three years, together with their upgrades and amendments. ... and imagine that we have had to orientate ourselves in it all." (Case C, 3/1)

"I think there is a great rush of pieces of legislation and norms, which prohibits business activities ... I do not have anything against rules but... this is crazy! No business person can know which of the rules apply to him or her; you would have to be crazy to try to remember it all ..." (Case C, 2/1)

"And legislation. How can I make sense of it, when its creators change it before it has even been seen ... whether the given piece of legislation works in practice. They change it so that, in one piece of legislation, you exchange amendment a), paragraph 1 for letter g) paragraph 12 - they should go to hell! It cannot work like that! This is not even simple for a lawyer - perhaps computers or hyperlinks can be used to interconnect it ... one is not capable of monitoring it and above all assessing it. It is chaos! It lacks vision!" (Case C, 2/1)

Late delivery of information

Apart from the messy and frequently changing legislation, the owner also complains about the poor and delayed flow of information from the government to the business sphere.

"[about regulation of recycling] ... So you call the ministry of environment, asking when the hell the list of persons you should contact will be released ... and they tell you the legislation is valid only from July and ask why you are worrying about it now in March. But on 2 July a bureaucrat comes ... and asks "how come you do not have it yet"? So you would incur a 10 million CZK penalty, but because it is the first time so it is only 100 000 CZK. ..." (Case C, 3/1)

Poor enforcement of law

A serious problem for the company seems to be the poor enforcement of law, as businesses are not provided with effective tools for coping with the relatively high crime rate in the Czech business sphere, as described later on in this chapter.

"[About debt recovery] Is it possible to get is [receivables] out of anyone? [researcher]. It is. You have to fume a lot, you have to go and visit that particular partner rather often, you have to make an effort ... And how about legal methods? [researcher]. No way! There is no chance! In a legal way, that is nonsense! Nothing like that is worth it. Where you let the lawyers in, reality goes out the window."
(Case C, 4/1)

High taxation level

The high level of taxation seems to be a challenge for a company that needs heavy reinvestment in order to survive. In addition, Czech firms seem to be worse off compared to their foreign investor counterparts, who receive investment incentives in the form of 'tax holidays' (see also section in discriminatory practices).

"Our goal and priority is not to generate profits. We estimate that we have to give away 30 percent of our profits to someone and we only keep 70 percent. But we need not 70 percent but 200 percent of what we make in order to be able to renew this firm."(Case C, 4/1)

"Another thing is that the state is terribly greedy, it take resources away from Czech businessmen ... They take our resources and then they are surprised that they have the attract foreign capital in here. What we create, we give to the state." (Case C, 2/1)

Insufficient support for business

Finally, related to the issue of state sector insufficiency is the general lack of support for business sphere provided by the government. Several quotations from the interviews reveal the issues – those presented below as well as some of those presented earlier in relation to insufficient governmental help to businesses after the heavy floods in 1997 etc.

"So you think that there is very little help for small and medium companies? [researcher] Very little, it is almost nonexistent."(Case C, 4/1)

"[about removing pollution] There was a chance to agree with the National property fund to cover part of the costs, but we did not reach an agreement. Their study talked about huge investments and so we solved it ourselves, using common sense and it cost us 15 million in 4-5 years." (Case C, 1/1)

8.3.1.2 Business sector and society

High crime and unethical behavior, lack of trust

The high level of crime or unethical behavior in the Czech business sphere and society as a whole seems to be a very serious issue. During the interview the owner/manager gives multiple examples of such types of behavior. The examples involve practically all areas of business life –employees, business partners (buyers, as suggested below in relation to issues of payment morality problems), debtors generally, banks and the government.

“One cannot be too surprised [about banks not granting loans] ... if the debtor comes and says I will not give you your 150 million back, the bank sells the debt to a consolidation company, the debtor drives around in his BMW, money is literally pouring out of him, he buys golden earrings, and then he buys his own debt back from the consolidation agency for 20 million ...” (Case C, 3/1)

“Whereas in the case of strangers [non family employees] the risk of ... making an alliance with your supplier is much greater ... that he gives him a discount and receives half of it from him ... and so ... this is happening all the time. Have you experienced this in your company? [researcher] Of course! Yes! Yes!” (Case C, 5/1)

“If you steal 10 CZK you go to jail, but if you take one billion, nothing happens to you.” (Case C, 3/1)

“Really, it is so criminal, it’s not possible ... it’s really unfair [about state imposing debts onto firms as part of national bank’s consolidation].” (Case C, 4/1)

“... Try to look through all the web pages of banks and scrutinize where they will mislead you ... they have to earn something ... [about unclearly presented commercial information and banks hiding the disadvantages of their products].” (Case A, 4/1)

“... There was a terrible fraud on all companies in the country ... some previous transfers between the state and the businesses were suddenly replaced by loans - it was called frequently moving inventories, it was ‘consolidation’. The original obligation of Klaus’s administration was, I do not want to guess, but may have been five percent interest [low] ... it had nothing at all to do with the economic reality ... it was imposed [on businesses] as some kind of consolidation of national bank ... And then, ... the friends of Tosovsky [prime minister of administrative government in 1998 after the fall of Klaus’ administration] increased the interest to ... fifteen percent. That was such a hard blow!” (Case C, 3/1)

“[about taking over the business] So he [the previous state manager], before he left, changed the price of the inventories and receivables [increased their price artificially; these inventories then had to be purchased by the family] and these receivables later on became our irrevocable debts - these were things that they [seemingly] exported but it was not so ...” (Case C, 1/1)

“A few weeks before restitution, apart from the purposeful damage of a large amount of the company documents, the inventories were re-priced. The prices of the devastated property increased several times as a result. The restitution involved only buildings and land; the family had to buy the rest.” (www.profit.cz)

“The thing with this agreement [exclusive agreement with the state export company so that the company could not export through its own activities; at that time this state company was falling apart] was that it was another action that was supposed to pull

the rug from under us. The formed management did that purposefully ... It was all a fraud ...” (Case C, 1/1)

“In addition to that there were cute things [sarcastic] that our predecessors, who knew that the firm would be restituted, did, such as not paying [suppliers] for steel. In order to get the steel from Vitkovice [supplier] we had to pay a 0.74 million penalty.” (Hospodarske, 2002)

As a result of this situation lack of trust seems to be another important issue. The example of lack of trust prohibiting the creation of purchasing alliances suggests that the general lack of trust might be a serious obstacle for the development of business activities in company C and in the whole Czech business sphere. It might be assumed that this lack of trust, combined with poor law enforcement, imposes greater demands on formal procedures such as negotiating agreements etc., one implication of this might be greater demand on time and costs.

“You know, if I could trust this person [about business consultants]...” (Case C, 6/1)

“[answer to a question related to making purchasing alliances] ... I do not know, we never tried it... you know, there is still too much distrust in this country! A purchasing alliance is mutually independent people ... I would have to trust them. And why should I do that ...?” (Case C, 4/1)

Bad image of business people in society

The owner/manager of company C suggests that another issue is the bad image of business people created in the media, which further adds to the feeling of distrust in the business sphere and in society, with all the implications that this brings.

“Here [in Czech society] there is antipathy is [towards business people]. Look. If someone murders someone, then always it is either a young businessman from north Bohemia or a gipsy. It is never a postman or a white collar worker. Always a middle aged business person! As if a normal Czech pub idler never killed or robbed anyone. This is nonsense, crap, a cliché! It is only how this is presented in the media and we are, perhaps subconsciously influenced by this. Every businessman is a suspicious person...” (Case C, 2/1)

Envy

Another challenge the company has to cope with is envy. An example of the negative consequences of envy is the limiting of activities traditionally connected to doing business such as providing donations to charities or sponsoring local community financially.

“Envy in this country limits the business environment terribly. It is normal that, if you manage something well, you feel happy about it and you make it obvious, perhaps in such a way that you sponsor the football club or a poorhouse. Here [in the Czech Republic] it is not good to make it obvious that you managed something well. Immediately the financial office begins to ask ‘how it is possible that you managed so well?’, and then many relatives and other people come and wonder how come you managed when they have not and how this is possible and that this certainly must

had been due to corruption or fraud ... and you have to handle this. It might be better if you did not flourish, as soon as you start to, you have to develop a thick skin." (Case C, 2/1)

"Look, rather pragmatically, if you will communicate this everywhere [about numerous small favors the business does to local community], there will always will those who are envious, who will ask 'how did they manage this?', and question where you got the money from ..." (Case C, 2/1)

"It was such a blow to these state administrators when they learnt that we got it back [about restituting forests], that immediately they thought "So now we will show them" [e.g. would make it as complicated as possible when they got the property]." (Case C, 2/1)

Bad payment morality

The business owner/manager describes poor payment morality of buyers as very common. In addition he suggests that perhaps a greater problem than the inability of firms in economic difficulties to pay is the purposeful fraud that the company itself has experienced. Bad payment morality seems to be another example of the generally high crime and unethical behavior common in the Czech business sphere. It is an even greater problem when combined with poor law enforcement that does not allow the company to take effective measures in order to protect itself against such mistreatment.

"Many people do not meet their obligations ... they have their houses well repaired and drive good cars and I am still missing 200 ,000 [CZK], which is a fraction of the price of the car ...another issue is the case of some companies ... that are now the captains of the Czech industry and still owe us big money ... I know of a person from one of the big players who went to another firm and clearly let it go bankrupt[by channeling funds fraudulently]... we still have one million in this firm that we will never get back ... and the people do not have bad lives They are managing other companies ..." (Case C, 3/1)

"[about possibilities of collecting bad debts] ... But it is possible ... but of course sometimes not ..." (Case C, 4/1)

Damage to the learning culture of the nation, low interest in education

The company warns that Czechs are not ready to learn, and this is a problem as learning certainly is one of the prerequisites of successful entre- and intrapreneurship. In former communist countries learning may be even more important, as business and society conditions change quickly and there is a great need to adjust continually. From the viewpoint of an employer, a negative attitude to learning might cause serious problems in finding a qualified workforce that is motivated to take on anything new.

"[answering the question of what he would want to change, provided possibilities were unlimited] ... Education! That would be enough! I would not want more! ... In the whole of country. ... It is a catastrophe. Education, general ... cultural! ... My grandfather built a cinema in Skuhrov, the communists cancelled it ... now we will probably not manage to re-establish it. Because people sit at home, enjoy their crisps and that is all. To get this out of people, that would be great! And I think this is about education..." (Case C, 2/1)

“What are the most urgent things you have solved in the area of human research management? [researcher] Education! We are generally very undereducated! Undereducated in solving problems, undereducated in management of change, any changes! We are totally undereducated, not trained in elementary communication... and what is even worse, we do not long for education! This I see as worst. ... The people are fine, hard working, but you tell them, look here is a school ... and he says ‘Someone should go there, but not me, I do not have to, I know everything already!’ and you start being aware of your own insufficiency! And you goggle at how it is possible that he says that he already knows everything! It is hard to imagine! But he means it seriously. It is not a joke! This is our greatest handicap...” (Case C, 6/1)

“We even had for over half a year a consultancy company schooling everybody from management to foremen ... it did not start anything [learning process]. I was not hoping that the people would learn everything ... but that they would start thinking ‘well, there are things I do not know and perhaps I could at least from time to time to go and have a look at it, or to open a book’ ... but since then I have never heard from my colleagues ‘Look, you should invite the one - you know, the trainer, that was here some time ago, to tell us, what he did not manage to tell us and finish it.’ I never heard that! ... This is a great burden to me, since it generates a vast number of our present difficulties. If we analyze some of the things, some problems, we would not have had to have them, if we learned [how to deal with them] in time ...” (Case C, 6/1)

8.3.1.3 Economy

Challenges related to economy create another group of challenges with a potentially strong impact on the business activities of the company. To this group belongs above all the strong exchange rate of the Czech currency, as the economy of the company has deteriorated dramatically. Other challenges include poor access to external sources of financing or, strictly speaking, bad availability of bank investment loans, the overall instability of Czech business conditions and a related inability to predict and plan, and certain other issues mentioned below.

Strong exchange rate of Czech currency

The deteriorating exchange rate of the Czech crown is the central cause of the serious financial and liquidity problems that the company currently faces (see also the section on liquidity problems). As the company exports almost 90 percent of its goods, with an exchange rate that has changed by almost twenty percent since 2001, the company faces great losses (millions of CZK) from its revenues. The fact that these exchange rate risks cannot be effectively insured against (as the size of deals does not meet the requirements of the banking sector) and the fact that support from the state in the form of state export insurance is insufficient, are also problematic (www.asociaceexporteru).

“...This year is key for us, if the exchange rate moves towards 28 CZK then the economy [of the business] will become problematic ... if you export 90 percent of your products abroad, it is a challenge to begin with. In addition to this, if the Czech crown grows against the Dollar, we do not have the means to balance it. Before it was always the case that, if the German mark was falling, the Dollar was rising and the other way around, so you could always handle it somehow ...” (Case C, 3/1)

"... [answer to the question how could the government help medium sized businesses] At this point we are of course crying because of the exchange rate ..."
(Case C, 3/1)

" ... We have had problems over the past ten months, because the Czech currency was performing so well [ironically]." (Case C, 4/1)

" ... Now we feel very bad as the Czech currency has strengthened..." (Case C, 1/1)

"[reply to the question of whether they tried to take advantage of risk insurance instruments] Have you ever tried to, only as an exercise, to ask in a bank, perhaps in your own, what is the minimum volume? You will find out that you need almost your yearly volume [for a single deal] before anyone will even think about talking to you ..."
(Case C, 4/1)

"We nowadays get 20 percent less for a mill that at this time last year, since this exchange rate is such ... that there is quite a slump. And in reverse, as for inputs, this has no effects at all!" (Case C, 5/1)

Bad availability of credits and other external sources of capital

The company sees the bad availability of investment loans as an emerging problem. This is created both by the stricter risk policies of the privatized banks and the unfavorable economic situation of the company (machinery with a low book value, lack of its own capital and relatively high indebtedness). The owner/manager suggests that banks are prepared to provide rather expensive operational loans at a low risk. However, these are either not needed by the company or are not acceptable because of the high rate of interest payable.

"... It is very difficult to get a decent loan, in such a way as we need it. They happily provide you with operational or working capital credits. These become profitable relatively quickly and the interest rates are preferable [for the bank], risk is relatively low and the guarantee is huge, nowadays 120 -150 percent of the credit value But we do not need such loans ... we need [loans] for big things. 30 million for a piece of machinery that we know will work for 15, 17, 20 years. ... but the banker does not want to lend money for this, because they are concerned that, for example, the product range will not exist in three years." (Case A, 3/1)

"...Then the baking specialist comes He takes the external liabilities and our equity, the difference is negative and refuses even to talk to us about getting a loan. Because he does not make the effort to analyze what is under the surface of it. So in a situation like that it is not worth at all coming to bank and applying for a loan ..."
(Case C, 3/1)

"... This access to external capital is really hard! ... since the bank went private and access to resources is difficult. That is simply a fact." (Case C, 6/1)

In addition, it is thought that the Czech stock exchange does not function well and therefore it cannot be used as a way of gaining external sources of financing. This lack of external sources of financing is a serious obstacle for the company's further development and, when considered in the light of the need for heavy investment in the company's obsolete machinery and technology, is also a fundamental threat to its existence.

"[about the possibility of floating on the stock market as a source of finance] ... I do not know of any firm in the Czech Republic who would enter the stock exchange with a primary issue in order to gain capital. It is possible, there is legislation for that ... but as far as I know the stock exchange works as an exchange of shares of stable share owners who exchange them [shares] in a round." (Case C, 4/1)

Instability of Czech business environment and generally increasing dynamism in business

A further serious obstacle for the development of the company's business activities seems to be the rapidly changing business conditions in the Czech republic. This limits the ability of companies to foresee and plan. The quickly changing conditions involve above all general business legislation, tax legislation and interest rates.

"[about business conditions and government] ...It would be enough if the government set it [conditions] and said that it has to remain so for at least ten years. Perhaps we could breathe more freely, because we could consider what is going to happen. But the permanent innovations, not only to tax, but to all legislation ... cannot be grasped by a single person." (Case C, 3/1)

"Then you took a loan [about conditions after fall of Klaus's administration in 1997] and they told you it was for 8 percent. So you calculated it, it was expensive, but you thought, well, you can bear it, and the next day it was 42 percent! ... I am worried that similarly, now, as it was then [in 1997], I simply have a very similar feeling - we take a loan now and they will increase the interest seven time overnight ... this is hopeless situation."(Case C, 4/1)

"[about very quickly changing business conditions] ... Regardless whether it [cause of these quickly changing conditions] is globalization or regulations of the government."(Case C, 6/1)

Changes in overall business conditions resulting from governmental activities are strengthened by highly dynamic forces in the individual industry and generally increasing dynamism in the business sphere worldwide.

"... Because, if 15 to 20 years ago it was possible to plan in companies, today it is not possible. The moment you collect your data, necessary for planning anything, the data is not valid any more. You do not even have time to diagnose your situation ... all the time you are balanced on the edge ... at the moment when you analyze your "now state" and already start sorting it out in your head, the state is already somewhere else!" (Case C, 6/1)

Strong competition from Asia

The strong competition from China (above all costs) and the general shift of this kind of production to the East seems to present another serious threat to the company. A further issue is unfair competition, as some Asian producers try to abuse the company's brand name.

"In China there are 7 producers and that creates terrible competition, the price differentiation is 70 percent! This is competition we cannot defeat! ... What they write on the boxes for Arabia Rock Boy looks, when written in Arabic letters, exactly like our logo ... you cannot recognize the products [their own and the ones of the Chinese

competitor] from each other. But nothing can be done about it, even though the trademark is registered in about 70 countries ... so this direct competition is very hard." (Case C, 2/1)

"...[about production of glass making machinery that has declined dramatically] ... The Far East totally ruined this production, because it can nowadays make it for much lower prices and with sophisticated software." (Case C, 3/1)

"[Company C] became this year probably the last producer of kitchen manual mills in Europe. Other competitors have terminated their production." (MFD, 18.3.2003)

"If this business went to the coupon privatization, it would not be likely that it would survive. This production transfers to the East." (Case C, 1/1)

"Despite the fact that it is necessary to say at this place, Chinese competition is still dangerous and we are not capable of fighting it, especially regarding prices. As for their quality, some of the producers are very close to our products, with a price differentiation of at least 50 percent, any measures are then difficult." (Annual, 1999)

"At the moment we are mainly struggling with ... the permanently growing competition of Chinese products that correspond well with the percent requirements on low prices regardless of quality." (Case C questionnaire, 2004)

High prices of foreign suppliers

The substantially higher price of technology purchased from abroad is another obstacle to development. This limits the company's range of technology suppliers.

"And how about from abroad [suppliers of technology]? [researcher] That is substantially more expensive! Our domestic producers provide the same, or sometimes even higher quality, but substantially cheaper!" (Case C, 3/1)

Low standard of external suppliers

A further challenge that company C frequently comes across is the low service standards and the nonprofessional approach of external suppliers. This includes organizations such as banks or Czech Trade (a major agency for the promotion of Czech trade abroad). Above all, the owner of the company sees the incompetence of other employees as a problem, as well as the lack of an individual approach tailored to the company's specific needs.

"[about floods] ... The Cooperative Insurance company, it was not easy with them [delayed payments]." (Case C, 1/1)

"[about applying for exchange rate risk instruments in a bank] ... They do not understand it themselves [bank staff]! I read somewhere that it is possible [to use these instruments] ... and so we [with company economist] called the bank, and the person in the business center of the bank [says] I do not know I have to call a specialist. He calls the specialist, who calls a superior specialist and a third person comes, who explains it to us in such a way that we leave the bank stiff from the banking terminology ..." (Case C, 4/1)

"[about poor support they receive from their bank] ... It [the bank] does not care about us to a great extent, I think that its does not yet know what it wants, or what is

wanted from it People do not know what they can do, this is not tuned yet." (Case C, 4/1)

"....And when you ask them whether it would be possible [to get some kind of advisory service from a private business banker or consultant] they reply 'no way, this is not possible, we do not provide this. All we can do for you is to give you, let's say, 20 million, but we have to do it so that you have to repay it until the end of year. We will probably arrange that you would pay it off with a new loan' It is not worth taking the risk! These are no solutions! ... [we would like them to] supervise us and to consider whether it is at all realistic that we can return the money at the end of year." (Case C, 4/1)

"... If only someone would come up with the idea of not only lending money to you, but also advising on how to deal with the exchange rate for example, now, with our [small] volumes. ... but you come to a bank ... and the officer says I have to ask. So you come again a week later! And you will talk to a different officer, who would do "this" [gesture for no idea] because he has not even read the book yet [one that the owner read]. ... So you think that the people are incompetent? [researcher] Surely!" (Case C, 4/1)

"For me a bank would only be successful [about incentives to change a bank] if they came and said we will decode it all for you [regular payment at account], we will prepare it for you and propose a better solution for you." (Case C, 4/1)

"[complaining about the low standard of a market study carried out by Czech Trade and another private company] They explain that the consular office in Shanghai [study of business opportunities in the Chinese market] searched all the streets of Shanghai and asked 20 chains and based on this it makes its conclusions- it is crazy! When I do research in the Czech Republic, I do it throughout the Czech Republic and not just in Rychnov nad Kneznou [a regional town]. ... China is a huge territory and culturally differs dramatically from region to region. So the study was not professionally done?[researcher] NO, not professionally! ... On one hand they say that there is no market in China, since the Chinese chop their meat rather than grind it ... but in the next line they write that there are 70 producers ... where do they sell their products then, these producers?" (Case C, 6/1)

"[complaining that business advisors are not usually capable of grasping the unique situation of the company or approaching it personally] ... Just read their offers ... if they write 'dear businessperson', I simply throw it away. He has not written to me! He just writes it to 'a business person'." (Case C, 6/1)

Entry into the EU

The owner also sees coping with the regulation of the EU and EU diversity as a challenge. It is also a challenge to estimate how certain business activities of the company will be affected, for example the level of sales in EU countries. At the moment the owner/manager is not able to anticipate these effects in more detail.

"[answering the question how would entry in the EU affect the business] If it develop as it looks likely to right now then this will involve all of us a lot, since a certain level of diversity will be probably create difficulties for everyone ...From the point of view of products it will certainly influence us negatively, rather than positively ...At the moment we sell through representatives, who have certain orders that will change substantially. But we cannot estimate how." (Case C, 2/1)

" The second aspect is ... that the EU treats itself highly protectively and it is possible to expect that it will take rather hard protective steps in an indirect [manner] ... they

say that all founders in Bohemia have to wear ... and these have to be purchased strictly in ... And that would be it." (Case C, 6/1)

8.3.1.4 Other external challenges

Natural catastrophes

Due to the location of the plant in a small river valley, the company must deal with the potential danger of floods. The impact of disastrous floods was demonstrated in 1997 when the company's plant was totally flooded - almost 160 million CZK worth of damage was caused.

"A dramatic change took place after the floods, we had a meter of mud here, water was here within two hours, overall damage worth 156 million." (Case C, 1/1)

"The flooding was really bad here ... up until here [indicates level] was mud Here you see sacks filled with sand, preparation for future floods, but I think that, if the water came fast again as it did then [in 1997], then this ... [would not help]." (Case C, 5/1)

"Amongst the locals a story survives, that, at a safe distance from the flooding, a helicopter carrying minister Gregr landed on a hill. All he said when he saw the disaster was ' You will not produce anything here any more'. " (Hradecke Noviny, 2002)

In addition, as a result of the production process, the company has also had to cope with numerous fires in its history, the last of these happening at the beginning of 2002. Prevent such fires from happening in the future in therefore another challenge for the company.

"What you see are the catastrophic results of a fire on 4 January [2002] and we have not yet managed to restore it." (Case C, 5/1)

8.3.2 Internal challenges

As well as external challenges, the company also faces multiple internal challenges, i.e. challenges to its overall management and the management of various internal functional areas such as production, marketing, finance and human resources. Eight categories of challenges in this area were identified from the interviews and other sources and information: -

- challenges related to the production program
- challenges related to technology
- challenges related to finance
- challenges related to human resources
- challenges related to information
- challenges related to storage
- challenges related to marketing and commerce
- other internal challenges

8.3.2.1 Product and production program

The company currently has a very limited range of products. This is due to the transfer of numerous product lines that the company used to produce in the past to other state enterprises. There is a related loss of know-how and management skills. Current product lines have become obsolete and the company is unable to find new ones. Production capacity is insufficient and this adds to the challenges that company C faces in relation to its product and production program.

Loss of production programs, know-how and competitive advantage

One of the greatest challenges for company C is coping with the loss of its traditional product lines. Even though the company was very well equipped before the nationalization in 1948, with a wide range of products ranging from irons, piano frames, many kitchen products, heating radiators and paint mixers, to graters and many other items. This range of products formed the basis of its competitive advantage. However, at the moment it can only rely on two stable product lines - kitchen mills and piano frames. As the owner/manager explained, all the other products were transferred to other companies, and much production later ceased as the firms were going bankrupt in the 1990s. Having only two stable product lines does not give the company the stability it needs.

“We were doing ovens, radiators, that was a great hit, these were not produced right here, these were produced in the foundry that [family] had in Nachod Unfortunately the factory was closed and its whole production program was cancelled.” (Case C, 5/1)

“The firm was relatively well equipped after nationalization. The first kitchen robot was produced here, where you sit! Then our production programs were taken over by other companies - for example irons by Mora, it was all together five firms that gained [our] production programs.” (Case C, 1/1)

“Everything was stolen from the company, including the production program. Production of the first kitchen robot was transferred to Eta Hlinsko, graters are nowadays produced by p.s.p. Prerov, cookers by Moravia. Only mills and piano frames remain. No other company was capable of producing them.” (Hospodarske, 2002)

“Here is where the graters were produced before the war ... and then the communists took it all somewhere else ...” (Case C, 5/1)

“We are also trying to find out whether it would be possible to reestablish some of the old products.” (Case C, 3/1)

“... Here are sorters, graters, thanks to them p.s.p Prerov was established - it does not exist today either, it went bankrupt, but that is where part of our range was taken.” (Case C, 5/1)

Together with the transfer of production programs to other businesses, the company also suffered also from loss of personnel - whole development teams - and their know-how.

"... Also, people who were developing the programs left [when production was transferred to other companies]." (Case C, 1/1)

"... They took the production program and the related know-how. Including all the chaps who were developing it." (Case C, 6/1)

"...one could also produce this [product] nowadays [sigh] as it is. We cannot produce it ... we would be capable of producing only some parts of it ... a great amount of technology was taken away to other enterprises, it is too late Now they have been liquidated, of course. ... and meanwhile, here we stopped development. They took the people away with the know-how. This is worse! So developmental teams, they were broken, damaged ... and so ... well ..." (Case C, 5/1)

One of the greatest challenges for company C is therefore to extend its product range and to innovate some the products that currently represent the core of the business. However, in the light of the loss of product development know-how and limited innovation, product development is no simple issue.

"Unless we manage to extend our current production lines with certain modern features, or unless we manage simply to change it entirely ... then the business does not have many developmental chances ..." (Case C, 4/1)

"We have no production program here [in one of the operation halls] ... we could not find a suitable production for this operation, suitable, series, or something like that." (Case C, 5/1)

"Unfortunately, the production of Lerchovna does not get reflected in our results, we still have not managed to find a suitable production program for it." (Annual, 1999)

Obsolete or declining products (design and technology)

In addition to a lack of new product lines, the company also faces problems related to the obsolescence - above all in design and functionality - of its current product line. There has been almost no innovation in this area during the last fifty years. In the case of the company's main product line - kitchen mills - the innovation of design and technology should also extend to rust free versions of the product. For the supplementary product lines such as glass cutting machines, the lack of technology (in built microprocessors in particular) seems to be the main obstacle to development and the main reason for its decline.

"We experiment with rust free surfaces because we are worried that this world is obsessed with this kind of nonsense and will simply want it." (Case C, 2/1)

"These products [mills] are archeological, design is nothing much ..." (Case C, 2/1)

"These are glass cutting machines ... but again, they do not have the microprocessor." (Case C, 5/1)

Unsuitable production capacities

The company is currently operating with unsuitable production capacities. Whereas, in the majority of cases, capacity for declining products are extremely high, for the main products – kitchen mills – capacity is insufficient, particularly at certain times of year. Improvement would require further investment (see section on Economy – difficulties gaining external sources of finance and lack of finance).

“[factory visit - last of the third production halls - production of supplementary production program] These are huge facilities. [researcher] They are. But per square meter their contribution is little.” (Case C, 5/1)

“[factory visit - last of the third production hall] This used to be the apprentice training center before the floods, Skoda had it, this part of the production hall. ... We were renting it out to them. But when they saw the damage they said they would not invest in it ... so this space here is now extra [unused].” (Case C, 5/1)

“The product [mills] sell well, is has its traditional customers. It would certainly sell even better, but we are limited in [production] capacity, we need to investment in additional capacity ...” (Case C, 2/1)

“...Our inability to respond to the increased demand in the second half of year only increased this slump [in revenues].” (Annual, 2000)

8.3.2.2 Technology

Hand in hand with problems related to production programs go challenges related to the renewal of obsolete technology.

Obsolete technology and depreciated machinery

The majority of the company’s technology and machinery is rather obsolete and needs prompt renewal. Obsolescence does not therefore mean only the very old machinery that has been almost totally written off, but also, more generally, the obsolete technology and production process, that, as the owner/manager explains, has not changed since the times of his great grandfather.

“The company is technologically obsolete. ... The technological obsolescence is huge! Hand work! Obsolete! This impact on the ability to compete. We are expensive, we sin on the trademark. It is at the edge.” (Case C, 1/1)

“At the point of taking over the company the purchase price of the machinery was 35 million CZK and now the book value is about 1 million CZK. So the company has been almost entirely written off.” (Case C, 3/1)

“Our greatest problem is obsolete machinery. I am sure that, if in course of those 45-50 years normal non-interrupted investments had been made into the company and the program had remained at all, I think that it would ... so simply it would be produced differently! Simple clever heads would come up with new technological procedures, different machinery that would do the same things, but in a different way. ... but there was simply this 40 year period ... when people were not motivated to change anything. ... what we need and our great problem is, is a change in the whole philosophy of tooling. ... there has not been a single innovation since the times of my great grandfather ...” (Case C, 3/1)

“These machines are 40 years old.” (Company C, 5/1)

“This is a great machine ... no one else can do this shape! ... Only this machine can do it, it is from 1890!” (Case C, 5/1)

“You [nowadays] build your company a bit like a Lego; you construct your product already thinking that it would be produced using a universal template that you can buy almost in a drug store. ... Like that modern production is built. But we are not a modern production.” (Case C, 3/1)

“Production technology remained in many respects as it was many years ago.” (Hradecke Noviny, 2002)

Obsolete machinery and production technology – a great proportion of the work is still done by hand – therefore have a negative impact on the company’s overall economy. Production costs are high and margins, with prices set historically, are low. To improve the current state of affairs, high investment is needed and the company cannot afford this. Low product margins result in the company’s lack of resources and its inability to invest. Machinery that is practically written off reduces the company’s chances of obtaining external financing.

While obsolete machinery and technology is a problem, purchasing new one equipment complicates the old character of production, which requires made to measure machinery, is harder to obtain and is substantially more expensive than modern machinery.

“We have solved it [necessity to invest in machinery] so far by repairing many things. The machinery is unfortunately single purpose and to build a single purpose machine is expensive. We invested last year, we completed an investment of 16 million CZK for a machine that only manufactures the bodies of meat choppers. That is a very hard blow [such an investment].” (Company C, 3/1)

“All this the [one-purpose] machine can do ... but it cost 16,5 million CZK ... I did not even want to believe it [the high price].” (Case C, 5/1)

8.3.2.3 Finance

Indebtedness and lack of financial resources

The company currently suffers from a lack of its own resources, caused above all by the poor profitability of the company’s product lines, an inability to borrow due to high indebtedness and the strict rules of banks on borrowing money. These issues cause one of the greatest challenges the company currently has to deal with - a lack of resources for further investment. Lack of resources is an important issue since it substantially limits the development of the business. It is a barrier to introducing new, external, product lines, to increasing production capacity for current products that are in demand and to carrying out innovations to its current products lines.

“we widened the number of our customers as well as services we offer to them ... But with lack of capital no miracles are possible.” (Questionnaire, 2004)

"[about indebtedness] We have three loans, huge ones. The first one was from the past, we inherited it from the state enterprise. We suffer but we are paying it off. The second one, 40 million, we took recently from the development bank to restore the business after the floods. ... And the third one we took to repair a house in Skuhrov that belonged to the company, to the family... To renew it cost us 15 million!" (Case C, 1/1)

"All together we physically have about 3 loan contracts and our loans total about 30 million at the moment." (Case C, 4/1)

"[about unfavorable structure of company's property with regard to obtaining a bank loan]... and I am not so daring, when you look at the accounting balance, at the numbers, that show that it [company] is highly indebted, so I do not have the will to try it at all [to ask for a loan]." (Case C, 3/1)

"... [mostly] What creates our equity is real estate. Again, this is not something that can actively produce. ... The company has been undercapitalized ... since its establishment [after 1990]. The only resources it has had are loans, which are not the cheapest thing. And in addition, during those first 4-5 years ... the privatization loan had to be repaid so the family had to take more loans, and it was paid off from that ..." (Case C, 4/1)

"But we need finance of course, because we do not have our own capital, where would we take it from? ... so we need things like 30 million for machinery ..." (Case C, 3/1)

"[about possibilities of producing products for Skoda] ... But clearly it is piece production rather than a production line, we are not capable of doing it [a production line], we do not have the capital strength as they [suppliers] require." (Case C, 3/1)

"We are a small firm with minimum capital that is financed from one day to the next." (Case C, 4/1)

"[answer to the question whether it would be possible to re-establish some of the old production lines] ... There are chances. But you have to have money!" (Case C, 5/1)

" We still did not work out what to do about it [waste products from producing iron] ... In the past it used to be used for making bricks ... but we cannot make it nowadays and we do not have the money for the technology that would manage that." (Case C, 5/1)

An important aspect of the company's current financial situation is the fact that the family had to buy out a substantial part of the business from the state. As the family firm had to repay the purchase loans before it could start its 'productive' investments, development was slow. This is in comparison with 'normal' privatization, where the purchase price paid by the investors does not burden the business and, in addition, the investors often bring their own capital to the business. In the case of company C, no personal property that could have been contributed to the companies was available.

"The price [restitutional buyout] was calculated as the sum of the assets minus external liabilities minus the restitutional share -in our case that was the value of the real estate. Things such as the value of trade marks were not considered in this at all. ... So we finally paid 40 million [whole price of the buyout] ... and since then we have claimed that they should return [part of] the money to us. ... we have been waiting for this for ten years." (Case C, 1/1)

“And in addition, during those first 4-5 years ... the privatization loan had to be repaid so the family had to take loans and it was paid off from that ...” (Case C, 4/1)

Another financial burden represents the restitution that has remained unresolved for over ten years. This binds resources that the family desperately needs for further investments.

“When we took over the business, no one really properly handed it over to us. Currently there is an unresolved claim between my father and the National property Fund.” (Case C, 1/1)

“So we finally paid 40 million [whole price of the buyout] ... and since then we have claimed that they should return [part of] the money to us yet. ... we have been waiting for this for ten years.” (Case C, 1/1)

Last but not least, the generally unfavorable economic and financial situation of the firm has deteriorated due to past debts inherited during the privatization process from the former state enterprise. The company is still repaying some of these loans and this further reduces its ability to obtain and repay new loans, particularly for investment. In addition, as the owner explains, some of the loans were never used for the purpose for which they were obtained and at present create no benefit for the company.

“The first of the debts was from the past – that one we inherited from the state enterprise. We are paying it off, but we suffer.” (Case C, 1/1)

“The company inherited, had transferred onto it, loans of the [former] state enterprise. The state enterprise had all together ... about 4-5 loans, out of these three were for the same thing, which was never bought anyway... the state enterprise had about 27 million worth of loans at the time of privatization ...” (Case C, 4/1)

Apart from long-term investment finance, the company also seems to lack resources to finance its operations and short-term activities. This lack of finance negatively influences basic activities such as purchasing raw materials or investing in marketing. In addition, the company cannot produce enough stock in order to meet seasonal increases in demand.

“ ... You know, with marketing it is a bit problem. I just read somewhere that up to 50 percent of our costs should be marketing costs. I would like that to happen, but so far the product has had to promote itself...” (Case C, 2/1)

“[about problem of not meeting seasonal demand] Can you produce excess stock? [researcher] Well someone has to pay for that! ... someone has to pay for production! ... You have to put money in it! We are sure that ... if in first half of the year we stored 30 to 40 percent of products and sold them in the second half of year, we would be probably 99 percent certain of being able to manage that [meet increased demand]. ... But we do not have the finance to do that ... If we had these approximately 40 to 50 million that we could use to build up stock, then we would be likely to be able to recoup this ... But we do not have this 40 to 50 million! ... Seasonality would be manageable if only we had the resources.” (Case C, 3/1)

“... You have to invest relatively large amounts into non-production ... activities such as ecology.” (Case C, 4/1)

"[about operational problems] you know, at one point we did not have the resource to buy acid [traditionally used in the production process for cleaning the products]." (Case C, 4/1)

Profitability

As already mentioned above, the low margin on the products is the cause of the company's overall bad economy and low profitability. Low margins are influenced by two factors – historically set prices that are difficult to change (and, if changed at all, would probably be reduced as result of strong price competition from the east) and high costs of production (resulting from the great proportion of work that is done by hand, the increasing price of supplies and the economic problems experienced by some of the company's business partners that affect the company in turn). In order to improve this situation the best option for the company seems to be to try to reduce costs. However, this is a difficult task, as low margins mean that the company cannot invest. Without investing in production technology that will reduce the amount of work that is done by hand, larger cost savings might be difficult to achieve.

"Dedicated machinery is attractive, but the investment needed is very high and what I should tell you is that ... the profitability of the kitchen business is not that great ... it is not Nokia, the value added, or some other parameter ... is not so high so that you could renew your machinery and recoup the investment quickly." (Case C, 3/1)

"Price is greatly influenced by the traditional character of the product, as its production is costly. ... Our priority now is to decrease costs." (Case C, 3/1)

"Economic results are, to a great extent, influenced by the high proportion of personal costs, which is our permanent problem." (Annual, 1999)

"[in the factory]... All this is done by hand? [researcher] Yes. Could that be automated? [researcher] ... It could! It could! But it would be a huge investment ..." (Case C, 5/1)

"Other wise the assembly is all done by hand. It was done like this in the time of my great grandfather! In exactly the same way!" (Case C, 5/1)

"Our greatest problem [in production] is obsolete machinery, really old! Production requires a great proportion of hand work! Non-qualified, but still hand work." (Case C. 3/1)

"Prices are historical! They are only influenced by the exchange rate, inflation and then competition, but unfortunately this usually means that prices are reduced. ... The price is unfortunately strongly influenced by the traditional production methods, that have high costs. ... Our priority now is to decrease costs." (Case C, 3/1)

"At the moment we are struggling most with the rapidly increasing price of supplies – the internal inflation rate is around 30 percent." (Questionnaire, 2004)

"It can be said that since the fall in value of the Euro and the US dollar two years ago our situation has been deteriorating constantly, because of the fact that some of our partners – buyers – have themselves faced problems and these are transferred onto us." (Questionnaire, 2004)

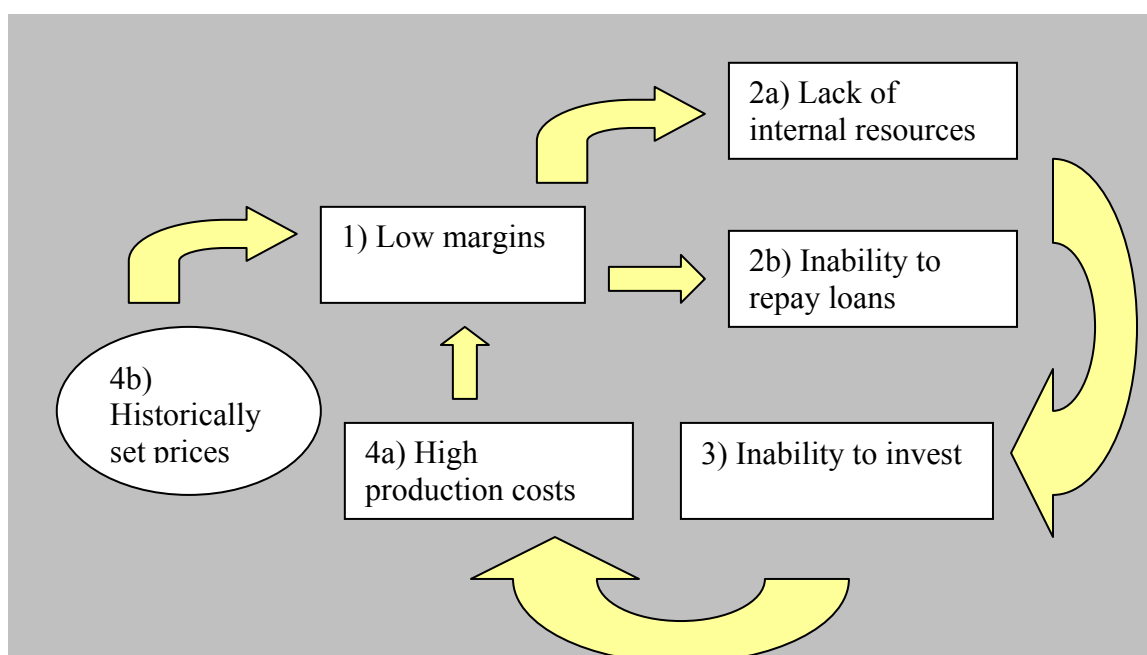


FIGURE 45 Financial challenges of company C

Need for huge investments

The company came close to shutting down several times during the communist era and therefore, when the family took over the business, it was highly neglected and in a rather disastrous state. There were problems with production as well as the other facilities belonging to the business.

“They were sending the directors over here as a way of punishing them, and well, it looked like that was what the place was for. They wanted to close the business down three times - it was an export of strainers that saved it. So it was unlikely that it could ever have been handed over in a good state.” (Case C, 1/1)

“When one friend of ours entered the business [after the handover], he asked me ‘Was there a prison here?’” (Case C, 1/1)

“The business was ready to be closed down [after the takeover].” (Case C, 1/1)

“We have so many sore points! ... In 1939 we opened them and they were ultra modern [lavatories and rest facilities for workers] ... since then, they have remained exactly the same ... maybe even the toilet seats.” (Case C, 1/1)

“By the way, the house [the family home that was also expropriated] looked like this [very ruined - shows a picture], it was originally protected as a piece of cultural heritage, but this is it at the time of privatization”. “It is totally ruined!” [researcher’s comment on picture].” (Case C, 1/1)

“People were coming to have a look at it [ultra modern lavatories built in 1939] If I took you there now, you would be sick ... they totally ruined them ...” (Case C, 5/1)

“What ever was possible was stolen from the business.” (Hospodarske, 2002)

With regards to the huge devastation of the business and the low investment during the communist era, one of the important challenges of the company is now to carry out several investments. This is needed in order to replace some of the old machinery, purchase new technology and re-establish other company facilities.

“New machinery has been purchased, otherwise the business would not exist now. Every year we invest, at least at the level of what has been written off.” (Case C, 1/1)

“[answer to a question whether the company had to invest a lot after the takeover] ... There still is that need! ... So how much did you invest into machinery in total? [researcher] A huge amount! ... All together certainly about 120 million CZK.” (Case C, 3/1)

“ ... Talking about production investments – to production and technologies – so we will have to renew the machine for creating small casts, that is 20 to 30 million over the next 4-5 years for sure ... we would also like to invest in new technology for casting and stainless steel ... we need to assure this production.” (Case C, 3/1)

“[about unwillingness to use bank working capital financing or other operational loans] ... we have to handle this with our own resources ... And then we will have to take a deep breath and take some investment, if things are going well, some long-term investment ...” (Case C, 4/1)

“[about investments into specific machinery] There is no money! No money!” (Case C, 5/1)

“[about adjustments to production] This should be ready this year. If there are the resources for it. Now it [the company’s financial situation] is really bad!” (Case C, 5/1)

Liquidity problems

As a consequence of the sudden change in exchange rates the company has been facing severe liquidity problems. As the owner points out, the losses generated by the exchange rate reach millions of CZK a year.

“How is the company’s liquidity looking? [researcher] Right now poorly. Right now ... I do not know, our liquidity problems have lasted for approximately 6 months. In relation to the exchange rate? [researcher] Certainly, yes, because ... it is rather easy to calculate that, if the exchange rate remained in the second half of the year ... as it was in the first half, we would have 10 million more now! That is a lot of money!” (Case C, 4/1)

“The exchange rate of the Czech crown and the euro has been influencing export, which is key for the firm, negatively for several months already. The crisis went so far that ... the company even had to postpone payment of wages to its employees.” (Hradecke, 2003)

“... we have really dedicated ourselves to the management of cash flow, really intensively, for the last 5 to 6 months, since things started to get really bad. Today we in fact work with weekly plans. ... But we try to manage it ... they are enough of them [resources] but they decrease on the way over the border...” (Case C, 4/1)

“... The strong currency caused revenues to decrease by six percent to 105 million.” (Hospodarske Noviny, 24.9.2002)

In addition, liquidity problems are increased as a result of the deteriorating payment morality of foreign buyers.

“Their [foreign buyers’] payment period approximately doubled this year from one to two months. If the payments for just two deals get delayed then we have problems.” (Hospodarske Noviny, 24.9.2002)

The seriousness of the liquidity problems is shown by the fact that, in the autumn the company started having problems with the payment of salaries.

“... about 40 percent of the 380 employees receive payment of their salary in two installments. ... This gradual payment of wages will probably continue during August to November.” (Hospodarske noviny, 24.9.2002)

Assets that cannot be utilized

The company’s overall problematic financial position is further affected by assets that it inherited from the state enterprise. The company cannot utilize most of these items (either for its own production or by selling them). These assets had to be purchased by the current owners as a part of the restitution deal and financially encumber the company. These can only be written off slowly, since a large amount of bad inventory write-offs would deteriorate the company’s overall financial situation and make it harder to obtain new financing.

“Apart from a devastated production program, the new owners also inherited 8 million worth of property that was intended for liquidation.” (Hospodarske, 2002)

“We inherited a great amount of assets, we bought them in privatization, assets that we will never use ... they are not sellable, of course ... there are, for example, 20 000 Flexosnura [an electromaterial], that cannot be used in the Czech Republic. One such Flexosnura costs 4 CZK. ... We write it off slowly because, if we write it off at one go, then some banker will raise his eyebrows ...” (Case C, 4/1)

8.3.2.4 Human resources

There are also several problematic areas relating to human resource management that the company will have to handle in the future.

Lack of qualified work force

One of the key challenges the company needs to cope with in the area of human resource management is a lack of a qualified workforce. As the owner stresses, this lack is obvious when searching for managers as well as qualified blue collar workers. The problems are caused above all by the fact that one of the biggest players in Czech industry – Skoda Auto – positioned one of its supplementary production plants a village near to the company’s plant and this attracts the majority of the local work force. The situation is made even more serious by the fact that company C, with its poor financial position, cannot afford to pay wages that are comparable to those of Skoda Auto. The lack of managers and employees with higher levels of education seems to be connected to the location

of the company, which is based in a small village. This is not attractive to the types of people that the company would ideally wish to target. It is unlikely that the company will be able to finding local inhabitants with the specific skills, such as marketing, that the company requires.

"... You can buy a turn key investment casting foundry, you can. But you cannot find the people for that. So is it difficult to build a work force? [researcher] To find people is generally a great problem, but this would be a rather specific, qualified activity." (Case C, 3/1)

"It is me who is responsible for marketing, since we did have a disagreement with previous director of the unit and he left in the autumn. ... I am looking for a person who would do the background for the sales people ... that means that he would analyze and summarize So far it has been me doing that and that is not good. ... This needs a differently educated person [than the sales force] and also a person with their own mental space! ... Such people are not often born around Skuhrov ..." (Case C, 3/1)

"There is a very low unemployment at Skuhrovko [region where company is located] and the fact that Skoda [Czech car producer] is starting production on the suburbs of Kvasiny, that is 5 km away, means that we will lose more workers. We cannot pay as well Skoda." (Case C, 3/1)

"Is there enough of a qualified workforce in the region? [researcher] There is not! How do you solve that? [researcher] With difficulty. We could compromise on quality. Does not this cause problems? [researcher] It causes problems! Of course it causes problems! I deal with it day to day and either we can continue to bear the problems, but we need to have the person, or we get over it somehow So for example since [the marketing manager] left I am at the same time also a marketing and sales manager." (Case C, 5/1)

"Managers are generally hard to get, the qualified ones are not available." (Case C, 1/1)

"Right next to us in Kvasiny is Volkswagen... There the earnings are high ..." (Case C, 2/1)

Resistance to change

Company C has to cope also with resistance to change from its employees – both managers and blue collar workers.

"Something new is always a problem. Two years ago I said that the goal was to get productivity to 300 Kc per hour. Everybody was doing like this [gesture for not possible], you are crazy! Do you think you want to build capitalism in here? That is not possible in this firm! That is bullshit! ... Last year we increased that for 320 Kc per hour because these 300 was already anachronistic." (Case C, 6/1)

"Unfortunately certain latent resistance was also apparent [related to changes in the organizational structure] whereas, during discussions this restructuring was regarded as necessary, needed and important, in real activities it was in various ways undermined and instead of developing it was suffocated." (Annual 2000)

"Replacing communism in our firms was disadvantageous. We cannot build our vision on a green field and say here it will function like that and you will do things in this way ... try telling this to a company that already has its own biorhythms. ... you can say that, but that is about all you manage. Because it does not work like that. ... You look at your property as something you can freely deal with. But that is not true,

but you only realize this later! ... Imagine your employee telling you ... that he refuses to do something. It is funny, it is within the norm and you cannot say a word about it ... well, I want a substantial change from him and so I have to wait and be patient ... The one who builds on a green field is in a substantially better position." (Case C, 2/1)

"[about introducing formal financial planning techniques and budgeting] ... I encountered heavy difficulties with colleagues who misunderstood this ..." (Case C, 4/1)

Non-efficient motivation system

Another challenge is to find a suitable motivation system for the employees.

"We had so many of them [motivation systems] and none proved very good." (Case C, 5/1)

High employee turnover and absenteeism

The company also has to deal with high employee turnover, as well as a high level of sick leave. The owner believes that a possible cause of this is the company's inability to pay higher wages.

"The personnel situation has not improved, low employee turnover persists as well as the amount of sick leave. With regard to the economic performance of the firm, we have not managed to increase wages and it is therefore possible that this is also one of the causes of this state." (Annual, 2000)

Accepting responsibility

Teaching employees to take responsibility is another challenge for the company. The owner/managers give two examples, concerning both managers and blue collars, that show that employees taking responsibility for their own work is an issue.

"... We had advisors for half a year at one point I simply had to call all the managers, middle and low level, and tell them 'these are advisors, but the decisions are made by you! ... and yet now I sometimes hear people ask Mercl [one of managers] ... 'why should we care about that? What is your opinion??' and this is a problem. Because many people like hiding behind somebody else." (Case C, 6/1)

"It is only now that I am beginning to feel that, really very slowly, people are starting to understand that, if they do not work well, if they cheat something, then it will in some way negatively impact them, which was not the case during socialism. Not by a sanction ... but that the customer may leave us. And now people have started slowly, but very slowly, to understand that. They are beginning to understand that it is the customer that provides the money, not us [firm]. ... So they get to understand it. But it takes time and so far it has been nothing much." (Case C, 5/1)

Not accepting responsibility is very closely related to the preservation of socialist working conditions. The owner of the company feels that socialism has been preserved in the business. As he stresses, and once again related to the issue of taking responsibility for their own work, employees, and particularly

blue collars workers, still receive many benefits and social security regardless of the quality of their work. Introducing a system of social benefits based on reaching targets and thereby differentiating between 'good and bad' workers is therefore another challenge for the future.

"I always used to say to my older colleagues, my father and uncle, that we preserved socialism here. ... We would not make people redundant [despite poor economic conditions] and would give workers bonuses after 20 years working here. It is nonsense ... even if he had not shown up at work for the past two months ... and I should give him the money? Despite this absurdity, it is still like that." (Case C, 2/1)

"Replacing communism in our firms was disadvantageous. We cannot build our vision on a green field, and say here it will function like that and you will do things in this way ... try telling this to a company that already has its own biorhythms. ... you can say that, but that is about all you manage. Because it does not work like that ..." (Case C, 2/1)

"So look, I say, that in our firms socialism still survives ... extensively And this was perhaps because my uncle was a very non-confrontational person, very communicative, that was simply it ... I think that it evolved and socialism remained ... human socialism. Look, no one is punished for producing a faulty product Well, sometimes they are, but there must be a reason for this. ... He must have done it on purpose or been drunk ... something like that." (Case C, 5/1)

Distrust in mission statements

A challenge that the owner sees within the company, but also generally in society, is the resistance of the employees towards formally defined company roles. In his opinion, the over-use of mission statements and targets during communism has decreased employees' trust in them and they are now less likely to motivate staff.

"[answer to a question what importance he would attribute to formally set mission statements] We have been so resistant to capitalism in this country that it [mission statements] does not work with us. Notice boards and such things ... The Japanese celebrate great success like that, but here employees become worried when another Czech-Soviet relationship appears there [on a notice board]. It needs time. Do you think that, if it was defined differently, let's say some kind of a higher ideal, that it would make sense then? [researcher]" Certainly! Certainly! It must be well formulated and well presented. The New testament is a very well presented idea!" (Case C, 2/1)

8.3.2.5 Information

The company also seems to face certain challenges related to gathering information about itself and its products and obtaining information from the market.

Lack of information

It seems that the company is slowly realizing that it does not have enough information, either about the company and its products or about the market in general (to allow them to monitor market signals). In respect of information

relating to the company, a considerable drawback is the short period of time since restitution - there is no stable time line of data. In addition, information concerning the position of the company's products in the market, the way these products are perceived by customers and overall demand is not readily available.

"... We do not have alternative plans for many things nowadays because in this respect we do not manage to make even the normal plans, simple ones. If you had to make an alternative one for each of these ... which is a common practice abroad, since they can forecast better and have more experience and data about themselves... and this is not only about financial resources ... it is not. I think that, when planning, they look at the past ten years, not at the total history of the establishment. But for us the past ten years is our re-establishment. It is a nonrecurring process from which you cannot learn for normal life..." (Case C, 2/1)

"[about monitoring of market responses to mills] ... Sales increase, but until now we have not evaluated why it increases at all. We do not know why this is!" (Case C, 3/1)

"Do you know what the position of your products is in the market? [researcher] ... this is now it beginning to interest us ...but this is [not finding out about the products position in the market] one of the biggest mistakes of the past, and we realized this late. Products were selling, so we did not see the need." (Case C, 2/1)

"We simply somehow did not even register the opportunities or at least sense that we might miss something, that is one thing. The second thing is that we were not finding out what the customer actually wanted ... the market grows all the time, so why should we bother, is that not true[sarcastically]? Until recently we have not looked at what makes sales grow. ... We do not know. ... And our inability to answer this question has brought us to the point where we realize we have to deal with it. So we are at the beginning." (Case C, 3/1)

"I am simply looking for a person [for marketing]... who would look at the signals from the market ..." (Case C, 3/1)

8.3.2.6 Storing and procurement

Company C faces two major challenges in relation to storage and procurement - both the storage capacity and the storage equipment installed by the former state enterprise, are unsuitable for handling the materials that company C uses.

Insufficient storage capacity

Whereas in some phases of the production process storage capacity is too low (for example storing finished products), storage for other items, such as raw materials, are extremely large and useless. They cannot easily be rented out.

"We have so much [storage] space that we might pave with it [expression used in Czech for something being plentiful]." (Case C, 3/1)

"Is your storage capacity sufficient?"[researcher] "Enormous, but useless." "Would you be able to rent it out?" [researcher] "No! Certainly there is not. It is all inside the factory grounds so that is a problem ..." (Case C, 4/1)

“As you can see, nowadays we store the final products in garages. We do not have enough [suitable] space for storing finished products.” (Case C, 5/1)

Inadequate storage facilities

The company also has to deal with the inadequate storage facilities for its stock of raw materials. These storage facilities were installed shortly before the privatization and are designed for a very different kind of production.

“The materials storage is relatively new, it was completed two years before privatization and it was probably built for someone else, as it is absolutely unsuitable for us. In what sense it is unsuitable? [researcher] Its layout. There are interpolators that cannot carry the material that we use. And we have used these materials for 100 years. Why someone built it there and why, I have no idea. It is suitable for a clock producer, not for us. But it is there and so we have to struggle with it.” (Case C, 4/1)

8.3.2.7 Marketing and commerce

Weak marketing

Despite the fact that the company seems to realize the importance of marketing, the owner acknowledges that, in practice, the company still lags behind in marketing activities.

“Despite several attempts at introducing marketing activities – measuring customer satisfaction, measuring responses to customer requirements, monitoring complaints etc. – we did not manage to implement these in practice.” (Annual, 2000)

“[about purchasing a piece of machinery for products which are not in demand] This is what happens when things are done without marketing. Of course, there is a certain irony, but really, we did not think about what a customer might need. We did not look at a customer, all we wanted was to re-establish the workshop [damaged after floods] So we did that ... that was stupid. We should have re-established it, but in a different way.” (Case C, 5/1)

“Do you have any plan, or something like that ready for marketing? [researcher] Yes, now we do have one. For how long have you had it? [researcher] For 8 to 10 months [laughter]. Why did you decide that it was necessary? [researcher] Some of us, we have the feeling that our approach to all these activities is, let’s say, cheeky. We are still not bending to suit the market ... we are still trying to tell the customer what he or she should want. He tells us that he dislikes something and we tell him, you are rather silly; you have to like it like this because we made it up. To tell it in a simple way. ... and we realized some time ago that this was no good, that for many reasons this takes many opportunities away from us. We do not even try to find out about these opportunities, or, we did not. As I say, we are a bit further along now. I do not want to say that we know how to do it [marketing], but we have started. We are in the first [elementary] grade ... it is still a long way to secondary school.” (Case C, 3/1)

8.3.2.8 Other internal challenges

Ecological problems

The company has had to cope with various ecological problems inherited from the past.

“... No one has ever been interested where the sewage goes to ...” (Case C, 2/1)

“ There was a huge whole in the ground [as a result of floods] and some kind of old sewage channel got uncovered there, that no-one knew about ... So now everything is repaired. Was this the ecological disaster you mentioned previously, the one where everything possible [sewage] was running through it? [researcher] Yes!” (Case C, 5/1)

Business counseling

A further challenge seems to be the issue of finding appropriate business counseling. On several occasions the owner manager expresses the idea that business counseling might be very useful for the company. On the other hand, he has had a negative experience with a business consultant and this combines with his fear of not receiving individual treatment and a general lack of trust in business consultants to create a barrier to taking advantage of such counseling services.

“If only I could trust someone well, in a sense ... that he would gradually analyze us from a distance and would be saying, this seems good, this does not ...from a distance he could say look, the people cannot do this, and this, I know how to get people who can do that and to train them ... We really do need that! ... But you would have to have someone who can do that and whom you can trust. ... I read their [advisors'] offers ... if they write 'dear businessperson', I simply throw it away. He does not write it to me! He writes it to 'a business person'.” [Case C, 6/1]

“[about banking services]...If only someone would come up with the idea of not only lending money to you, but also advising you on how to deal with the exchange rate, for example, now, with our [small] volumes.” (Case C, 4/1)

“We even had for over half a year a consultancy company training everybody from management to foremen ... it did not start anything [learning process].” (Case C, 6/1)

8.3.3 Family business challenges

As well as external internal business challenges, the company also faces certain specific challenges related to the presence of the family in the business.

Managing future succession and assuring continuity

Assuring the continuity of the business and managing the future succession is another forthcoming challenge that the company has to cope with.

At the moment the owner/manager is, apart from his father, the only family member who is truly active in the business. As he himself states, there

are not too many other family members from either of the family branches who would be willing and ready to enter the business. For some of them, who live in distant parts of the country, the location of the factory is unattractive. Others have become successful as professionals in very different fields over the years and they do not want to give up their careers. For the majority of them the family firm does not seem to be a strong value.

“Out of this generation there cannot be many people here ... [aunt] has two sons, who at this point have to choose certain direction - the way is open, but they do not seem to be very interested. The mills are not very hi tech and Skuhrov is not in the middle of world events. ... from [uncle’s] side they are from Hradec and from my side from Liberec. As for their education [sons of aunt], they are university graduates, one studies architecture in Liberec, the second one law in Plzen. He started to study economics, but he did not like that, he thinks numbers are nasty. And Jirik’s [uncle’s] oldest son refuses to have anything to do with the firm. He was initially keen and I think that he worked in exports, in the area of hardware. There he realized for himself. He did the job of a network administrator for a while here, but then he realized that it was not where his future lay. Myself I have a daughter, in seventh grade at the grammar school, there is lots of time yet, and she has different interests that silly work ...” (Case C, 2/1)

“My father’s generation were the ones keeping their fingers crossed [for privatization] ... but they were already elderly... my father is 70 now, so he was sixty or around sixty ... and their children, they did not care about it at all! ... from the wider family ... and the sons of Jiri [uncle], ... Honzik was around twenty, Jirik around fifteen ... no comments. And no one even asked them about their opinion, frankly, I think that in this sense it did not involve them at all.” (Case C, 5/1)

“Not a single family member has had the chance over the past fifty years to gain an education in economics or management. My father was imprisoned for three years ... He was not allowed to have subordinates or to earn money. When in the 1990s the chance of reclaiming the business appeared, there was not a single person in the family who would have rational prerequisites for that. Neither did I.” (Hospodarske, 2002)

It seems that the owner/manager’s daughter has been positively tuned towards the business, especially by her grandfather. Her potential entry into the business is however an issue to be considered in the future, considering her youth.

“Did you tell your daughter stories how it was in the past? [researcher] Of course! At a certain time point her skull was bursting ... at an age when I wanted to be a garbage man, she had the fantasy, around 5 to 7 years of age, that grandfather would give her a business, would get her a car and something else so important ... a doll At that age she was very positively indoctrinated by her grandfather. ... But now of course she has different interests and I think that, to a great extent, this is a protective mechanism, that she does not want to let herself be maneuvered into it. It will turn out alright. For God’s sake, let her study whatever she wishes to. It will work out somehow.” (Case C, 2/1)

The fact that the owner manager is currently the only member of the family active in the businesses seems to be rather risky from the current perspective – it is not ideal for the management of the business management to be dependant on a single person.

"I do not know if my daughter will continue in the family tradition". (Hospodarske, 2002)

"I try to be sure to tell the children what I do ... if it crosses their mind [to enter the business] it will be a relief, that is true, that it will happen somehow ..." (Case C, 1/1)

Post-restitution division of ownership

One potential danger that the owner manager sees is the fact that the company has been divided in half by the two family branches. Whereas one of the branches has so far been, to a greater or lesser extent, active in the business (this includes the owner/manager, his father and his uncle Jiri, the owner/managers sister and his aunt) and seems to regard business as a value, none of the members of the other branch of the family has been actively interested in the business and there are hints that they regard the business as property rather than "a way of life". Settling this unfortunate split of ownership is a challenge for the future, especially with regard to the company's unfavorable financial position.

"In restitution we split it [ownership of the company] half and half, into two [family] branches and that is the current situation. That was a bad idea! Jiri was a rare man. There were disputes, but we always managed to reach an agreement! But the others [other owners] ... They neither help nor cause problems. ... My sister knows well what is happening and works in Export Import [the company's subsidiary]. Boys from the second branch may start showing interest.... They do not understand that our equity is a loan." (Case C, 1/1)

"The company got divided into half! One of the worst things! You should not divide property! Not in half! Villem and Josef [brothers, grandfathers] were getting along well so it worked. That was a coincidence though. At restitution it was 50:50, now it's 3 to 2 from two sides and it will be a mess. From the first branch two do not want to take part. It is a paradoxical situation and it will create disputes." (Case C, 1/1)

"... Only this half and half split, that is wrong. We were not in a pat so far, but it is binding and makes problems." (Case C, 1/1)

" [in a museum] So here the family line split ... and I think that was not a good idea, they had to somehow ... simply they should have tossed a coin or whatever ... but it [the ownership] should have gone to one branch of the family." (Case C, 5/1)

Relations with the wider family

The challenges of settling the post restitution division of ownership are exacerbated by that fact that relations between the owner/manager and the rest of the family do not seem to be ideal.

"Jiri was a rare man. There were disputes, but we always managed to reach an agreement! But those others [other owners, family members] We have no collective ..." (Case C, 1/1)

"... We had something like that here [conflict with wider family members] ... when he [distant cousin of interviewee's father and uncle] was the marketing and sales manager ... we simply found out that it did not work, that simply we

philosophically did not understand each other, that it simply did not work, so we had problems for a while, all together, and then [he] found a better position, that suited him, and that was it ...” (Case C, 5/1)

“I do not know a [an extended] family without conflict In addition I can acknowledge that the relations with the wider family were maintained by my father. I do not bother too much for many reasons. Why? [researcher] When I was having a really bad time, it was my close family that supported me, not the others The wider family has exactly the same parameters as any other person that means, if you have enough resources, then you have enough friends... Close family is a close family, wider family are just people like anybody else.” (Case C, 5/1)

Family poverty

A rather serious challenge mentioned by the owner/manager in one of the interviews is the poverty of the family. Apart from the company, the family also lost majority of its personal property in the course of nationalization as and during the communist regime. The owner/manager suggests that the fact that the family cannot give the firm nothing else but work, i.e. it cannot support it financially as it might otherwise do, is a serious drawback.

“Maybe if the interruption of continuity would not occur.... If the family had finance, the family would be rich in the real sense of the word. Then the family would not have to pump money out of the firm, it would not need to get any remuneration. To the contrary, under some circumstances it might provide financing to the firm from family finance. ... As it used to be this way before nationalization ... But like this it is problematic, the family has nothing to give the to company but human power. It has nothing else ...” (Case C, 2/1)

“He [owner/manager’s father] was not allowed to have subordinates or to earn money.” (Hospodarske, 2002)

Family relations and finding investor

Family relations and the fact that the company is a family business seem to be obstacles to finding an external investor.

“[about the initial idea to find a foreign investor after the restitution] We were searching, but it did not work out. I somehow understand that nowadays. I think that our search, even though we really tried, was not really totally dedicated. Probably it was not threatening our life. The second aspect is that many people who potentially thought about it probably thought ‘What will we then do with the family? It is a family firm, we’ll go in there now ... and we will be a minority in fact ... so I will share my million or two with the family, I am not crazy. They surely must have conflicts already amongst themselves’ Because those two men, dad and Jirka, they were never hiding possible conflicts, these were always small conflicts, no bloody passions, not that, but they were capable of having an argument in from of a potential investor, totally coolly, like in a marriage that lasts for thirty years, very similarly, but in three minutes it was over and everything was all right. But already in this sense I do not think that it was the best sign. I do not think it would have worked.” (Case C, 4/1)

Negatively feelings related to predecessors

The owner/manager perceives the emotional relations to his predecessors as negative and a weakness, whether it be several generations previously or to his uncle who died at the beginning of 2002. He suggests that these emotions might be an obstacle to change. He gives the 'preserved socialism' that his uncle was defensive of, or the costly renovation of the old family house that currently houses a small museum, as an example.

"[about his uncle being very nice person and preserving human socialism as a result of that] And now, you try to introduce it [punishment for producing faulty products] ... there are many things I would do differently because I am simply of a different nature. ... But I cannot change it. ... And there is also a feeling, either conscious or subconscious, that they [his father and uncle] wanted it like that ... So these burdens, these are there, and they are not only mine! There are burdens paradoxically even after the predecessors have gone. Because their measures are nowadays interpreted in some way and we build on it ... 'they would want it like that ...' but no one knows that [for sure] ..." (Case C, 5/1)

"[about renovation of traditional family house] I was somehow of the idea that it is simply our obligation towards our predecessors. But it was 15 million! ... Would they really want it? Maybe my great grandfather would be totally pragmatic and sad 'You have a bulldozer? So use it!' No, we renewed it. I do not know at all, how would he would have reacted, I do not remember him. ... And also my father remembers his grandfather very vaguely since he died when he was five But despite that we interpret that as 'they would want it so' and you cannot get rid of that. You can rationally tell yourselves that you do not care about it at all, that you simply want it to be like that But you still have it hidden in yourself somewhere. It is a burden! No matter if you want or do not want to, it is a burden!" (Case C, 5/1)

"[about educating the next generation] ... but tell me, how would you do it so that you would not transfer your mistakes, your decisions onto the person, so that he would not be under pressure ... 'Well, my dad said ... the predecessor decided so and so, I cannot cancel that. How would I explain it at home?' Or something like that." (Case C, 5/1)

Damage of family business culture

Related to the issue of resistance to change seems to be the issue of damaging the original family culture and the issue of its renewal.

"It is not true that they got their business back [restituents]. They got a communist business. ... And a new culture! We got a different culture! ... Some formal aspects are the same, perhaps its name was the same, but we got something totally different, totally different! ... And we are of course totally different! This interruption ... maybe someone will research that one day, I am convinced that it was a catastrophe, that it was a disadvantage, it was even a threat! ... The one who builds on a green field is in a much better position. He has no burdens and nowadays even gets state subsidies." (Case C, 2/1)

Persisting tension in the local community

Another challenge the family members have the cope with, one that potentially complicates the family's business activities, is the persisting feeling of tension

between the family and the local community members, as well as a feeling of injustice from the family towards the state and society as a whole. This feeling, based on numerous examples, seems to be very strong.

“In the municipality and also in the firm there are many people who to some extent were involved in the nationalization process. These people have a conscience and sometimes the whole situation is very unpleasant for them. You cannot get rid of that. .. I am in this sense much better off than my father, who experienced it all ... For me it already all was mediated, therefore it is more fun, but there still persists, I do not want to say between the municipality as the statutory body, there the coordination is very good, there it works well, but between the municipality as a group of people and the firm relations are not very clear or happy. For example, the village keeps its fingers crossed that we do well, but when there are problems, it is not clarified! And it is necessary; forgive me, so that this would digest. It is matter of years and activities of the firm. But I think it is going in a good direction.” (Case C, 2/1)

“This municipality suffered and there still remains something from it in the air. It is not that far in the past then they expropriated this factory and when someone wanted to build a house in the village they first had to liquidate the [owner’s family’s] summerhouse outside our house. That was a condition of getting building permission. It is not that long ago and those people [who were responsible for the perceived injustice] are still living here with their conscience.” (Hospodarske, 2002)

“[in family business museum] These are human catastrophes ... these are verdicts ... there are a great deal of things that we could not display here, since the people who undersigned these documents still live here in this municipality! And we do not want to make greater complications for ourselves than is necessary ...” (Case C, 5/1)

“In 1968 they were rehabilitated [imprisoned family members] and they paid a fine. But still, until recently they did not get lusters, or cutlery returned ... and yet we knew who had them. That is why people were nationalizing. My grandfather was born in 1903. When in the 1980s he wanted to have a look inside the factory they did not let him, because he would become agitated. Since there were the same people there [who were nationalizing], these were the fathers and mother of those people, who worked there.” (Case C, 1/1)

Autocratic rule

There are certain subtle hints that the present owner/manager has a slightly authoritative nature. He describes himself and his personality in the following way.

“My father ... is a choleric. ... It is him who generates conflicts and myself I am like him. ... I never desired to become the president of the board of director or a director. No! But I always wanted ... this is my opinion, my way and I think this is right! And you either arguments with me that it is not like that, and I have to believe it, or it is your problem. But you cannot do this from any position other than managerial [laughter]. ... If I was of a different nature, I would certainly work at least as much as I do now, but I may do it differently. And perhaps they [the family members] would be represented differently here, maybe there would be more of them here. Maybe I discourage them because of the way I am.” (Case C, 2/1)

8.3.4 Challenges related to entrepreneurial skills

Lack of knowledge and know how

One of the challenges the company has to cope with is an apparent lack of experience, business knowledge and know-how.

“When the company was restituted, we found out that we had got something we absolutely were not familiar with – my father had been imprisoned, my uncle was allowed to study engineering, but only in a distance form, he was a constructor.” (Case C, 1/1)

“... With the exception of aunt, she was an economist, but a socialistic economist – our economists are proud nowadays, but they forget that their economy was derived from the first three parts of Marx’s Capital and the rest they have picked up, and they do not have a clue what economics and business really are. Experience cannot be passed on, one cannot explain that.” (Case C, 2/1)

“... I myself was thrown into it [business] unprepared, without knowledge, experience ...” (Case C, 2/1)

“This troubles me a lot since it [lack of interest in education] generates a great deal of our perhaps even present problems. When you analyze it, some of the things, some problems, we would not need to have if we had learned something before... But still we do not know many things, we are learning [about establishing project teams] to speed up product development.” (Case C, 6/1)

“[about cooperation and assigning work to external agencies] We have to learn it! We do not know it! We can neither read it [agency reports] nor assign the work. We simply have to learn it. We never did it before, none of us ...” (Case C, 6/1)

The owner/manager regards this as the cause of numerous wrong decisions that were made in the course of the company’s post-restitutional history.

“If I look back, it was necessary to do other things, that we sometimes did, and some steps were unnecessary ... but we are all of us clever after the battle ...” (Case C, 1/1)

“... I even think that we didn’t have to take out some of the loans, it was wrong to take them, we simply did not need them ... Now we suffer like animals [repaying the loans]. That was not clever ... these are our trials and errors, I would not disguise them ...” (Case C, 3/1)

“[about the generally difficult financial situation] Now the exchange rate problems have joined our own internal ones, those that we messed up ourselves, not some SLEPT factors, but us, and we are now struggling.” (Case C, 3/1)

“... or when decreasing costs we should also try to allocate them better, I think that we spend a lot of money on nonsense. ... Because we are an ecologically tuned firm, we decided to build this break station that would filter sewage from the work unit ... we poured 4 million CZK into it, but [later on] we stopped dipping [metal] in acid, so it is in fact useless now.” (Case C, 4/1)

“Other wise this is one of a number of our mistakes. Look, after the flood we put about 28 to 30 million into this operation. If, instead of all these machines that were renewed in a complicated way, ... we bought two engineering CMC centers, we would save 50 percent and we would nowadays be further ahead ... So this is a typical example of doing things without marketing ... really, of course, there is a bit

of irony [that he says it so], but we were simply not thinking about what the customer would need. We did not look at customers, we wanted to renew the workshop, so we renewed it ... But that was bullshit! We could have renewed it, but in a new format ... And yet, when we had the resources, since we had the insurance payment ... we did not use it right. Apparently! That was one of the very serious mistakes we made." (Case C, 5/1)

A lack of experience and business knowledge on the part of the family members is exacerbated by the fact that, under the communist regime, the family members were often not allowed to study in fields related to economics or management, or were often prohibited from continuing beyond secondary school education. The older family members not only lack business experience due to a generally short post revolutionary history, but also lack general higher (university) education.

"I was a teacher of algebra, theoretical algebra and sometimes mathematical analysis, therefore my education was very close to business, he adds sarcastically." (Hospodarske, 2002)

"Not a single family member had the chance in the past fifty years to gain economic or management education [except the sister of his father, who was 15 years younger and, when she started university, the hatred against the family was already significantly lower] (Company C, 2/1). My father was imprisoned for three years He was not allowed to have subordinates or to earn money. When in the 1990s there appeared the chance of restituting the business, there was not a single person in the family who would have rational prerequisites for that. Neither did I." (Hospodarske, 2002)

"He [the owner's father] only had the education that the communists allowed him to have, yet he managed to complete the school leaving exam in 1948 and to achieve this he exhausted himself for many years. ... He did not reach higher education – it did not work out." (Case C, 2/1)

"I am a teacher of mathematics. I do not even understand myself how I found myself in these restitutions." (Case C, 2/1)

Apart from business knowledge, the owner/manager sees a lack of foreign languages as an obstacle to doing business.

"We all need to learn languages. I can speak Russian, what does it matter? I can only speak English due to our partners being so nice and wanting the goods, so they listen to my English and try to understand what I want to tell them. It is a catastrophe!" (Case C, 2/1)

"I terribly miss language! Some at least! Some language! At least a bit!" (Case C, 6/1)

Poor time management

The owner manager regards his own time management as an area that could be improved.

"I cannot imagine a time when I would be capable of taking holidays and flying to the Bahamas or southern Bohemia, it does not matter where, and be able to stay

there is peace with my mobile switched off and with my e-mail cancelled." (Case C, 2/1)

"If I say time management to you, what comes to mind?" [researcher] "Well, that it is something that I have to also learn, finally. ... I have a new diary that I bought and every evening I think up what I will do the next day. And then in the evening [next day] I scratch it out again, as I did not manage it... and shift it to another day!" (Case C, 6/1)

Opportunity seeking

The owner manager sees the company's low inventiveness as a drawback that is related to the company's inability to extend its production program.

"[about failure to find a new production program] It is above all about money and certainly also about our insufficient inventiveness ... So there is the basis of our problems. Certainly! I believe that! Money and lack of inventiveness. And perhaps also a lack of courage. In some cases." (Case C, 6/1)

"We have been searching for a good production program for ten years and we still have not found anything good. ... it either fails due to finance because the expectations of the person who would buy it are rather different from ... what we might manage. ... you would have to invest and we do not have the resources." (Case C, 6/1)

"[explaining reasons why negotiations about new product lines usually fail] ... You would have to invest, and we do not have the resources and are not in a position where we could borrow the necessary resources externally. It is mainly about money ..." (Case C, 6/1)

9 TRIANGULATING THE CASES AND REVIEWING THE RESULTS IN LIGHT OF LITERATURE

An analysis of the interviews and other sources of information (such as available interviews, resources or press), detailed results of which were presented in the previous chapter, confirms that all the three cases A, B and C have a number of challenges to deal with in all of the areas researched.

The aim of this chapter is to summarize and compare (triangulate) the results of the three cases (detailed results of which can be found in chapter 8). In addition, this chapter adds to the previous empirical results new information gained from additional individual questionnaire interviewing. The aim has been to supplement the results with additional data that can shed more light on any issues that were ambiguous or unclear. The results are set out in appendix 2. In addition, this chapter also attempts to merge and support the empirical results with the available literature.

9.1 External challenges

Each of the three cases acknowledges the numerous challenges that are attributable to their external environment. The first sub-category represents challenges related to the *state sector*. The state sector is seen as *inefficient, bureaucratic and discriminatory* to smaller firms and to those with Czech capital, and this complicates their business activities in various ways. *Czech legislation is problematic and very hard to follow* – it change extremely frequently and information about the changes is not provided to the business community in a timely manner – this means that they are unable to react or adjust to the changes in time. The only exception to this was company B, which in the final questionnaire regarded Czech legislation as “slightly confusing but in principle understandable and easy to follow”. This attitude could be explained by two factors. First, all the family members are highly educated and very active in learning. Second, the company is relatively large compared to the other cases,

which allows it greater freedom to hire expert business lawyers. Business activities are complicated due to the rather *poor law enforcement* - this does not provide the businesses with the means to cope with the relatively high level of *crime and corruption*. Strongly limiting the companies' renewal and growth is *the high level of taxation*, which was characterized by company A in the final questionnaire as "very high and crucially limiting business activities". State support to the business sphere is seen as very poor, almost non-existent.

The complaints of the three companies in relation to the poor performance of the state sector seem justified. Other pieces of research, such as the research into Czech business conditions that is performed annually by the Czech chamber of commerce (www.komora.cz - for detailed conclusions of the research see also Chapter 2.3) have reached the same conclusion. Business organizations such as the Czech chamber of commerce of the Czech export association (for more see Chapter 2.3) are also trying to deal with these issues. The otherwise positive pre-enlargement assessment of the Czech Republic by the EU called for improvements in the areas of state administration, the legal system and the efficiency of courts, prevention of corruption and the financial sector, including tax system (Mocek, 2002, Evaluation, 2002, www.mpo.cz). The high level of bureaucracy and unclear accounting and tax system (being incomplete, vague, and complex) were also issues confirmed in a 2002 study by PricewaterhouseCoopers that focused on Czech investment incentives (www.pwcglobal.com). The Czech association of managers also draws attention to the inefficiency of the Czech legislative process and "high taxation, that is one of the serious problems and an obstacle to a development of the Czech business sphere." (www.cma.cz). Similar issues are brought up by the Brno regional chamber of commerce (www.ohkbrno.cz).

In relation to the *overall conditions in society and business*, all three companies confirmed that the high levels of crime and unethical behavior and the connected *lack of trust*, the prevailing *bad image of business people* in society, *envy and poor payment morality* are important issues. Literature confirms these findings. Evidence about the high level of crime and corruption in the Czech Republic is found in, for example, a study by PricewaterhouseCoopers that focuses on the "Perception of economic criminality in Europe" (www.pwcglobal.com), or the conclusions of Transparency International that, in its 2001 Corruption Perceptions Index, the Czech Republic is ranked as 47th out of 90 countries worldwide, with a Corruption Perception score of 3.9 (10 = no corruption, 0 = extremely high corruption) (www.transparency.org). Evidence supporting the poor image of business people in the Czech Republic can be found in literature, albeit in the form of individual opinions rather than more general pieces of research. The issue was mentioned by the Czech president, Vaclav Klaus, in one of his speeches (www.klaus.cz) and by The Finance Magazine - a monthly Czech magazine with a financial focus (www.financemagazine.cz no. 1/2003) - which draws attention to the media creating the image of Czech businessmen as 'incapable and corrupted'. In the same article, the Czech president mentions envy, another of the issues mentioned in the interviews by all three companies.

A serious issue for all three companies to cope with is a poor and still *deteriorating payment morality*. Intrum Justitia (www.justitia.cz), a private firm researching payment morality confirmed that more than two thirds of the two thousand companies sampled regard poor payment morality as the greatest problem for their development. According to the study the Czech Republic, together with Portugal, are the European countries with the worst payment morality⁴⁶.

The issues relating to the deterioration of the learning culture and the nation's low interest in education that were brought up by company C are somewhat ambiguous. Neither company A nor company B mentioned this issue in the course of the interviews and they disagreed with the issue in the final questionnaire. Both cases were asked in the final questionnaire whether they would agree or disagree with the assertion that their employees would show very little interest in education and training chose the answer of disagreement. A socio-economic analysis (www.strukturalni-fondy.cz) of Czech industry performed by the Czech Ministry of Trade and Industry has concluded that "the strength [of Czech industry] is in the willingness of the Czech workforce to increase their qualifications and relatively good prospects for their further development". The general opinion that the quality of the Czech workforce in relation to above all know-how and education is relatively high (www.ihned.cz; www.pwcglobal.com; www.profit.cz) prevails in the economic press, at least compared with the other new additions to the European Union. However, there are opinions to the contrary such as the one in the Development plan of the Czech Republic worked out by the Czech ministry for Regional Development, which states that "in a number of areas there is lack of qualification and, particularly in the area of highly qualified top managers, the Czech Republic still lags behind the EU considerably." (www.strukturalni-fondy.cz). An analysis performed by a team from the Trade Department of the Prague School of Economics also suggests that there is a lack of a qualified workforce in relation to blue collar work (www.marketingmanagement.cz). The assessment of the European Commission suggests that there is a "lack of qualified work force" (www.mpo.cz). The Czech Republic is ranked 20th out of 25 European countries in relation to the level of spending on education as a percentage of GDP (www.nationmaster.com). On a micro level the socio-economic analysis of Czech industry performed by the Czech Ministry of Trade and Industry (www.strukturalni-fondy.cz) suggests an unwillingness of SMEs to invest in the education of their employees. It is therefore fair to conclude that there is no single study that satisfactorily confirms or rejects the proposition. The studies available are rather contradictory and tend to look at the issue from very different perspectives and angles, which cannot be taken as a common

⁴⁶ A Czech firm has to wait for payment for 45 days on average. Officially payments should be made within 23 days on average. Also payment morality in European countries is deteriorating. The average delay in invoice payments in Europe is 16 days, which is two days more then seven years ago. The European Commission has noted that delayed payments are the result of the excessive protection of unhealthy companies and the slowness of the courts and executors. (www.financninoviny.cz)

platform. In addition, the level of qualification might not in itself represent the actual will of people to learn.

The economic environment turned out to be a source of various challenges for all three companies. The most urgent issues seem to be *the strong exchange rate of the Czech currency, the poor availability of external sources of capital, instability and high dynamism in the Czech business sphere, strong competition both generally and particularly from Asia, and the poor quality of external suppliers*. In addition, the high prices of foreign suppliers and the *entry of the country into the EU* are seen as problematic.

The deteriorating exchange rate is a well known problem for the majority of Czech exporters. Companies B and C, who export about ninety percent of their production, confirm this (the issue is not relevant for company A as it only sells its products on the domestic market). Evidence confirming the importance of this issues is provided by the Export association (see chapter 2.3) that was established by Czech exporters (such as Skoda Auto and others) to tackle the deteriorating export environment, including the recent problems with the exchange rate and a lack of support from the government.

All three companies confirmed that they had experienced difficulties in obtaining loans found that there was general lack of investment financing in particular. Whereas companies A and C, who find themselves in a relatively poor financial situation, acknowledged that investment loans were difficult to obtain, company B raised the ever stricter control that the banks imposed on borrowers. A lack of investment finance for the renewal of technology (which is relevant to all three case studies) is one of the conclusions of the operational research carried out by the Czech Ministry of Trade and Industry (www.mpo.cz; www.strukturalni-fondy.cz). Having insufficient investment resources is one of the key competitive disadvantages of the Czech Republic that is discussed in an International Marketing Management Congress press release and in a study of the Prague School of Economics (www.marketingmanagement.cz). This states that “the threat [for Czech firms compared with their EU competitors] is above all their lack of long-term financial resources, i.e. a lack of resources for modernization and development.” In addition, the evaluation of the European Commission mentions the underdevelopment of the Czech financial and capital markets, a lack of capital and disadvantageous bank loans (www.mpo.cz). Annual research into Czech business conditions has also confirmed this as an issue (www.komora.cz) (for detailed results see also chapter 2.3).

Unanimous support was given to the issue of the instability of the Czech business environment and the generally increasing dynamism in the markets. A study elaborated from the initiative of the Czech SME Association sees the “lack of interest of the Czech government and the lack of the will and ability to create a realistic strategy of developing a viable business sphere.” as the cause of the instability of the Czech business environment (www.spcr.cz/cz/sdruzeni/17.htm). The issue of the unstable Czech business environment and the unclear strategy for its development is also confirmed by a statement of the Czech Managerial Association (www.cma.cz) and the Export association in its program mentioned

above, the Czech chamber of commerce in its regular research on Czech business conditions (for details see 2.3) and The Finance Magazine (www.financemagazine.cz; 3/2003).

The Czech Association of Managers gives support to another issue identified by all three case studies - increasing competitive dynamism and strong global competitive pressures, particularly from Asia countries. In this respect it states: -

“The current Czech legislation does not correspond to the turbulent and super competitive times. All the ... current pieces of legislation build on a presupposed, non existent, stability. The reality is though very different. Super competition and super turbulence became the basic developmental tendencies. ... The developed world reacts to these. ... Contrary to that the Czech Republic accepts new pieces of legislation and norms that limit business flexibility, increase costs and generally deteriorate conditions for the management of firms. Selective support of investments creates an unjust competitive environment. the European Union, being aware of the ever growing backwardness behind the EU economy and the dangerous competition from the Asian countries, abandons its old principles ...” (www.cma.cz)

Strong competition from Asia is also considered by V. Spidla, the current prime minister, in an article written for a daily newspaper, Pravo, in February, 2004 (www.vlada.cz).

All the companies complain about the *high price of supplies from abroad*, and from the EU in particular. This includes technology as well as raw materials and other goods. The high price of goods, machinery and technology purchased in the EU being a disadvantage of Czech SMEs is one of the conclusions of a group of experts of Trade department of the Prague School of Economics (www.marketingmanagement.cz).

An issue that all three companies mention, even though in different contexts, was the low standard of services received from external suppliers. Company A mentions the poor standard of services from marketing agencies and frequent problems with deliveries of low quality material. This is also the case for company B. Company C sees the incompetence and poor standard of services it receives from the Czech banks as well as agencies performing market research (such as Czech trade) as problematic. Support for this assertion in literature is not straightforward. The evaluation of the European Commission, for example, states that there is a “lack of transparency and competitiveness in the banking sector and as such it must be further developed”, which seems to support the opinion of company C as to the insufficient quality of service provided by Czech banks (www.mpo.cz). Calls for the industry to become more professional are common (www.cma.cz). Other Czech businesses also suggest that this is a relevant issue.

For all three cases joining the EU is a challenge. Company A, the soft drink producer, sees the greatest challenge as coping with the changes in costs that it cannot predict. Similarly, a challenge for company B is coping with the loss of competitive advantage as a result of the increasing price of its products. For case C the greatest challenge adjust to the myriad new regulations that it expects. The Czech association of managers acknowledges that “with the entry

of the Czech Republic into to EU, Czech businesses are going to endure a negative shock that may not be any less significant than that experienced at the beginning of the 90's. Czech firms will have to start behaving almost exactly in the same way as firms of the most developed world economies." As the greatest obstacles it quotes the loss of existing protection barriers, additional costs in Czech firms related to stricter hygienic rules, health protection and work safety, or ecology. (www.cma.cz). The multiple challenges related to the EU entry are often discussed by the Czech ministry of trade and industry (www.mpo.cz).

Lastly, due to their location, the three firms potentially have to cope with impacts of *natural disasters*. Company C has been most affected as it suffered from bad floods in 1998. The same floods also caused problems for company B due to damage suffered by one of its key suppliers. Company A is also potentially endangered by floods as it is located very close to the river, although these have not occurred in recent years. The issues cannot be easily generalized.

Sub-conclusions related to external challenges.

The triangulation of results for the three cases (that can be in detail for the individual cases found in chapter 8), additional questionnaire interviewing (see appendix 2) and sources of literature show that the investigated companies are potentially vulnerable to a number external challenges. Figure 46 gives an overview. Robust conclusions based on triangulation and supported by literature are highlighted in grey.

	CHALLENGE	Case A	Case B	Case C	Literature
E X T E R N A L C H A L L E N G E S	State sector				
	• Inefficiency	Supp.	Supp.	Supp.	Supp.
	• Bureaucracy	Supp. Q	Supp. Q	Supp.	Supp.
	• Discriminatory practices	Supp. Q	Supp.	Supp.	Supp.
	• Confusing legislation	Supp.	Contr. Q	Supp.	Supp.
	• Late delivery of information	Supp. Q	Supp.	Supp.	Supp.
	• Poor enforcement of law	Supp. Q	Supp. Q	Supp.	Supp.
	• High taxation level	Supp. Q	Part.	Supp.	Supp.
	• Insufficient support to business sphere	Supp. Q	Supp. Q	Supp.	Supp.
	Business sector and society				
	• High crime and unethical behavior, lack of trust	Supp. Q	Supp. Q	Supp.	Supp.
	• Bad image of business people in society	Supp. Q	Supp. Q	Supp.	Supp.
	• Envy	Supp. Q	Supp. Q	Supp.	Supp.
	• Bad payment morality	Supp.	Supp.	Supp.	Supp.
	• Deterioration of learning culture of nation, low interest in education	Contr. Q	Contr. Q	Supp.	Contr.
	Economy				
	• Strong exchange rate of Czech currency	N/R	Supp.	Supp.	Supp.
	• Bad availability of credits and external sources of capital	Supp.	Part.	Supp.	Supp.
	• Instability of Czech business environment, generally increasing dynamism in business and markets	Supp.	Supp.	Supp.	Supp.
	• Strong competition from Asia and global	Supp.	Supp.	Supp.	Supp.
	• High prices of foreign suppliers	Supp.	Supp.	Supp.	Supp.
	• Low quality of external suppliers	Supp.	Supp.	Supp.	N/A
	• Entry into the EU	Supp.	Part.	Part.	Supp.
	Other external challenges				
	• Natural catastrophes	Part.	Supp.	Supp.	N/A

FIGURE 46 Triangulating the cases and literature – external challenges.

Notes: Explanation to the abbreviations used in the figure

Supp. - Strongly supporting the view

Part. - Partly supporting the view

Contr. - Contradicting the view

N/A - Information not available

N/R - Issue not relevant

Q - Supplementary data from final questionnaire

9.2 Internal challenges

The loss of *original production programs, know how and competitive advantage* during communism were seen to have greatly affected company C. Whereas previously company C was a producer of ten products, only two product lines remained after the years of communism- kitchen mills and piano frames. Together with the products, strong development teams - the essence of its innovativeness and competitiveness - disappeared. A similar fate befell company A, although not to the same degree. In this case, production of its main product, home made natural syrups, was abolished in the 80's. The only case that did not confirm the loss of production programs, know how and competitiveness was case B. Mr. Moravec, a leading Czech pianist and someone who closely cooperated with the company's development team before nationalization, suggested in an interview for a national newspaper (see chapter 8.2.2) that company B's innovative abilities and competitiveness had suffered through the years of communism. There was no evidence in the literature that confirmed the issue of Czech firms losing production programs and know-how. However, literature does confirm the limited ability of Czech firms to compete (www.mpmr.cz - The national development plan of the Czech republic of the Ministry for regional development) in addition to losing their original know-how (Heczko, 1999, Korab at al, 1998, Blazek, 1998 - for more see also chapter 2.3). Similarly, it mentions the obsolescence of products. This is another issue that was uncovered in the interviews and was strongly supported by case C and also partly by case A, which did not regard the product itself as obsolete but rather an important component - the bottle (for more see chapter 8.1.2, section on technology). Case B confirmed its experience of obsolete products in the subsequent questionnaire.

For company A, a serious challenge to face was an *unclear product strategy*. Companies B and C seem to have their product strategies clearly defined. It is likely that this was down to their considerably advanced skills and knowledge of formal business management techniques. With respect to strategy, company B had the idea of competing on quality (Case B, 4/2, Case B, 5/1) and innovation (Case B, 11/1), combined with tradition and a traditional trademark (Case B,5/1). This was similar for company C - based on very simple and effective functionality (Case C, 2/1), good quality and tradition (Case C, 3/1). Despite the fact that cases B and C do not confirm the issues, it might still be relevant. Defining marketing strategies is identified as a potential area of improvements for SMEs by the Czech managerial association (www.cma.cz). The Finance magazine (www.financemagazine.cz; 2003/3) draws the attention to the fact that "a number of [Czech] companies have unclear strategies".

Unsuitable production capacities - too high or low - are another challenge faced by all three firms. To finally confirm or reject the issue, qualitative research using a larger sample would be necessary. It may be highly relevant; however, as the nature of markets changed dramatically after the revolution

(see chapter 2.3) and, with their limited resources, family firms might still not be capable of adjusting themselves to these changes.

All of the three cases highlight an issue frequently discussed in the literature - *obsolescence of machinery*. The Czech Ministry for Regional Development (www.mmr.cz) in this respect comments: -

“There is a considerable technological obsolescence in the Czech Republic that is a result of post-war development. This lagging behind was, in the case of the Czech Republic, only partially decreased by the import of machinery and an inflow of foreign investment. On the other hand, a number of companies, above all in light industry, find themselves in a very difficult situation as a result of hard international competition both in home and foreign markets.”

The Czech statistical office also suggests on the issue of obsolescence of machinery in Czech firms. According to these statistics, the average age of machinery written off in Czech light industrial companies from 1995 to 2000 was 18.5 years. (www.czso.cz). Operational research performed by the Czech ministry of trade and industry (www.mpo.cz; www.strukturalni-fondy.cz) also concludes that an “obsolete production base and its slow renewal” is a disadvantage of Czech industry. Finally, the Czech management association notes that “in many companies a massive renewal of machinery will also have to take place.” (www.cma.cz) in relation to our country’s entry into the EU.

All three cases declare their *unenviable financial position and overall economic situation*. The greatest problems are indebtedness and lack of financial resources, low or decreasing profitability and the need for huge investment. Literature also supports the issues. A socio-economical analysis of Czech industry by the Prague School of Economics identifies a lack of finance, both from internal and external sources, as a disadvantage for Czech firms (www.marketingmanagement.cz). This was confirmed by an evaluation of the 2002 European Commission (www.mpo.cz) and the respectable daily Economic Newspaper (*Hospodarske noviny*, *Kariera*, 5.2. 1998). An operational research by the Czech ministry of trade and industry also supports this by concluding that a lack of investment resources, generally low economic power, a lack of resources for purchasing technology and low quality production are among the most significant disadvantages of Czech light industrial MSE’s (www.strukturalni-fondy.cz). All three cases support this. The financial difficulties experienced by Czech firms are identified by other sources of literature (for more see chapter 2.3; Heczko, 1999, Korab at al, 1998, Blazek, 1998).

In addition, case C declared two other issues – severe *liquidity problems* and *inventories inherited from the past that were practically impossible to sell or otherwise utilize*. With respect to liquidity problems, none of the other cases supported the issue stating that their firms experienced no major liquidity problems. In case B this was due to a highly capable professional manager hired to manage its finances. Literature did not provide evidence to suggest that the issue of poor liquidity would be generally common in Czech businesses. The same holds true

for large inventories that cannot be utilized that – in cases A and B it was said to be only “minor”.

The challenges related to human resource management were the *lack of a qualified work force* (supported by cases B and C, partially by case A), *resistance to change* (supported above all by case C, partially by cases A and B), *inefficient or non-existent motivation system* (confirmed by all the three cases), *high employee turnover and absenteeism*, *problems related to accepting responsibility and poor working morale and mistrust of formally defined missions* resulting from years of communism (supported by case C and B, contradicted by cases A).

Literature provides evidence supporting the issue regarding the lack of a qualified work force. The development plan of the Czech Republic created by the ministry for regional development states that “The work force of the Czech Republic only adjusts to the new conditions. In a number of areas there is lack of qualifications, especially in the area of highly qualified top managers where the Czech Republic still considerably lags behind the EU.” (www.mmr.cz). An analysis performed by a team at the trade department of the Prague School of Economics suggested a lack of qualified workers in blue collars professions (www.marketingmanagement.cz). Operational research by the Czech ministry of trade and industry draws attention to a “local lack of a specifically qualified work force” (www.strukturalni-fondy.cz). Also, the assessment of the European Commission suggests the “lack of qualified work force” (www.mpo.cz). Even though the lack of qualified work force cannot be generalized for the whole Czech Republic and all professions, it seems to be valid in certain professions as well as regionally.

Concerning resistance to change, supported by case C and partially by cases A and B, the issues cannot be easily generalized as literature provides no evidence about resistance to change being a serious challenge for Czech companies. Case A displayed the issue only with respect to introducing the new ISO system. Case B in the final questionnaire suggested that, even though there is sometimes resistance to change, it can be handled by good management.

The issue of inefficient or missing motivation systems is supported in literature. An article by the Czech management association suggests that human resource management, including motivation systems, is an area with great potential for improving the business activities of Czech SMEs (www.cma.cz). On the same website, specialists of the Gradus consultancy suggest that “underestimating human resource management and motivation systems” is one of the weaknesses of Czech SMEs. Operational research by the Czech ministry of trade and industry declares that there is “little willingness of management to pay attention to work with human capital” (www.strukturalni-fondy.cz).

High employee turnover and above all high level of absenteeism is evident in all three cases and confirmed by a study of the Czech ministry of labor and social affairs: -

“The number of people taking sick leaves constantly increases, along with the length of sick leave in the Czech Republic. The length of sick leave taken by Czech

employees grew over the past twelve years by almost fifty percent and the average number of days of sick leave increased to almost 31 days. ... yet Miloslav Kodl from the State health institute confirms that the health of the Czech population has improved over the past ten years." (Hospodarske Noviny, 22.5.2003)

The Sociology department of the Czech academy of science highlights the challenge of accepting responsibility by the Czech work force and of low work morality (Profit, 13.1.2003).

"... The attitude to work and employers has been distorted over the last ten years. During the protectorate and communist economies poor working morale was not perceived as something negative. Despite certain changes in attitude after 1989 Czech employees appreciate work less compared to the western ones, favor routine over independent work and rely more on the state as onto a guarantor of work and social welfare."

Mistrust in organizational vision and mission as a result of related abuse by the communist regime was suggested by companies B and C but not company A. Other available sources would neither support nor reject the issue. The issue is nevertheless an interesting one and would certainly be worth further research. It might also hold true that the evidence of the issue in cases B and C may have been affected by the strongly negative personal feelings towards communism as a result of injustices suffered by families (imprisonments, loss of property, persecution and the inability to continue with an entrepreneurial tradition). This explanation would also fit with case A which disagreed with the issue. Here, the prevailing attitude towards communism seemed to be less clear than with the other two cases (possibly because family members were not imprisoned and the persecution was not as severe).

Despite the fact that the evidence from companies B and C was contradictory (due to their advanced theoretical knowledge, the will to apply it in practice and their overall positive attitude towards learning) there was a robust assumption that the challenge of *insufficient information and lack of strategic and short term planning* would be relevant. The consultancy company Gradus (www.cma.cz) suggests, for example, that "Czech managers do not plan, solve problems in an ad hoc way and simply 'patch bummers'". With respect to planning and information they note: -

"[Czech managers] must plan. Without plans they act from one order to another as they do not know how business in their field develops and how demand for their goods changes. In order to be able to plan, they have to first master the techniques of gaining information about developments and opportunities - internet, analyzing information and marketing. If they rely solely onto what someone tells them, they become the victims of chance. The greatest problems are lack of information and inability to utilize them. Some think that planning in the current environment is not possible, some think that it does not make sense because things change too fast. ... Czech managers also underestimate the importance of vision in their business and the elaboration of strategy. They think that it is enough to solve problems in an ad hoc way. They get into a state of permanently solving crisis. Sometimes they have relief for a while, that is during times that they have their orders assured and have some money in their bank account. At this point they should start intensively working on strategy and the creation of vision."

Another author – the consultant Petr Trousil – on the same web site urges the Czech SME managers to start setting their business strategies, including the gathering of information, and to start with strategic planning (www.cma.cz). The evaluation of the EU Commission (www.mpo.cz) declares that there is “limited access to information within the Czech business environment”. The issue of “insufficient quality of information” is mentioned by the operational analysis of Czech industry by the Czech ministry of trade and industry (www.strukturalni-fondy.cz). Limited possibilities for strategic management and planning are also highlighted by the socio-economical analysis of Czech industry performed by the Prague School of Economics (www.marketingmanagement.cz). Other general sources also confirm that strategic planning and management, *marketing and the commercial side of business were often being neglected* (Heczko, 1999, Korab at al, 1998, Blazek, 1998, Kerkovsky and Bird, 1998) generally, and particularly in family firms (for details on strategic management and family firms see chapter 3.6)

Four potential challenges emerged related to *storage and procurement* during the interviews; insufficient storage capacities (confirmed by all of the cases), unsuitable stores (an issue brought up by case C), dealing with monopoly suppliers (an issue faced by cases B and C) and introducing a system of outsourcing (as for company B). There was no evidence found in other research or literature to suggest that Czech businesses might generally face this kind of challenge. Some of these issues (monopoly suppliers and outsourcing) are very likely to be specific to the individual businesses or the industry in which these businesses operate so cannot be rejected or accepted with any certainty. The issue of unsuitable stores was then specific to case C. The challenge of unsuitable capacities of stores was confirmed by all three cases. The issue may be similar to that of unsuitable production capacities.

A serious challenge turned out to be the *negligence of the marketing and commercial side of businesses*. Of the cases researched, it was only company B who was dealing with marketing professionally and was regarding marketing as an important part of business. This was, as with the case of strategic management and finance, due to the good knowledge of formal marketing management procedures by the marketing manager as well as good experience in the field. However, it was also evident that marketing had to fight for its position in the company. As a result of the interest in receiving a formal business management education (the owner-manager being an MBA student) company C seemed to gradually realize its importance, but as pointed out itself, had yet to learn a lot in order to be able to manage marketing properly (see chapter 8.3.2). The worst situation was in company A that neither managed marketing professionally nor was attributing this area the importance it deserved (see chapter 8.1, section on marketing). Literature gives various examples that support the view that Czech firms do indeed neglect marketing. Operational analysis by the Czech ministry of trade and industry (www.strukturalni-fondy.cz) concludes that “low quality of marketing and poor orientation in foreign markets” is one of the key weaknesses of Czech businesses. The socio-economical analysis of Czech industry performed by the Prague School of Economics

(www.marketingmanagement.cz) also considers one of the weaknesses of Czech SMEs to be a “lower proportion of non-price based competitive means, such as marketing, promotion, participation at trade fairs and exhibitions, web presentations and the utilization of corporate identity”. The consultancy Gradus (www.cma.cz) urges Czech firms to start dealing with this important area of business. Also, related to family firms being a special form of business is the issue of immobile marketing (see chapter 3.3).

Recognizing the importance of tradition as of a powerful means of communication is another challenge. Whereas companies B and C, who were educated in professional marketing management, used their tradition as a core building block of their promotion, company A regarded tradition as useless. The fact that such an attitude may be wrong and could be “wasting” a good competitive advantage is discussed in an article in a respected Czech economic weekly: -

“If you want to do business in the same field as your predecessors, it is good to turn to your original name or logo, or simply to the traditional front board. In our [Czech] conditions the stress on family and tradition is perceived clearly positively, in the same way as a connection to the “golden times of the first republic” [prewar Czechoslovakia].” (Profit, 24.9.2003)

Finally, the three cases participating in the research also acknowledged a group of other challenges. *Ecological problems* requiring huge investments were lamented by company C. Such a situation seemed logical due to the type of production – a foundry – the company uses. Despite the fact that company A ignored the issue and the information was not available for this case, it is likely that ecological problems and related expenditures would be a relevant issue. The Development plan for the Czech Republic formulated by the Czech ministry for regional development in relation to ecology points out (www.ceu.cz): -

“The environment is in comparison to the EU badly polluted and the integration of the Czech Republic into the EU must also consider the necessity for its improvement ... Despite a considerable volume of finance expended the quality of environment cannot so far compare to the EU.”

Also, *mistrust and underestimating business counseling* is a relevant challenge, in this case for companies A and C. Whereas company A does not believe that it might benefit from counseling, and never used it either, C is supportive of the idea of counseling or business education but has not yet found counseling that would generate real benefits for it yet. Even though there has not yet been a general study about the attitude of Czech firms to counseling, there are hints that it that might not yield positive results. The Czech management association, for example, with respect to counseling points out: -

“They [Czech SMEs] should not be sacred to ask a consultancy company for help or cooperation. The support for SMEs is not or should not be only in financial donations and aids. ... Some firms call advisors only as the last resort, which can already be too late. Other firms think that counseling is expensive and would not help anyway.”

Companies A and C acknowledged a disadvantage that over the years of communism companies *did not grow and remained medium sized*. This is a problem especially for company A that competes in a field with strong price competition and economies of scale, but also for company C from the viewpoint of its bargaining power when purchasing its key raw material - steel. Company B seemed to remain of a comparable size to its foreign competitors. This could have been caused either by the character of the industry or the fact that company A became the only, and key, producer of musical instruments in the Czech Republic and was therefore receiving relatively greater attention from the state. Once again, there seems to have been no study or literature that confirms the issue of Czech firms stagnating through communism related to their growth, and therefore this can be neither supported nor rejected. It would certainly be an interesting issue for further investigation.

The issue experienced by case A - *numerous operational problems* - cannot be supported either by case B or C. It seems to be rather specific to each of company. Additionally, the issue of lack of investments into information technology by company A was not generally supported. By contrast, both cases B and C were rather advanced in IS/IT - company B managed the individual functional areas with professional expertise and company C because the current owner's background was in IS/IT. In fact, he originally entered the business only to "introduce computers to it before leaving again". In literature there are hints to the contrary. One of the leading Czech business weeklies, Profit, states in one of its articles that investments into IS-IT (www.profit.cz) in the Czech Republic keep increasing and the country, with almost 4 percent of its GDP spent on information technology, is one of the leading countries in Europe (Czech Statistical Office, www.czso.cz)

Sub-conclusions related to internal challenges

Similarly, as shown in the triangulation of the empirical results with additional questionnaire interviewing and sources of literature, the investigated companies are potentially endangered by a number external challenges too. Figure 47 gives an overview, highlighting in grey those that are thought to be generally relevant across all three cases.

	CHALLENGE	Case A	Case B	Case C	Literature
INTERNAL CHALLENGES	Production and production program				
	Loss of original production programs, know how and competitive advantage	Supp.	Part.	Supp.	N/A
	Obsolete or declining products	Part. Q	Supp. Q	Supp.	Supp.
	Unclear product competitive strategy	Supp.	Contr.	Contr.	Supp.
	Unsuitable production capacities	Supp.	Supp.	Supp.	N/A
	Technology				
	Technological obsolescence, depreciated machinery	Supp.	Supp.	Supp.	Supp.
	Finance				
	Indebtedness and lack of financial resources	Supp.	Supp.	Supp.	Supp.
	Low or decreasing profitability	Supp.	Supp.	Supp.	Supp.
	Need for huge investments	Supp.	Supp.	Supp.	Supp.
	Liquidity problems	Contr. Q	Contr.	Supp.	N/A
	Inventories that cannot be utilized	Part. Q	Part. Q	Supp.	N/A
	Human resources				
	Lack of qualified work force	Part.	Supp.	Supp.	Supp.
	Resistance to change	Part. Q	Part.	Supp.	N/A
	Non-efficient or missing motivation	Supp.	Supp. Q	Supp.	Supp.
	High employee turnover and/or absenteeism	Supp. Q.	Supp.	Supp.	Supp.
	Accepting responsibility and/or poor work morale	Supp.	Supp.	Supp.	Supp.
	Distrust in visions and missions	Contr. Q	Supp. Q	Supp.	N/A
	Planning and information				
	Lack of information – from market and internal	Supp.	Part.	Supp.	Supp.
	Lack of strategic management	Supp.	Contr.	Contr.	Supp.
	No short term planning	Supp.	Contr.	Contr.	Supp.
	Storing and procurement				
	Insufficient storing capacities	Supp.	Supp.	Supp.	N/A
	Unsuitable stores	Contr. Q	Contr. Q	Supp.	N/A
	Monopoly suppliers	Contr.	Supp.	Supp. Q	N/A
	Outsourcing	N/A	Supp.	N/A	N/A
	Marketing and commerce				
	Insufficient marketing /commerce	Supp.	Contr.	Part.	Supp.
	Neglecting tradition as competitive advantage	Supp.	Contr.	Contr. Q	Supp.
	Other internal challenges				
Ecological problems	N/A	Contr.	Supp.	Supp.	
Business counseling	Supp. Q	Contr. Q	Supp.	Supp.	
Remaining middle-sized	Supp. Q	Contr. Q	Supp. Q	N/A	
Numerous operational problems	Supp.	N/A	N/A	N/A	
Lack of information technology	Supp.	Contr.	Contr.	Contr.	

FIGURE 47 Triangulating the cases and literature – internal challenges

Notes: Explanation to the abbreviations used in the figure

Supp. - Strongly supporting the view

Contr. - Contradicting the view

N/R - Issue not relevant

Part. - Partly supporting the view

N/A - Information not available

Q - Supplementary data from final questionnaire

9.3 Family business challenges

Even though the families differed significantly from each other regarding the life stages of the various generations and their family circumstances, *managing succession* – whether being imminent or more distant in the future – is a challenge for all the three cases. In addition, apart from ‘technically’ managing succession, assuring business continuity is also an issue. Especially important for case A is to re-establish the family business pride and values in the younger generation that over the years of expropriation became extinct (for more see chapter 8.1.4) and that would bridge the fifty years of detachment of the family from the business. Interestingly, in the other two cases (especially in B and probably C) the mechanism of passing family business pride and values still seemed to be effectively working, whether formally or informally: -

Company B

“Did the family try to pass the relation to the factory onto you anyhow too? Perhaps through telling you stories? [researcher] Certainly they did, me and my sister, we grew up in it. They were telling us, how it was then, what it is now like and that it is not like that any more. We were always terribly interested, we were watching old movies what it was like when our grandfather was a director, what people he had around. In addition we were lead to musical education, and languages of course. We certainly were influenced.”(Case B, 2/1)

“But she [daughter of Zuzana] is a bit desperate when we talk about the factory at home all the time because, when we meet, we work permanently and it takes her mother away from her – as well as her granny and granddad and everyone. Yesterday we were celebrating the name day of my sister, we were sitting together for a while and after five minutes of light conversation we started working again. She said she would leave the table that she would not be there with us. So so far, here in relation to the business is that it took her family away from her. But I think that after some time she will understand that this is so important and I hope to persuade her in a light way. I often tell her about the history, how it was all, where we are now and where we want to be and also about what beautiful instruments we produce and she practically has the possibility to going to the concerts with us - these are interesting things and we have the possibility of talking to various interesting personalities of the musical world. That attracts her and shows her that what we do matters – that it is tangible. When she sees how satisfied the pianists are, it gives her satisfaction for the suffering. But I cannot pressurize her, she will either realize that or she will do it in a different way; I cannot force her.” (Case B, 2/1)

“I always like the surname. I was told since my childhood stories about my great grandfather that founded the company, as he produced the first pianos, as well as in what society he lived’ commemorates [Zuzana], the sales manager.”(Hospodarske Noviny, 27.9.2002)

Company C

“... To watch the development [in the factory during communism by the family] was impossible. They were making everything secret! They did not even let my grandfather go to the factory site. So my grandfather certainly watched it [the business]. He was hoping this could not last. My father was a bigger skeptic but somewhere in his heart he was preserving the hope. I myself was already far, for it was a story about by fathers childhood. Did they tell you much about it? [researcher] They did, but were afraid that I might say it somewhere.” (Case C, 1/1)

“Did you tell your daughter stories how it was in the past? [researcher] Of course! At one point her scull was bursting ... at an age when I wanted to be a garbage man, she had the fantasy, around 5 to 7 years of age, that grandfather would give her a business, would get her a car and something else so important ... a doll At that age she was, from her grandfather, very positively indoctrinated. ... But now she has of course different interests and I think that to a great extent this is a protective mechanism, that she does not want to let herself to be maneuvered into it. It will turn up. For gods sake let her study what ever she wishes to. It will work out somehow.” (Case C, 2/1)

The importance of properly managed succession and the role of family pride and values have been dealt with in literature on many occasions and this confirms its crucial role. Detailed information about values and continuity can be found in chapter 3.5, and about succession in chapter 3.7.

An important challenge especially for companies B and C turned out to be *dealing with the ownership structure*. In both cases the number of potential heirs or restituent owners grew significantly over the years of communism and the ownership of the businesses is currently in the hands of a relatively high number of owners or potential ones (see chapters 7.2 and 7.3). It can be assumed that the expropriation interrupted the traditional (natural) ways of settling ownership issues. In addition, the situation has been made even more challenging by the fact that both businesses have been highly indebted and buying out some of the current or potential owners might be a rather difficult task. The whole matter is especially complicated because some of the present owners in the extended family do not seem to have a very strong connection to the business, are not interested in actively taking part in its management and see it more as a property than a “family value” (see chapter 8.2.3 for case B, and 8.3.3 for case C). There might be a potential threat from pressure to draw money out of the business by these owners.

Another challenge already mentioned in relation to succession and continuity is assuring that *values* – the important core of competitive abilities of family firms – are properly passed onto the other generations. The issue is especially important with respect to the almost fifty year break in continuity that family firms suffered from. In the present turbulent environment with fierce competition and still rather poor economic performance (see section above on internal challenges), a strong value system with all its positive effects might be an important attribute to help the Czech family firms survive. As such, re-establishing the value system is a challenge above all for company A which showed that the transfer of values might not be working well enough (see chapter 8.1.4). By contrast, in the cases of companies B and C there were hints that values might be well established and openly articulated in the core family as well as efficiently transferred across the generations (see also the issue of succession above): -

“Value is through hard and fair work, and terrible sturdiness.” (Case B, 2/1)

“Well, I would put there, not even knowing in what order I would put there humility, I would probably put there optimism and I would probably put there courage. If you want just three of them ...” (Case C, 3/1).

“What would be three things you would want to pass on your daughter? [researcher]. Openness, courage and humility. Are these the same values as those of

your father? [researcher]. Certainly, despite the fact that he would never express it in this way, but in its ultimate effects these certainly are the same. In his case these were apparent in his behavior, you might see these. But my grandfather and even great grandfather, they would express it in a similar way." (Case C, 5/1)

The importance of values and their transfer is well described in literature. For more details on values in family firms see chapter 3.5.

Closely linked to the issue of division of ownership are *family relations* in the wider context. Whereas for company A the issue was not relevant as only the core family has owned and managed the business, companies B and C showed hints that certain problems might occur in relations with the extended family members. Coping with this challenge is important especially due to that fact that some of the wider family members are also owners, or potential owners, of the business. Disrupted relations amongst those managing the business might negatively impact its future development. At the same time, poor relations could be an obstacle to solving the issue of fragmented ownership as mentioned above. Similarly, relations amongst the siblings, in this case in company A, are an important issue to handle. The importance of healthy relations is discussed in chapters 3.3 and 3.4.

A very interesting issue supported by all three cases has been that of the family's relative *poverty*. One of the financial advantages in firms with a strong family business culture is that, in case of any difficulties, family members can donate to the business from their own resources (See chapter 3.3). The situation of restituted Czech family firms can indeed be regarded as difficult. However, as the families were impoverished during the years of communism, they have no personal resources to help the business. This turned out to be an even more serious problem as the families had to purchase substantial parts of their business from the state so, instead of helping the business as an "investor", they brought in even greater debt. The issue was experienced by the owner of company C and also by company B. Company A did not comment on the issue directly but in its case it was true that the family lost all its personal property during nationalization and communism.

Another disadvantage highlighted by case C and confirmed also by case A was the feeling that *family relations may be or had actually been an obstacle to attracting an external investor*. This issue is also mentioned in literature - see chapter 8.3. Only case A that avoided the issue.

Negative feelings related to predecessors (feeling guilty when altering arrangements that predecessors planned) was mentioned by case C as another challenge. Case B also confirmed the issue. By contrast, case A disagreed with the matter. Even though literature does not confirm the issue directly, there is a vast array of literature showing multiple effects of feelings (see chapters 3.3 and 3.4), including negative ones, such as emotional ambivalence and guilt mentioned by Tagiuri and Davis (Tagiuri and Davis, 1996) in their model of bivalent attributes of family firms.

Literature confirms that family firms do have specific and strong cultures (see chapter 3.5). Another challenge for restituted companies seems to be in *re-establishing their original family business culture* as it is likely that the cultures of

traditional family businesses got damaged over the years of communism and the planned economy. Even though there is no research available on this issue, it can be assumed (due to the very different fundamental principles of market economies and centrally planned economies) to be relevant. The issue of cultural damage was strongly identified in case C which saw it as the most significant damage inflicted on the firm and its competitive disadvantage. In the final questionnaire, company C also confirmed the issue. Only case A rejected it, stating that the culture did not change too much during communism.

An issue confirmed by case B and C was the *persistent tension between the family and the local community* as a result of the injustice that happened during nationalization and in the following years. No evidence was found in literature concerning the issue, although this can be explained by a general lack of Czech specific pieces of research concerning family firms. Also, the issue might be very specific depending on the pre-nationalization relations of the family with the local community and the location of the factory, whether located in a larger town with greater anonymity or in a smaller place. Even though the issue cannot be rejected or supported at this point, it would certainly be an interesting one to investigate in the future to also include the effect of local community relations on the business.

Even though mentioned only by case B, the *division of roles* in the business can also be an issue the restituted firms may face. In the other two cases, the potential for overlapping roles was small as both of the owner/managers were practically the only ones from the family managing the business (this held true entirely for case C and partly for case A where also the owner's wife was employed in the business). This challenge might then be supported by the fact that the natural development of roles in the business and family was disturbed, at least concerning the business, by the communist regime and had to be re-established from scratch as with many other areas in the business. Also, literature presents the fact that the unclear division of roles in family firms is generally one of the common pitfalls and a challenge to handle (see chapter 3.3).

Last of the challenges discovered in the area of family business was the tendency towards *autocratic rule*. This issue is widely described in literature in relation to business founders. Indeed, the autocratic tendencies discovered in cases B and C were connected with post revolutionary founders. That restituted family firms might face the challenge of autocratic rule is also supported by the fact that the re-establishment was itself an extremely demanding and lengthy process – see below. Additionally, the management of the company through the post revolutionary years could have only been successfully handled by strong personalities with great dedication, drive and will.

Company B

"He was always such that when he wanted something then he always reached it, despite the fact they were laying obstacles in his way. This has been so until now. It is him who we owe for the fact that we are in the factory." (Case B, 2/1)

"The conviction of my father [about his will to start the privatization] was so big, that he omitted it all [likeliness whether he would succeed] and said, all or nothing..." (Case B, 2/1)

"He worked [on the privatization process] almost 8 hours a day for 6 to 8 years. Unfortunately we did not manage to make it shorter. My father had the whole office equipped only for the privatization of the company. He dedicated much time to it." (Case B, 2/1)

Company C

"[about his father and uncle working on privatization] They worked from 12 to 15 hours a day." (Case C, 1/1)

"The greatest success is that we survived the floods. Have you had the feeling that you would not get out of it? [researcher] Well ... when I was then standing there above it ... [sadness] ... What strengthened you? [researcher] ... That it is not so easy to get it out of it. That perhaps it is more interesting like that! ... To me big tasks are not a problem. No problem for me are even such tasks that even I myself think are not possible to solve! In fact, it somehow gives me more joy!" (Case C, 6/1)

Sub-conclusions related to family business challenges

Czech family firms potentially face many challenges specific to them. Figure 48 gives an overview of these, highlighting in grey those that were found to be generally relevant.

	CHALLENGE	Case A	Case B	Case C	Literature
F A M I L Y	Family business challenges				
	Managing succession and assuring continuity	Supp.	Part.	Supp.	Supp.
	Post-restitution division of ownership	N/A	Supp.	Supp.	Supp.
	Weak value system, passing values	Supp.	Contr.	Contr.	Supp.
	Relations in wider family	N/R	Supp.	Supp.	Supp.
	Tension in sibling relations	Supp.	N/A	Contr. Q	Supp.
	Poverty of the family	Supp. Q	Supp.	Supp.	Supp.
	Family relations and finding investors	Contr. Q	Supp. Q	Supp.	Supp.
	Negatively binding feeling related to predecessors	Contr. Q	Supp. Q	Supp.	Supp.
	Damage of family business culture	Contr. Q	Supp. Q	Supp.	Supp.
	Persisting tension in local community	Contr. Q	Supp. Q	Supp.	N/A
	Family and business roles	N/A	Supp.	Contr. Q	Supp.
Autocratic rule	N/A	Supp.	Part. Q	Supp.	

FIGURE 48 Triangulating the cases and literature – family business challenges

Notes: Explanation to the abbreviations used in the figure

Supp. - Strongly supporting the view

Part. - Partly supporting the view
 Contr. - Contradicting the view
 N/A - Information not available
 N/R - Issue not relevant
 Q - Supplementary data from final questionnaire

It is also important to add that, apart from challenges, there were hints given during the interviews (especially for companies B and C) that they possess many important *strengths or competitive advantages* typical for family firms as described in chapter 3. These include family and family relations as a powerful motive in continuing the business despite all the odds and with great dedication, a strong and clear family value system, family pride, family business as a common goal for the members, a long term approach, a strong sense of responsibility to society and the readiness for personal, financial or other sacrifice. For details and quotations concerning these issues, please see appendix 6.

9.4 Entrepreneurial challenges

Last of the issues faced concerns entrepreneurial challenges. Even though it is fair to acknowledge that, in order to map them properly, a more thorough investigation (and perhaps also to utilize different research approaches than interviews and final questionnaires) would be needed, the researcher still feels that the results in this area are worth presenting. This is especially true with respect to the obvious hints about the considerable differences in the level and quality of the entrepreneurial skills and attributes amongst the three cases. In particular, case A gave the impression of being “less entrepreneurial” than cases B and C. The differences in the quality of entrepreneurial skills and attributes, along with their impacts, on the success of Czech family businesses might certainly be interesting to investigate.

The lack of knowledge, experience and know how were the first challenges discovered. Only company B seemed to be managed entirely professionally. Company C acknowledged itself that there are still many things concerning professional management and managerial competencies for it to learn (see sections 8.3.2 and 8.3.2). It realizes their importance and makes a significant effort to acquire them (see below the section on learning). The worst situation was experienced in company A, which does not manage its business professionally and does not seem to regard it as priority either (see chapter 8.1.2, sections on strategic management, human resources, marketing, IS/IT etc.) Literature confirms that Czech managers do indeed lack managerial skills and competencies. The Czech management association, in an article concerned with critical points of Czech SMEs, states (www.cma.cz): -

“Managers do have to gain professionalism as managers. Usually they are good technicians or other experts in the field that they established or took over, but certain knowledge and skills, so-called managerial competencies, or at least a basic necessary

knowledge and skills for doing business they still have not acquired. They often act in a business naïve way, they learn by *mistakes*."

The same article then urges the managers of SMEs to acquire knowledge and competencies in financial management, marketing, planning and analysis, human resource management, IS/IT, networking, strategic planning and business counseling.

Poor time management is another entrepreneurial issue acknowledged strongly by case C and also being evident, through frequent complaints about a lack of time (for details see chapter 8.1.3), in case B. The issue was contradicted only by case A (see the final questionnaire in Appendix 2).

Poor abilities to identify opportunities were openly lamented by case C. In case A no evidence was gained that would either support or reject the issue. In the final interviews, company A then positioned itself into a category of firms who "see many opportunities and are capable of exploiting them" (see final questionnaires in Appendix 2).

A rather considerable difference was apparent related to *risk taking* between cases A and C. Whereas case A was taking risk as a necessary part of its business, the answers gave the impression that the owner-manager is risk averse (see chapter 8.1.3). The owner of case C expressed that he did not mind risk at all and coping with risk was not an issue for him.

"I do not mind [risk]! I am ready to take a risk. As for business risk, then absolutely no problem ... What I am not ready to risk is for example health of both near and more distant people. But otherwise, such standard things as business risk, that is no problem!" (Case C, 6/1)

Differences between the companies related to *vision* were apparent. Company A expressed a very skeptical opinion about vision (see chapter 8.1.3) and during the interviews never used the concept. By contrast, companies B and C disclosed their visions during the interviews or expressed a positive attitude towards visions.

"When I get rich again, then I know exactly where I would build the plant again! I know it exactly The space is there, it is on a green field. Well conditioned, nice halls with lots of light. Where you can make it all on a couple of square meters ..." (Case C, 4/1)

"When the flood came, I was standing on a hill of mood thinking 'Shall we renew it? Of course!' The 50 people with shovel. They had the vision then!" (Case C, 1/1)

"[answer to a question whether vision as a higher ideal might work] Certainly! Certainly! You have to be capable of formulating it well and presenting. New testament is also a greatly presented idea!" (Case C, 2/1)

"I often tell her [daughter of Zuzana] about the history, how it all was, where we are now and where we want to be..." (Case B, 2/1)

"Then my father got up [in the instant after the company take-over] and told [the employees] that we all had to pull the same rope, that they should trust us and the journey would be long and demanding but that we would make it." (Case B, 2/1)

Concerning the attitude to networking, company A expressed a rather skeptical stance (see chapter 8.1.3), whereas companies B and C acknowledged the importance they attribute to it. In the final questionnaire, company C saw relations with others as very important for “doing business”. Commenting on the issue, the owner/manager of company C stated: -

“[what importance is attributed to networking] If you mean the business partners, then I do! I think that it would not work without the human dimension.” (Case C, 6/1)

Differences in the attitude of the owners/managers towards *learning* were fascinating. Both the owners of company B and C turned out to be big advocates of (formalized and through practical experience) learning. They were also very open to the idea of performing research in their firms. In case of company B, education seems to be a value permeating the whole, even more distant family and various generations. Contrary to that, the owner of company A commented that, despite the need to learn certain things (foreign languages for example), there was no time for learning (see chapter 8.1.3).

“For about a year [after restitutions] I was digesting great amount of brochures ... he describes its managerial course.” (Hospodarske, 2002)

“[answering the question of what he would want to change to feel easier doing business provided the possibilities were unlimited] ... Education! That would be enough! I would not want more! ... In the whole of the country ... it is a catastrophe. Education, general ... cultural! ... My grandfather built a cinema in Skuhrov, the communists closed it ... now we will probably not manage to re-establish it any more. Because people sit at home, enjoy their crisps and that is all. To get this out of people, that would be great! And I think this is about education...” (Case C, 2/1)

“How come you were so welcoming when I asked you for your permission to perform this research [researcher]? I am a teacher of algebra – and it was by total chance that I came across restitutions. That is the reason. Now in addition I am a student of the Open University myself.” (Case C, 1/1)

“What are the most urgent things you have solved in the area of human resource management? [researcher] Education! We are generally very undereducated! Undereducated in solving problems, undereducated in management of change, any changes! We are totally undereducated, not trained in elementary communication... and what is even worse, we do not long for education! This I see as worse. ... The people are fine, hard working, but you tell them, look here is a schooling, or such a school ... and he says ‘Someone should go there, but not me, I do not have to, I know everything already!’ and you stare being aware of your own deficiency! And you wonder at how it is possible that he says that he already knows everything! It is hard to imagine! But he means it seriously. It is not a joke! This is our greatest handicap...” (Case C, 6/1)

“We even had for over half a year a consultancy company schooling everybody from management to foremen ... it did not start anything [learning process]. I was not hoping that that the people would learn everything ... but that they would start thinking well, these are things I do not know yet and perhaps I could at least from time to time to go and have a look at it, or to open a book ... but since then I have never heard from my colleagues ‘Look, you should invite the one – you know, the trainer, that was here some time ago, to tell us, what he did not manage to tell and finish then.’ I never heard that! ... This is a great burden to me, since it generates a vast number of our present difficulties. If we analyze some of the things, some

problems, we would not have had to have them, if we learned [how to deal with them] in time ..." (Case C, 6/1)

"My father [of Zuzana] has been throughout the whole of his life educating himself - he has never stopped." (Case B, 2/1)

"My father speaks two foreign languages, has economic education, plays the piano." (Case B, 2/1)

"She [sister of Zuzana who works in export department] was for 2 years in Austria and for 4 years in an English speaking country. ... Myself I had prior experience in marketing from a German company, where I was a sales manager for the home market. ... thanks to the fact that promotion is connected to marketing and sales I was trying to learn as much as possible from the commercial viewpoint. My father then left his function [sales manager] over to me that was last year in July." (Case B, 2/1)

"Gabina [daughter of one of the owners, currently working in financial department] was for 2 years in England to gain some experience -a practical placement." (Case B, 2/1)

"Both of them [sister and cousin of Zuzana] went to the world to learn foreign languages and when they returned they realized they might be useful here - so it convinced them once they learnt something." (Case A, 2/1)

"... We have to endlessly continue learning and we all have to again and again handle unknown situations ..." (Case B, 2/1)

"They [mother and sister of Zuzana] were for half of year in production, they built their own piano from scratch. So that they would know what that means, so they started from the very beginning. That was an idea of my father, he is terribly hard to all of us ... but it brings its rewards." (Case B, 2/1)

'We were all of us aware that, behind the fact that we used to be so much famous, was a tremendous effort. Our grandfathers went through a very hard education in Swiss boarding schools - they were studying for example with Mr. Bata - they slept on hard beds, had to learn three world languages' - Zuzana describes the atmosphere where she grew up. " (Hospodarske Noviny, 27.9.2002)

"About the future her daughter [of Zuzana] will decide herself. Already today she is learning how to play the piano, studies English and soon she will start learning another foreign language. Musical education and knowledge of languages belongs also in the presence to the basic 'family equipment'" (Hospodarske Noviny, 27.9.2002)

"Today, pharmacy is beyond me ... in fact my current job is not too different from the previous one, it only involves a different product. One has to educate himself all the time. So for example on Sunday mornings, instead of belles-lettres literature I read Construction of pianos. But I like it. I have to find joy in it. Otherwise I could not do it." (Hospodarske Noviny, 27.9.2002)

The approach to *decision-making* between the owners of companies A and C turned out to be rather different. The owner of company A characterized himself as rather a slow decision-maker who takes his time and reviews alternatives before a decision is made (see chapter 8.1.3). By contrast, the owner of company C described himself as a fast, rather intuitive, decision-maker. The latter case is mentioned in chapter 4.8 as one of the characteristics of enterprising personalities.

"I am too short-minded ... I think that I do not think much and in too many matters I do make too fast decisions ... I make too many decisions along the way and it should not be like that ... Do these decisions then turn out be good or bad? [researcher] ... Well, it has been working out so far! But I do not believe it already myself! It is the same as when you win a jackpot twenty times in a row. Would you win in the 21st go too?" (Case C, 6/1)

Also worth noting is an issue mentioned by the owner of company A. He expressed the opinion that *being a business person gave him no extra advantages over being an employee* (see chapter 8.1.3), which may cast doubt over his entrepreneurial nature. However, company B acknowledged the great benefits of being an entrepreneur over being an employee such as freedom; independence and responsibility (see final questionnaires in appendix 2)

During an interview, the owner of company A also mentioned that doing business was causing him a lot of *stress* (see chapter 8.1.3). The issue was not supported by cases B and C who regarded the level of stress and their abilities to cope with as very "normal" (see final questionnaires in appendix 2).

There were hints during the interviews that the *leadership abilities* of the owner of company A might not necessarily be supreme (see chapter 8.1.3). The owners of the other two companies evaluated their leadership skills in the final questionnaires, presented in appendix 2, as "normal". During the interviews the owner of company C noted: -

"[about motives of re-establishing the firm] Did some personal characteristics also perhaps play a role? [researcher] Certainly they did! Otherwise it would not work. If you start ... managing people, ... you have to have the energy and to get it out yourself. And by talking, working, setting positive examples you lead people somewhere. You in some way give direction. ... Of course you have to like this, it must satisfy you ... personal characteristics play a very important role. ... I do not think that I would ever long for ... a managerial post. But I always longed for ... I have an opinion, I have this way of looking at things and I think it is right! And you either now argue that I do not, and I have to believe you or that is your problem. But you cannot do this from positions other than that of a director [laughter]." (Case C, 2/1)

Summary of entrepreneurial challenges

Unlike in the previous chapters, the aim of this chapter has not been to analyze the individual issues - entrepreneurial skills and attributes that emerged through the course of the interviews - in detail. As previously mentioned, this would require a more thorough investigation, and probably a different research approach. Additionally, the individual issues related to Czech restituted family firms, or Czech businesses generally, are not backed up by other sources of literature.

Despite this, the researcher is of the opinion that presenting these results is justifiable. Significant differences were observed amongst the three cases with respect to the quality and intensity of the various issues. There is a cause to assume that these differences would also exist amongst of the other restituted Czech family firms. Some would be more, and some less, entrepreneurial. For those with less entrepreneurial abilities it would be a challenge to acquire these (at this point we

should point out the discussions in business literature about the possibilities of learning entrepreneurial skills and attributes – see chapter 8.4). The issue of entrepreneurial skills would certainly be an interested one to research further.

	CHALLENGE	Case A	Case B	Case C	Literature
E N T R E P R ·	Entrepreneurial challenges				
	Lack of knowledge, experience and know how	Supp.	Contr.	Supp.	Supp.
	Poor time management	Supp.	Contr. Q	Supp.	Supp.
	Opportunity seeking	N/A	Contr. Q	Supp.	Supp.
	Not positive attitude to risk taking	Supp.	N/A	Contr.	Supp.
	Lack of vision	Supp.	Contr.	Contr.	Supp.
	Underestimating networking	Supp.	Contr. Q	Contr.	Supp.
	Not positive attitude to learning	Supp.	Contr.	Contr.	Supp.
	Slower decision making	Supp.	N/A	Contr.	Supp.
	Self employment as no advantage	Supp.	Contr. Q	N/A	Supp.
	Coping with stress and relaxation	Supp.	Part. Q	Part. Q	Supp.
Leadership	Part.	Part. Q	Part. Q	Supp.	

FIGURE 49 Triangulating the cases and literature – entrepreneurial management

Notes: Explanation to the abbreviations used in the figure

Supp. - Strongly supporting the view

Part. - Partly supporting the view

Contr. - Contradicting the view

N/A - Information not available

N/R - Issue not relevant

Q - supplementary data from final questionnaire

Lastly, it is important to note that, from the issues mentioned in this chapter, in cases B and C there also emerged other issues that might suggest a good level of entrepreneurial skills or attributes of the owners/managers or the other key family members involved in the business. For these see appendix 1.

10 CONCLUSIONS AND DISCUSSION

10.1 Main conclusions

The main objective of the research has been defined as tracing and comprehending the main challenges (problems) restituted Czech family firms faced ten years after their return to the original family owners and providing recommendations for their resolution. The research has concentrated on providing answers to the following questions: -

- What have been the main challenges Czech family firms returned after 45 years of state ownership to their former owners face at present?
- What are the ways of helping family firms to cope with these challenges?
- Would increased business and economic education or counseling be one of the means of solving these? If so, how?

Figure 50 gives an overview of the challenges identified related to the three cases. *Empirical research performed confirmed that these traditional Czech restituted family firms face numerous categories of challenges.* First of all, related to external challenges, they have to cope with various environmental pressures. Among these are the inefficiency of the state sector in terms of excessive bureaucracy, practices discriminatory towards smaller and Czech firms (as opposed to large companies with foreign capital), frequently changing and confusing legislation that is difficult to follow and implement, late delivery of information from the state to the business sphere, high levels of taxation that absorb valuable resources away needed for renewal and further development, poor law enforcement and generally very little government support for businesses. The main implications resulting from the inefficiencies are that business owners face unnecessary complications that use valuable time that they need for developing their businesses.

Also certain factors in the business sphere and society negatively influence their business activities; a high crime rate, unethical behavior leading to a lack of trust, a generally poor image of business people, high levels of envy in society and poor payment morality of business partners (buyers). Related to economic conditions, a great challenge for Czech exporters is coping with the

appreciating exchange rate of the Czech currency and the related deteriorating financial situation of their firms (profitability, liquidity, ability to invest). Serious obstacles to further development have also been difficult to overcome; a volatile and quickly changing Czech business environment, generally increasing competitive dynamism including strong price competition from Asia, relatively high prices for foreign inputs (especially technology) from the EU and the low quality of external suppliers, both of products or services. Also, EU entry presents numerous challenges to Czech firms, ranging from adjusting the businesses to new norms to coping with the loss of price-based competitive advantages.

Secondly, the firms in the research sample also face a vast array of internal challenges. Related to product, one of the greatest challenges is to extend their product portfolio because many of their original programs were either transferred to other businesses throughout the country, became extinct over the years of communism or are now in a phase of decline. The traditional competitive abilities of these firms were also lost and must be regained. Production capacities must also now be adjusted as they often do not match market demand. The same is true for storage facilities. For many Czech firms, a challenge is to define its product competitive strategies as these are unclear or missing entirely. Another challenge is to cope with technological obsolescence. Such renewal, which needs huge investment, is negatively influenced by the lack of investment resources resulting from indebtedness (as the firms had to be purchased from the state), poor economy of products with low value added and the limited availability of investment credit.

In the area of human resources the firms have to cope with high employee turnover and absenteeism as well as inability of the employees to accept responsibility for their own work - features that might be a legacy from the distortions in the employee-employer relations over the years of communism. In some areas (regionally or for professions) the lack of a qualified workforce is also an issue. In addition, there are hints of problems in the overall management of human resources, both professionally and generally in giving it the attention it deserves.

A great weakness of those firms researched (and Czech businesses generally) is their inability to collect information and plan, both in the short run and the long run (i.e. strategically). The challenge for business owners is to change their attitude to planning and to give these areas the focus they deserve as well as to learn formal techniques for planning and managing information. The unprofessional management of marketing and the commercial side of the business - or its total negligence - is also a serious issue.

Finally, the firms have to deal with various other issues such as ecological problems that add to the already alarming investment needs. The attitudes to counseling are also worrying as it is regarded as being too expensive and as not adding real value to the firms. This might be rather alarming with respect to the fact that, in the management of many of the functional areas, there are hints that the business owners/managers are not sufficiently qualified compared to their western counterparts and have, so far, only had a short time to acquire these in

the post revolutionary years. In the case of the family owners of traditional firms, this could be exacerbated by the fact that the family were not allowed to gain higher education, manage people or study economics during the communist regime.

In addition to the various external and internal challenges, the Czech restituted family firms also face challenges typical for this general category of business. Firstly, Czech families have to re-establish the relations between the family and the business that, especially for the wider family members (yet present owners), weakened over the long years of communism and complete detachment from the business. Apart from assuring continuity, it is also important to effectively manage business succession, whether imminent or more distant in the future. Another important challenge for the family firms is to stabilize the ownership structure of their firms. Through communism the families grew significantly and, in the restitution process, the ownership got scattered often amongst many heirs – many of which are often not interested in managing the business. Hand in hand with the issue of ownership (and potential wealth) are the relations within wider family that were (by two cases) suggested as being sub-optimal, which could potentially complicate the stabilization of the ownership structure (potential buyouts and concentration of properly in hands of a smaller number of owners genuinely interested in developing the business) and the further development of the business. In one of the cases another typical issue was mentioned - tension between two siblings (both potential heirs). The original family business culture that, as the owners acknowledged, got badly damaged over the years of communism also needs to be re-established.

Firms do have issues to handle with respect to finance. One typical issue for the restituted family firms in the Czech Republic is the fact that the former family owners were severely impoverished over the years of communism. This turns out to be a significant weakness, especially during the restitutions, when the families had to take huge loans to purchase their firms from the state and at present (or for several years) involuntarily “milk the businesses” to repay these. In addition, as one of the owners put it, the families would not have any personal wealth to invest in their firms in order to finance further developments or to just help their firms financially “in bad times”. Finding external investors also appeared to be problematic as a result of family relations being present in the business.

Czech restituted family firms have to cope with other challenges such as negative feeling towards their predecessors that could potentially prevent or complicate change, dealing with divisions of roles in the family and in the business or coping with the relatively autocratic natures of the post-restitution founders.

Finally, it turned out that the Czech family firms may also have to cope with a certain lack of entrepreneurial skills, such as lack of knowledge, experience and know how, poor time management, inferior opportunity seeking skills, negative attitudes to risk taking, a lack of vision, underestimating

networking, negative attitudes to learning, slower decision making, not coping with stress and relaxation and poor leadership abilities.

The “bad news” and the “good news”

The results from the three cases investigated showed that Czech traditional (restituted) family firms potentially face a wide scope of challenges. What could be important is the fact that the scope of the challenges is potentially wider than for other kinds of firms – new (family) firms established after 1990 and non family firms.

As the owner of company C pointed out, compared to newly established firms, the traditional Czech family firms do carry with them a wide array of burdens from the past. For example, it is potentially harder for them to obtain credit, because their financial situation is poor – old products, production technology which has virtually not changed since nationalization leading to a large proportion of hand-made work, creating only low value added and low profits.

“I am sure that if in course of those 45-50 years there were made normal non-interrupted investments into the company, no big things. So then, if the program remained there at all, and I think that it would ... so simply it would be produced differently! Simple clever heads would come up with new technological procedures, different machinery, that would do the same things but in a different way. Simple there was this 40 years ...” (Case C, 3/1)

Poor profits then limit the ability for a company to take bank loans. In addition, high indebtedness caused by the restitution buyout decreases their potential to obtain further credit for investment as compared to newly established firms. External investors, as a result of the family present in the business, are also hard to attract. As the owner of company C expressed it, subconsciously the families do not want investors in their firms. The families themselves have no resources either as they were impoverished during communism.

The products themselves also present their own challenges. As previously mentioned, their production processes are rather obsolete and their profitability low. In addition, some products are in decline and the production portfolio is limited as a result of the loss of products during communism – this portfolio needs extending. Being established in certain industries (often declining or moving to the East) means that it is often difficult for firms to find and implement new production programs. It can be assumed that, in comparison, the newly established firms have relative “freedom” in choosing attractive industries and products with good prospects. By contrast, traditional family firms do get “stuck” in their industries.

Investments into obsolete technology, one of the main issues for all the three cases, are potentially more difficult. As discussed, the investment capabilities of these firms are rather limited. In addition, as the technological side of the production process did not develop (Case C) and remained the same as before the Second World War, to replace some of the old machinery needs

made-to-measure, single-purpose machinery. Compared to modern multifunctional machinery purchased for new production processes, these are harder to get and more expensive.

Disadvantageous compared to newly established firms is also the fact that the firms remained at their original locations. For company C, being located in a small village presented particular problems related to attracting a qualified work force as well as matters such as a danger of floods from the nearby brook that badly damaged the business several years ago. Potential limits to further development of these firms can be also poor infrastructure etc. Also, relatively high expenditure required to repair ecological damage is another disadvantage.

Being starved of higher education as a result of the former business families being persecuted during the communist regime (not being allowed to study or to have any subordinates) clearly caused problems.

Paradoxically, as the owner of case C comments, new firms receive greater support from the state. That fact that the state discriminates against smaller firms with Czech capital, as compared to large, foreign firms, was confirmed in the other interviews (see chapter 9.1).

“In here [in the Czech Republic] restituteds are not in a good position, it is not true that they got their business back. They got a communist business. Walls are old, no one has ever painted them. ... And culture is new! We got a different culture! ... And we are of course totally different! This interruption ... maybe someone will research that one day, I am convinced that it is catastrophe, that it is a disadvantage, it is even a threat! ... The one who builds on a green field is in a much better position. He has no burdens and nowadays gets even state subsidies.”(Case C, 2/1)

Restituted family firms seem to be worse off as they have to cope with an array of challenges typical for this kind of business – assuring business continuity as many of their present owners alienated from their businesses (living in different part of country and having very different professions); managing succession; handling restitution structure of ownership that was fragmented; coping with relations in the wider family; dealing with the division of roles in the family and the business, coping with the inclination of the post-restitution founders towards autocracy and many others.

It can be concluded that the Czech family firms indeed do face a wide range of challenges. As in case of any other Czech business, these stem from environmental factors (global ones and many specific for the Czech business environment) and often (related to internal challenges) from the fact many of the business areas are still not managed professionally. In addition, Czech restituted family firms have to cope with multiple challenges typical for family firms and challenges stemming from various “burdens of the past”. As a rather special category of business, Czech restituted family firms therefore seem to be rather vulnerable.

Concluding at this point would be wrong though because the interviews revealed another important aspect related to Czech traditional family firms. *Compared to other (non-family) firms it seems that they also potentially possess a vast array of special strengths typical for this kind of business. Among them are family*

relations as a strong motive in saving and continuing the business, family (entrepreneurial) pride, family business as a common goal for the family members, a clear value system, a long term approach and the will to build the business for the future, the readiness for tremendous personal and financial sacrifice, a strong sense of responsibility to society and ethical behavior, trust etc. Overall, especially companies B and C (but in many respects also company A), the companies seemed to be extremely determined to survive and to save the business. As they noted, they had to do it for their predecessors or, as in case of company C, to show that the family had “entrepreneurship in their genes” and that it was not simply by chance that they succeeded in the past.

Finally, it is worth noting that both companies B and C appeared to have many important entrepreneurial skills and attributes – goal orientation, extraordinary persistence, being motivated by achievements and a positive attitude to challenges, an innovative approach, dedication to work, a highly positive attitude to learning among others. These features may also potentially create a base for a sound competitive advantage of the restituted family firms. As already mentioned, the issues would certainly be worth researching on a larger scale. It might hold true that only those with these skills might manage to re-establish their firms and survive. Therefore at present restituted family firms might possess these entrepreneurial skills in more abundance than other non-restituted or non-family firms. This might then further increase their chances for survival. This assertion may also support the conclusion that the firms of the past survived over many generations through entrepreneurial nature and the strength of these families.

It is therefore important that family firms not only focus their attention on coping with the various environmental threats and their inherent weaknesses, they should also encourage and develop their powerful strengths and exploit their opportunities.

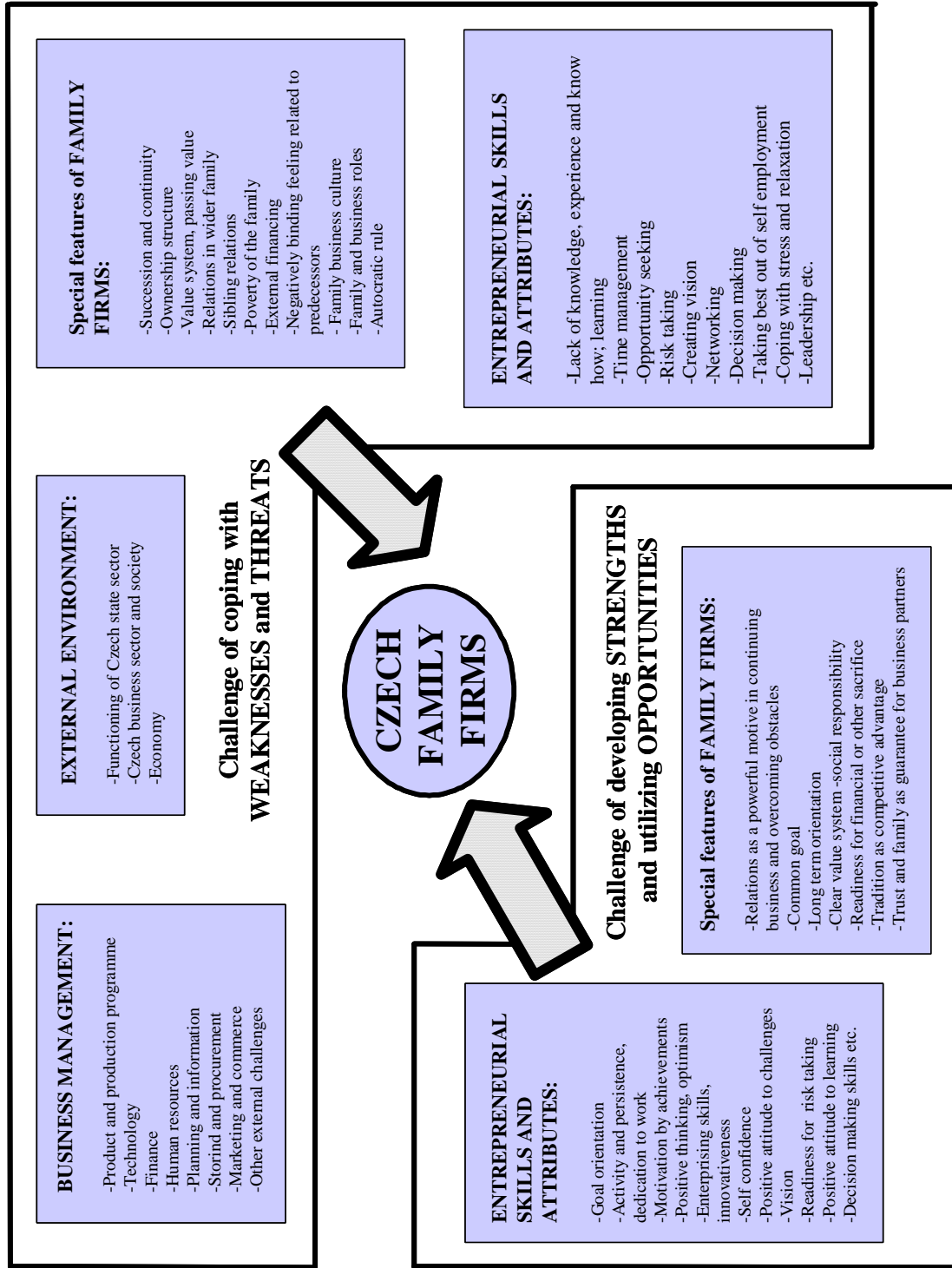


FIGURE 50 Final model – character of challenges faced by Czech traditional family firms.

10.2 Recommendations

The aim here is to answer the second and third of the research questions: -

- What are the ways of helping the family firms to cope with these challenges?
- Would increased business and economic education or counseling be one of the means of solving these? If so, how?

There are multiple ways of helping traditional restituted family firms. *Moving the focus of the government onto gradually changing and improving Czech business conditions would be highly desirable.* In particular, emphasis should be put on replacing extensive state bureaucracy, preventing crime, strengthening the legal system both through law enforcement and simplification and making the law more transparent and understandable. In addition, special help to this unique group of firms is greatly needed above all related to their financing. State financial support programs or state guarantees for obtaining bank loans would help immensely. Tax reductions or other investment incentives might be of a great importance.

Czech family business association

Before this can be done at the governmental level, there is another important issue to handle – *recognition for family firms as a special form of business.* There are no official statistics for family firms, either the traditional or newly emerging ones, no family business counseling, no education or family business institutions. Starting recognizing family firms as a special form of business is greatly needed. It is well known that, in western economies, family firms greatly contribute to generating outputs and employment and are therefore important players in national economies. On the other hand, family firms do face many special disadvantages that make them especially vulnerable and for the group of traditional Czech family firms this is even more pronounced. The rising importance of family firms to the Czech economy means that they should start to receive much greater attention.

The first step in asserting and promoting this special kind of business in the Czech republic might be to establish a Czech family business association, which would see such firms join forces and therefore draw the attention of governmental to family business issues. Its first activity should be to establish family business related statistics (number of family firms, economic outputs and contribution to employment) as a basis for proving the importance of family firms to the national economy.

Czech family business education

As suggested in the research questionnaire, *appropriate education and counseling* might be another of the important solutions to coping with the challenges

facing Czech family firms. Their education and counseling should focus on two main areas – general business education and family business education.

Czech family firms should therefore gain the modern managerial skills and knowledge required to start managing their business professionally. Efforts should be directed to strategic management that could help in overcoming many of the internal and external challenges, as well as other important functional areas such as marketing, the management of human resources and the management of information and information technology. MBA programs – provided, in cooperation with respectable foreign universities, by numerous Czech universities and business schools (For more see the Czech MBA association; www.cambas.cz) – may be well suited for this task in terms of both form and content. With respect to education, a great support from the government might be to cover part of the costs of educational programs or other benefits such as allowing the costs of education to be tax deductible. Also, support programs that provide specialized business counseling would be highly desirable.

The second area of family business education and counseling should focus on the special issues related to family firms – managing succession, family business governance, dealing with family business financial issues, cultural aspects etc. This should teach family firms not only how to cope with their inherent weaknesses and potential threats, but should also make them understand how to develop their valuable strengths and how to utilize the various unique opportunities they have. The same role would also be played by family business counseling.

The availability of special family business courses and counseling is currently negligible in the Czech Republic. First of all, Czech experts must be trained (above all abroad) to acquire the specific family business expertise so that they are capable of introducing specialized family business courses at Czech educational institutions and consultancy firms. A positive role in mediating the family business knowledge might also be also played by the afore-mentioned Czech family business association. It could gain access to family business resources by cooperating with other national family business associations worldwide (e.g. the western Family Business Network) and help in transferring family business know how and knowledge to the Czech Republic. It may also help cross-pollinating the experience and practical knowledge between Czech family firms. It might serve as a specific Czech family business knowledge base.

The researched cases

The results of this research show that the three cases, despite sharing very similar circumstances (all being traditional restituted family firms), size and history, find themselves in rather distinct strategic positions. The SWOT model (based on discussion with professor Koiranen, 23.7.2004) in figure 51 depicts their potential positions and the distinct strategies these firms might adopt.

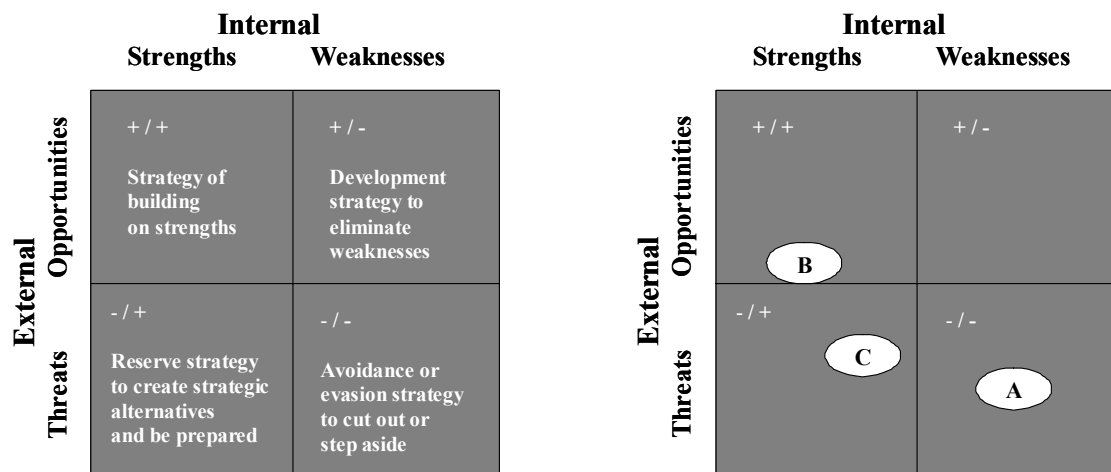


FIGURE 51 SWOT model (based on discussion with professor Koiranen, 23.7.2004)

Company A finds itself in the most difficult position. It has numerous internal weaknesses concerning its business know-how, products, production processes and finance, but also other aspects such as the rather underdeveloped traditional strengths of a family firm. In addition, it has to compete in a highly dynamic and competitive external environment, and there are relatively limited opportunities inside the industry (soft drink production). In this environment, a suitable strategy for company A might be avoidance, e.g. dropping non-profitable products or lines.

Company C (production of cast manual kitchen appliances) also finds itself in a rather competitive industrial (particularly in relation to Asian competition) environment. Compared to company A, company C possesses certain important strengths. These include the ever improving business management knowledge, a strength typical to family firms, a strong value system, dedication to ensure that the business survives, family pride, the family business as a common goal, long term orientation and the readiness for great personal sacrifice, as well as numerous entrepreneurial skills and attributes. For company C a reserve strategy would be suitable.

Company B is in the most favorable position. Its industry does not seem to be as extremely competitive as the industries of the other two cases and its overall position seems to be stronger. There also seems to be opportunities for further development in the industry. Apart from this, the company also possesses numerous internal strengths such as good expertise in business management, a relatively favorable financial position, entrepreneurial skills and many of the strengths typical to family firms. According to this model, a strategy of building on its current strengths would be suitable for company C.

10.3 Theoretical and empirical contributions

From an empirical point of view the main contribution of this research has been the assertion that the traditional *Czech family firms potentially face many specific challenges compared to other, non-family, or newly established, firms*. These challenges are related to their special nature (family business) and their “past”. Being aware of the importance family firms play in national economies and of their inherent weaknesses, the findings of this research should provide the impetus to start paying greater attention to this special form of business, both at the governmental level and in educational institutions as well as through research. This study has been one of the first empirical pieces of research focusing on family firms to be performed in the Czech Republic.

The researcher sees the fact that the results of this study have given support to the assertion that, in the Czech economy (i.e. an economy that has developed very differently from traditional western ones), *there is a group of family firms demonstrating features of a family business that are very similar to those identified by research in western economies*, as the most important theoretical contribution of this research. Even though this fact would have to be verified on a larger, statistically relevant, scale, it might be an important argument in support of the application of “western” family business knowledge in Czech conditions.

Secondly, the results of this research seem to be *further proof of the incredible power of family relations, values and culture in family firms*. It seems that, in traditional Czech family firms, the inherent strengths related to the various family aspects survived the fifty year break and detachment of the family from their businesses. These values currently serve as powerful driving force in re-establishing these traditional family firms and ensuring that the business continues despite the difficulties and unfavorable conditions.

Thirdly, the research has brought up *many new questions* that might serve as a basis for further research in the area of Czech family firms. Suggestions for further research are given in the following subchapter.

Finally, as there are, so far, only very limited resources available to family firms in the Czech market, the rather extensive family business literature review presented in this thesis may serve as a *good knowledge base* for the family business owners, as well as educational institutions and researchers.

10.4 Suggestions for further research

This research has brought up several additional issues that may be worth considering as *topics for further research*: -

- Deeper research into the special features (strengths and weaknesses) of individual Czech restituted family firms – to what extent do these correspond

with the features of “western” family firms. Did the fifty-year break change them in some way?

- Verifying the results of this study on a larger sample.
- Further longitudinal research into the development of the three cases. Have they managed to survive? How? What strategies did they choose?
- Research on the features of newly established Czech family firms. Do they already exhibit some of the features typical to traditional family firms?
- Research into the number of family firms in the Czech economy, their categorization (old traditional, newly established etc.) and an estimation of their contribution to national economy, as well as the development of statistical practices.
- Research into the entrepreneurial skills of traditional family firms. Are they stronger or more frequently found in these firms, as opposed to in newly established ones? If so, might they be a potential source of this strength?
- Quantitative research into the motives behind re-establishing the traditional family firms.
- Relations between the traditional family firms and the local community. Is this a strength or a weakness?
- Education as an important value and competitive advantage for traditional family firms.
- Distrust of visions and missions by the Czech workforce as a result of the past.
- Attitude of Czech workforce towards employment and employers; responsibility for own work; intrapreneurship.
- Fragmented ownership structure in traditional family firms and its implications for further development. Ways of handling the issues by the families.

TIIVISTELMÄ

50 vuotta kestäneen valtion omistajuuden ja kansallistamisen jälkeen suuri joukko perinteisiä tsekkiläisiä perheyriytyksiä palautettiin omistajilleen. Monet entiset omistajat ovat uudelleenperustaneet yrityksensä ja toimineet vaihtelevalla menestyksellä tähän päivään asti, vaikka 1990-luvun alkupuolen sosio-ekonomiset ja poliittiset olosuhteet olivat hyvin haavoittuvat ja riskialttiit.

Tämän tutkimuksen päämääränä on tarkastella niitä haasteita, joita perheyriytykset kohtaavat tänä päivänä ja tutkia onko niistä helpompi selvityä hyvin suunnitellulla ja sopivalla liiketoiminnan koulutuksella ja konsultoinnilla.

Tämä tutkimus on ei-positivistinen tutkimus – moniosainen tutkimus (case study), joka on toteutettu Tsekin tasavallassa 10 vuotta kyseisten perheyriytysten uudistamisesta.

Tutkimuksen empiirisen osan tulokset osoittivat, että kaikissa kolmessa tapauksessa yritykset kohtasivat suuren joukon haasteita, jotka voidaan jakaa kolmeen ryhmään – liiketoiminnan johtamiseen, perheyriytysten erityispiirteisiin ja haasteisiin jotka liittyvät yrittäjän johtajantaitoihin/yrittäjyyden johtamiseen. Tutkimus väittää, että perinteisten tsekkiläisten perheyriytysten kohtaamat haasteet voivat todennäköisesti olla suuremmat kuin toisentyypisillä organisaatioilla, kuten vastaperustetut yritykset tai muut kuin perheyriytykset. Liiketoimintakoulutus ja konsultointi voivat varmasti olla tärkeä keino perheyriytyksen auttamiseen, jotta ne pääsevät näiden vaikeuksien yli.

Näiden tulosten lisäksi tutkimus osoitti vielä yhden tärkeän seikan. Perinteiset perheyriytykset eivät vain kohtaa paljon haasteita, vaan niillä on myös ainutlaatuisia taitoja johtuen perheen mukanaolosta sekä lisäksi myös yrittäjätaitoja ja -ominaisuuksia. Nämä voivat lisätä kilpailukykyä ja auttaa nykyisten ongelmien ylipääsemisessä, jos yritystä johdetaan, kehitetään ja näitä taitoja hyödynnetään oikein.

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APPENDIX 1 OTHER ENTREPRENEURIAL SKILLS AND ATTRIBUTES OF COMPANIES B AND C

Company B

Goal orientation

"He was always such that when he wanted something then he always reached it [Zuzana about his father, the post revolutionary founder of company B], despite the fact they were laying obstacles in his way. This has been so until the present. It is him, who we owe to that we are in the factory." (Case B, 2/1)

"We worked [on privation process] almost 8 hours a day for 6 to 8 years. Unfortunately we did not manage to make it shorter. My father had the whole office equipped only for the privatization of the company. He dedicated terribly much time to it." (Case B, 2/1)

"They [mother and sister of Zuzana] were for half of year in production, they built their own piano from scratch. So that they would know what that means, so they started from the very beginning. That was an idea of my father, he is terribly hard to all of us ... but it brings its fruits." (Case B, 2/1)

Activity and persistence

"... terrible sturdiness - that is very strong glue to us all, we could be here day and night [in the factory] and all the time we would have something to work on, ... we have much energy to go ahead and to solve something all the time. I admire my father's family ... they were capable of always achieving something in their lives." (Case B, 2/1)

"... but my daddy gained power [over the company] only after very persistent fight [with state administration]." (Case B, 2/1)

"The conviction of my father [about his will to start the privatization] was so big, that he omitted it all [likeliness whether he would succeed] and said, all or nothing..." (Case B, 2/1)

"The key representative of this important business [company B] became [Jan], son of Dmitrij, the leading spirit in the complex restitution problems finally solved in favor of the original owners." (Hradecke Noviny, 11.3.2003)

"We were all of us aware, that behind the fact that we use dot be so much famous, was a tremendous effort. Our grandfathers went through a very hard education in Swiss boarding schools - they were studying for example with Mr. Bata - they slept on hard beds, had to learn three world languages' - describes Zuzana the atmosphere where she grew up." (Hospodarske Noviny, 27.9.2002)

Motivation by achievements

"I do not know if he was motivated [in re-establishing the business] but certainly he was driven forward by the will to achieve this" (Case B, 2/1)

Positive thinking and attitude

“Today, pharmacy is beyond me ... in fact my current job is not too different from the previous one, it only involves different product. One has to educate himself all the time. So for example on Sunday mornings, instead of belles-lettres literature I read Construction of pianos. But I like it. I have to find joy in it. Other wise I could not do it.” (Hospodarske Noviny, 27.9.2002)

Company C

Enterprising skills, innovativeness

“... This forming line for piano frames we built with our own hands. It cost us 45 million and it is a total world unique piece. ... Simply you cannot make piano frame for such little money No one can do that! Supplier of this line Evaluated this to us for 107 million German marks!” (Case C, 5/1)

“Other wise here we have such a very secret our own method how to make plastic models.” (Case C, 5/1)

Dedication to work

“... I admit, I do not think I would be a workaholic, but it is true that I let myself to be taken fully by work. (Case C, 6/1)

“I could not think of better solution ... then to go for it full speed. [about decision what to do with the business].” (Hospodarske, 2002)

Self confidence

“[about motives of re-establishing family firm] Second, even though somewhere in the background, was to show that we have it in the genes, that it was not a coincidence that some predecessor out of a almost bankrupt blast furnace created something and gradually built it up, no imperia, but a firm, that functioned well, that it was no coincidence, protection, but simply that [we] have it in blood. That we manage this once more ... ” (Case C, 2/1)

Liking of challenges

“Greatest success is that we survived the foods. Have you had the feeling that you would not get out of it? [researcher] Well ... when I was then standing there above it ... [sadness] ... What strengthened you? [researcher] ... That it is not so easy to get it our of it. That perhaps it is more interesting like that! ... To me big tasks are not a problem. No problem are for me even such tasks that even myself I think about that they are not possible to solve! In fact, it somehow gives me more joy!” (Case C, 6/1)

Optimism

“[after describing multiple problems the business inherited from the past] I still have the feeling this has to end up well.” (Case C, 1/1)

“[answer to a question whether there are chases to realize the vision - building a new plant on a green field] Chances always die last, of course there are! [seriously]” (Case C, 4/1)

"[values] ... humility, then I would put optimism ..." (Case C, 5/1)

"[answering a question what innovativeness means to him] ... Any activity where I do not know where I am heading to ... going into a darkness ... But yet I would add, with an optimism!" (Case C, 6/1)

" What is your greatest goal for the future? [researcher] To survive! Are you an optimist? [researcher] Certainly! I would not be here otherwise ... But, there is no other way for us, than to survive ..." (Case C, 6/1)

APPENDIX 2 SAMPLE OF FINAL INDIVIDUAL QUESTIONNAIRE - CASE B

Final questionnaire⁴⁷

Please for each of the questions choose one of the pre-defined answers that best suits your opinion.

1. Czech administration is:
 - a. Non-bureaucratic
 - b. Bureaucratic but the level of bureaucracy is acceptable
 - c. Rather bureaucratic which complicates business activities
 - d. The level of bureaucracy is not acceptable and fundamentally restrains business activities
2. Czech legislation is:
 - a. Well arranged and comprehensible
 - b. Sometimes a bit complicated but on substance Well arranged and comprehensible
 - c. Poorly arranged and difficult to comprehend
 - d. Extremely poorly arranged and difficult to comprehend
3. Law enforcement in the Czech republic is
 - a. Very good
 - b. Good
 - c. Poor
 - d. Completely dissatisfactory
4. The state supports business activities
 - a. Actively and very efficiently
 - b. Actively within the given possibilities
 - c. Little and non-efficiently
 - d. It does not support it almost at all, it is only on the level of rhetoric
5. The level of economic crime and non-ethical behavior in Czech business sphere is:
 - a. Low
 - b. The same as everywhere else
 - c. High
 - d. Very high
6. Czech business people are by the majority of Czech society perceived as
 - a. Successful, undertaking and daring people who reached high goals in their lives
 - b. In the same way as other occupations - depending on the concrete case

⁴⁷ The questions and their pre-defined answers were identified based on issues identified in the interviews. Similar questionnaires were designed also for cases A and C.

- c. As a group of rich, who often acquired their property through activities on the edge of legality
- 7. I encounter envious reactions in business:
 - a. Almost never
 - b. Sometimes
 - c. Often
 - d. Very often
- 8. Express your agreement or disagreement with the following assertions 'At the beginning of the nineties was a considerable or at least a significant part of our products compared to western competitors obsolete':
 - a. Yes, I agree, it was necessary to innovate considerably, nowadays are though our products on a level totally comparable to western competitors.
 - b. Yes, I agree, it is still rather necessary to innovate. Our products are already almost comparable to western products, there are though certain reserves at least in case of some of our products.
 - c. No, there were steady investments into innovating the products and the products therefore already in the early nineties were on a level almost or totally comparable to their western competitors.
- 9. The company inherited from the state enterprise considerable or significant amounts of non-utilizable inventories
 - a. Yes, it did.
 - b. Only smaller or negligible amounts
 - c. No, it inherited no non-utilizable inventories
- 10. Express your agreement or disagreement with the following assertions 'The employees are not interested in further education, training, schooling etc.'
 - a. Yes, I fully agree with the assertion
 - b. Yes I more or less agree with the assertion
 - c. No, I disagree with the assertion
- 11. Express your agreement or disagreement with the following assertions 'The employees are generally susceptible to formally defined missions or visions, as a result of communism that abused and excessively used missions and visions that as a result of that lost their trustworthiness and the ability to motivate':
 - a. Yes, I agree
 - b. No, I disagree
- 12. The storing facilities (their capacity, handling machinery, location etc.) were at the beginning of the nineties:
 - a. Completely satisfactory, no major changes were needed
 - b. Satisfactory in principle, there were only minor changes needed
 - c. Dissatisfactory but such measures were taken so that nowadays these meet our needs
 - d. Dissatisfactory, we have to deal with numerous problems until the presence

13. External advisory (other tax or accounting) for firms:
 - a. We do use and it is beneficial for us
 - b. We do use but the benefits for us are not such as we expected
 - c. We used in the past but not any more that it brought no effects to us
 - d. We do not use, we have never thought of that
14. Express your agreement or disagreement with the following assertions 'The company did not grow over the years of socialism as it was likely to grow as of it was in the hand of the family, This fact currently represents a considerable disadvantage compared to above all foreign competitors':
 - a. I disagree, the company grew during the socialism too, there are no considerable difference between its size and the size of the competitors
 - b. I disagree, the size of the company is not important from the viewpoint of competitive abilities
 - c. I agree with the assertion
15. Express your agreement or disagreement with the following assertions 'The fact that the firm is a family firm, i.e. that also the informal family relations permeate the business, is or might potentially be an obstacle in finding an external investor'
 - a. No, I disagree, the family relations are just contrary to that a certain guarantee for the investors and are from the viewpoint an advantage
 - b. No, I disagree, the family relations play no role and the changes for finding an investor are the same as in any other kind of firm
 - c. Yes, I agree
16. Express your agreement or disagreement with the following assertions 'The wishes or legacies of predecessors can potentially be or are in some situations a disadvantage. The feeling that the predecessors might wish to have certain things done differently prevents change and in some respect is negatively binding'
 - a. Yes I agree with the assertion
 - b. No, I disagree with the assertion
17. Express your agreement or disagreement with the following assertions 'The years of communism damaged the traditional family culture'
 - a. No, I disagree, that original family culture to a great extent survived the years of communism
 - b. No, I disagree, the original business culture was in respect exceptional or a family one'
 - c. Yes the original family business culture was damaged
18. The relations of the family and the local community as of a group of citizens are
 - a. Very positive, the local community sides with the firm
 - b. Prevaillingly positive
 - c. Neutral

- d. Negative, there still persists certain tension that has its roots in the past (nationalization) envy etc.
19. I think that
- a. That there are many opportunities in the market and our company knows how to take advantage of them
 - b. There is a great amount of opportunities in the market but our firm finds it problematic to monitor them and to take advantage of them
 - c. There is only few opportunities in the market
20. Relations with the individuals or intuitions, being formal or informal, are for the business:
- a. Very important
 - b. Important
 - c. Only little important
 - d. Unimportant
21. I do tend to make decisions rather:
- a. Quickly and often rather intuitively
 - b. Slowly based on thorough analysis
22. I find doing own business
- a. More suiting than being an employee, I like the freedom, independence and responsibility related to being a business person
 - b. Less suiting than being an employee
23. I do regards myself as prevailingly managing stressful situations:
- a. Very well
 - b. Well
 - c. With certain difficulties
 - d. With great difficulties, I am rather often ins tress and cannot cope with it
24. My natural leadership abilities are:
- a. Very good
 - b. Good
 - c. Below average
 - d. Poor

APPENDIX 3 SAMPLE OF PART OF INTERVIEW TRANSCRIPT

- Interview Case C
- Owner- manager
- 10 April, 2002⁴⁸

... [continued] What kind of values you have your family? Either explicit or implicit.

Well, well...

Or, to put it in a different way. If you were to pass three principles onto your daughter to equip her for life. What would you choose?

Openness, fearlessness and humility [answering without hesitation].

Do you think that these are the same as the values of your father?

Certainly, but he would never put it that way, since his vocabulary is different. Certainly they would, and you would certainly recognize these in his actions, you could trace them. Also my grandfather would put it in a similar way and certainly my great grand father would. ... As I told last time, they were trying to build up a position of a kind of a suzerain in the Skuhrov village and of course there had to be certain credo "above their doors". These things he was trying also to articulate and I think that really he also lived and worked according to them.

... [continued] I have seen that you sponsor a sports club in Skuhrov ...

I would not mention this ...

You would not mention this ... and then the internet. Could you tell me, do you somehow try to take care of the community? Do you try to look after it?

Look this once again requires a small time lag; I do not want to say a generational one, but some. In the village and strictly speaking also in the firm there is a great number of people living, who to great extent took part in the national administration and the nationalization process. The people have also their conscience and it is sometimes very unpleasant, also for them, to deal with

⁴⁸ Note that the translation of the interview sample might not on occasions fit exactly the wording of the translations of the dialogue used in quotations in this work. This is due to the fact, that the researcher carried out the analysis of the interviews in Czech language as the translation of the interview could have distorted the details of the dialogue.

us. The sentiments still remain there; you cannot get rid of them, that is not possible. It is true, that my situation is in this respect much better than that of my father, who lived this himself through, for me this is only a mediated matter, for him it was much more drastic, but tension still exists in the village – but I do not want to say the local representatives, there the coordination is very good – the village as a set of citizens and the company. The relation is not still a joyful one; it is not like that that the village would be keeping its fingers crossed so that the company would do well ... there are still certain problems remaining. These have to, forgive me, decay first. When this happens, and this is a question of years, and of course of the actions of the company, then I think it will go in the good direction. And it has been going so far.

So to what you have asked, of course, that company is trying in some way to help somehow where it can to. But rather in such a quiet way. The company long before this has been invented by the current ministers had connected the local school to the internet, using its hard line. We do pay the lump sum anyway so these are no additional costs to us and this was not a problem at all, was it? Financially this was the same, there were some extra lines, so frankly you would not lose anything really and in silence and peace it serves a good thing.

Yet being it quite a substantial thing ...

Well yes, but look, if we take it pragmatically, really pragmatically, if we start trumpet this, then always a set of some envious ones would appear who would think about how they managed, how they financed this, who benefits from it and second, our customers are not interested, whether we sponsor the school or not, this cannot be take advantage of for any commercial purposes

... [continued] I remember you mentioned last time also that an extensive ecological reconstruction was realized at the factory site.

Well this is something a bit different. First generally you cannot expect a Czech company to behave as a company in Russia. That means on the long run, that some kind of a catastrophe can happen to you, you can for example pour 100 tons of crude oil out somewhere, but then you have to clean it. Then of course you will be trying, if this for some reasons happens, to direct your efforts and resources to put this right. Of course, when you have a multi billion company then this is possible immediately, when it is us, then it takes some time but the will has to be there. This is called ecology, well, but to us this means nothing more nothing less than that we would keep it clean and tidy. And we keep an eye on messing into the environment as little as possible. This is totally sufficient. It is not necessary to blow this up somewhere or to write articles about that we have leaned up ... this is totally sufficient.

Somehow this seems to be such an apparent thing but you know how things are sometimes ...

Yes, but I think that sometimes you should go a bit against the wall, you know all of those talking about ecology – with their eyes popped – I think that it is to gain extra resources from somewhere or they want to point out, that it is so horrible that they cannot handle faster, and so they exaggerate it, make certain publicity to it and the relatively simple problem is then regarded as a very complex one and it attract media etc. Negative publicity is a good publicity ... why should we hide this – you do not pay for it and it lasts much longer ... [sarcastically] a great thing ... [sarcastic laughter]. But when you say to yourself, I do not need this, all I need to do is to tidy up and sweep slowly but gradually then you sweep long, sweep with your own hand and then in your memories you can say, in the past it was such and now it is different... But look, the company has so many abscesses not only the iconological ones, these also of course, these are in no case good either ... By the way we have been holding the ISO certification for 14 days now...

14 days?

Yes, about that, we got it on Friday, that I remember, on 28th March. We got it in second round, that is true but we got it ... the second attempt was successful. And this only showed that we have a manageable will to repair things ... and there are truly many that have to be repaired, so many, but really so many wounds. Frankly, go and see the foundry. The foundry as an operation would always remain dirty as long as it remains a foundry of gray caste iron but toilets can look as toilets ... which they do not ... not really ... Even though these were opened in 1933 as ultra modern – I could even I think show you their pictures ...

... [continued] What drives you [to do the business]?

Look myself, it is true that right since the beginnings I was present to the talks of my uncle and my father but the first reaction of my uncle and his wife at the end of 1989 – then we did not know a word about restitutions – was, no, no, no, we will give it to Havel [first post-revolutionary president] we do not want anything. And this slowly was transforming that they found out that to give it to Havel was a nonsense and it would not be so easy ... well, but, who remembers the early 90's knows that people were coming up with all sorts of nonsense – as this one. So I rather think that this was a kind of an obligation of my father and uncle, that simply it was their duty to continue the work of their father and predecessors. And in their case, this is clear, as for finance, they were personally loosing ... generally, from the economic point of view. It would have been much easier for them and more advantageous, certainly financially, to receive a compensation for the share they had in the company. They would have certainly received that. And that would be it ...

Look in 1990, my father was born in 1931, so how old was he? He was just 60 in 1991, Jirka was 5 years younger, so he was 55 – also an age close to retirement. And they were choosing amongst some form of remunerations that they would have received for practically zero work – and they would certainly have deserved that – and this [the business]. And they chose this. Nobody was persuading them, certainly not myself, I thought that I would help them for 2-3 years and then I would return to teaching – that was my vision. Since then I was already allowed to teach in Liberec, it was possible after 1989, the position was available. I thought I would put my youthful élan into it, that I would introduce computers into it and went away, because, what? But of course, everything is different ...

I think that the first thing they had in mind was their obligation to predecessors, second – and really somewhere at the background, or in a second row – was to show that “We have it in genes”, that it was no chance that from the blast furnace close to bankruptcy someone called [family name] – our predecessor – created something and gradually developed a company – no imperia – but a company that worked well. That it was no chance, no set of good circumstances that it was no favoritism, that we have it in genes.

So this was to show that you manage once again?

Yes, once again.

... [continued] You said, that one of your values is to be daring, not to be scared. Do you think that also some personal characteristics play their role in it [in the drive to reestablish the business]? Are you this kind of an energetic person who likes challenge?

Certainly, yes.

And how about personal ambitions?

Certainly ...

I do not want to push you say yes, it is there, only if you could somehow evaluate this ...

Certainly I do have these, since other wise this could not function, could it? Once you start doing things like that, and I think that even if you become a manager at a slightly reasonable position, leading people, even thought as a mercenary – forgive me the expression – in mean not in your owns – you have to have the energy and to try to get it out of yourself. You, in fact, through you positive example, what you say etc. pull the people somewhere, you show the direction in some way, how you do it, it is a matter of you decision, but in some way you do it and it take your energy. And of course you have to like it, it has to in some

way satisfy you, even though you every day say, damn, I could have now been ... and now you list all the things you could have done ... But then you tell to yourself, well, I still be the same, would do it the same way anyway, perhaps there would be conflicts anyway, only with different people at a different place... Simply your character and personality characters pay I do not want to say the key but a very significant role. That is also why ... I think ... but of course, you are not capable of watching yourself from distance ... but I think that that is also why things structured in the company as they did. This is interesting... In my family two generations higher, my grandfather and his brother who caused the property being divided half and half, then these were totally opposite. My grand father was a nice respectable man, appreciated major of the village for many years, everybody like him - as we used to write in the "overall evaluations " [smile]. His brother he was the nasty capitalist, "bad to people, who would only cut them and suffocate them where ever he came". His son, Jiri was a person liked by everyone, nice, non-conflict type of person, he was the mediator, who was trying to mediate all the conflict in the family to damp them down. I do not want to simplify this too much, but he was simply the one who would smoothen things, the one trying not only to evoke conflict - did probably was not even capable of that - but even if there some arose, he acted to dampen it down. Sometimes even "sweeping it under the carpet" ... that is also true, but this belong to it, does not it? My father, in spite of his father being the nice one, was a choleric person - with exact and thought through shots - and myself, I am alike him. There it remained, there it did not cross over, there the role did not swap. And I think that this is related with the whole company structuring since ... I do not realize that I would have ever longed to become the chairman of the board of directors and the managing director. But I have always been longing for ... I have an opinion, I have this viewpoint, I think this and this and you either provide me with reliable arguments why it is not so or "bad luck guys"... And this cannot be on substance asserted from other post that from a managerial one. Whereas Jirka was, even though he was the chairman of the board of directors, he was the one who creates something and then foists it and slowly makes you believe that this would be good, and it does not work out, you reject it, this does not work like that, and in moth again, he comes and how about if we... and like that and ... and once again, and you are not as much against it, and in additional two extra months you start thinking about it and in another half a year you start having the feeling that it was originally your idea and a great one. And he himself has what he wanted, it happened, in peace. But myself such that today I have the idea and tomorrow it has to be ready. That is why it show, that the personal features of the individual actors certainly play significant role. If I was of a different nature, then I would do at least as much as I do now but it would simply be done in a different way. The participation of [family name] would perhaps be different, and may be they would be more of them here. May be I do repel them.

Do you thing that the death of you uncle reflected also in the whole atmosphere in the company? Has it changed?

Certainly. I think this will display yet. I had a great number of almost everyday's disagreements with him, not conflicts, that is already stronger thing, but about many things we had for example dramatically different opinions, but I have the feeling and we were respecting one another. And in any case he always was the "appellate authority", we will miss that, very surely. Because I cannot simply do this. I am of a different nature, Can try as much as I can, and to try to do my best, but I am not capable of this. I do not have this confession character. Simply this does not work with me. He was literally stopped by the people in the company telling him that this and that was going one, that their bonuses were small and so and please, do something about it. No one has ever stopped me like that. Because I would say, have you earned it? You did not ... So cannot have it. We are simply different.

We will certainly miss him here. It has not been yet so apparent I think, it has so far been to short time and his influence still persists. The person ... you know ... well it depends of what nature you are ... but I believe that these people still affect things. Somehow the spirit, until it gets surmounted by something else. And so I think, that we still cannot feel it but I am convinced that it will be something that we will miss because also generally, from the socio-psychological things it is commonly known that some elements when they are missing in a groups it starts to "stagger" , that is a common things. Only, you just try to patch this, try to say that you are looking for such and such person ... This has to develop again.

... [continued about the issue of strategic management] Do you think that the idea of defining some kind of "higher ideal" might, if formulated in a suitable way, be taken advantage of for building up certain company identity for example?

Certainly it could be. You have to able to formulate and present it well. You know, the New testament is a very well formulated idea. For two thousand years a number of professional with certain dedication have been trying to present it but we cannot say that they would be 100% successful.

Strategic goals, do you have them defined?

Yes, we do.

What are these? Within the upcoming two years?

Then you do not talk about strategic goals [laughter] ...

You are right [laughter] ... So the tactical ones? [laughter]

Out of the more strategic goals we pursue for example constant extending of our markets. That is a strategic goal that is being permanently measured and

covers certain sub-tasks what this should all mean. This is a rather worked out. Another of the strategic tasks we can talk about, that our strategic goal was to get the certification ISO 2000 and ISO 14000. That was or strategic goal that was reached. Our strategic goal is to reach at least 20% ... how you call it correctly ... utilization of waste warmth and energy ... or let say only energy. These are the most important ones that come to my mind now. We also want to, and this has already been also almost fulfilled, make the wrapping of our products substantially more ecological.

What are the threats and opportunities you see for your company in the near future ? I am sure the question will sound familiar to you [laughter - shortly before the question was asked the owner explained that he was an MBA student and did his school preparations]

Yes [laughter] ...

This is such a small training for your next school session [laughter]... Seriously now, do you think about these things?

Look, there are couples of things you have to distinguish. We do consider these things even to a certain extent in a formalized way since we tried ... you mentioned the strategic goals - these goals are tight to a set of already more exactly defined tasks, that we might call for example projects. Then it is known already who is responsible, what it would cost, how long it would take, you can measure it already, control. So this has to steam from the strategic goals, but it is already a bit more complex because external influences impact these things as these tasks are already very concrete. Apart form others, the form used when discussing is the problem already covers the SWOT analysis that is in this way realized. We are learning how to do these things, I want to stress that. Not only because I go to school, first, its is to a certain extent in one or another way required by the ISO norms, they simply want so that you do not talk bullshit that cannot be then realized but so that you would show and was able to prove that you considered the things thoroughly, that a discussion took place and that you considered both the risks and the opportunities. So from this viewpoint we do it frequently and we have no problem with these.

If you ask me about our threats and opportunities in the closer future ... the threats are apparent. For us the currently greatest threat is the development exchange rate, it really is the greatest threat, even though we understand that this is inevitable on the long run, but is the short run this is a "scrape". When Mr. Premier shows me a company that can increase its productivity by 15% in 6 month, OK then, I would like to see such a company. But the exchanger ate moved like that... so that is one thing. That is threat that now it really threatens us.

As for the opportunities, we see a great number of them. First we think that it would be enough for us to restore the product line of our predecessors to reach a considerably higher market share than we do at present. We are more and more turning to re-introduction of the electro program – for such a semi-professional use, we certainly do not want to compete with Moulinex. We rather mean appliance for catering facilities, restaurants etc., where you simply need to mince a pig in an hour ...these are the opportunities we see.

Relatively many opportunities we see in Africa, South America and Russia, paradoxically in Russia, where we have not been present so far, we are not represented there. So these are our closest opportunities.

How do you regard the overall business environment in the Czech Republic? Where do you see problems, what has improved already and what could be yet improved and how. How do you find doing business in our homeland. Are there any areas that are improve yet? Or are there any that have significantly improved in the recent 10 years? Give me an overall evaluation.

This is difficult. First, I have nothing to compare it to, I went into it unprepared, with little knowledge and experience. According to my evaluation not many things have changed for the better. The tremendous rush of legislation and norms that tie in some way the business activities..., I have nothing against rules, but it is good when rules last for some time, when they are clearly written. It is probably not necessary to talk about this further because this is a craziness. Who thinks that there exists a businessman who knows what involves him and which out these all is in force, and in which wording then the person deserves a medical treatment ... at the state's expense. The state is very greedy, since it takes all the resources away from the businessmen, but this started already under Kocarnik, it is not a matter of only the social-democratic government, be careful about it, so it takes all the resources for its activities, lets leave away for now its evaluation, that is another question I think, but it takes the resources away from you and then they are surprised that they have to pull foreign capital to here. Of course when if they take away ours... We create something and ...

I do not know all these laws. And they do not know them either because they change them before it so possible to test how it works. And yet they change it that in different piece of law in paragraph they write to exchange the paragraph 1, letter a) for paragraph 34 ... Who can make sense of it? They can go to hell with that. This is not even for a lawyer, may be for the computers, these can connect it in a hypertext. But one is not able to monitor this. And mainly I would like them to tell me who can evaluate this and how they evaluate this. This is a chaos, it makes no sense. It has no vision. That is what it is about ...

So you means there is no conception in it, it is all ad hoc done ...

Yet, exactly like that.

And this has not changed and it has been like that since the beginning. But in the beginning we thought, OK, we are learning, but to learn something for 12 years that is already ... too long. And second thing, that I think is true, I read the "Budovani statu" [building up the state] from Peroutka [Czech writer], some time ago, the envy that functions in this country, it terribly much binds the business environment. It is normal, that when a businessman manages to do something well, for example to earn money, that simply he likes it and that he in some way lets it know publicly – in the form of for example sponsoring a football team or a poorhouse ... but simply he makes it obvious. In here it is not good to let it known publicly that you succeeded. Because immediately the tax office comes to see how it could be possible that you succeeded, then a number of relatives or such who realized that you succeeded and they did not and therefore there must be something strange, certainly some corruption or a fraud or foreign secret services or something else. And with that you have to deal. Ideal is when you do not keep succeeding, is not it, then you have your peace. Once you start succeeding you have to have, I think, a thick skin.

So you think at the level of relations... By the way, what are the business relations like amongst you suppliers, buyers, and business partners? Are they fair and correct? You certainly remember the initial phases, when it was quite normal that someone would not pay since it was a cheap pay of obtaining "a credit".

But well, this is still the same!

Do you think then that this a problem of business moral and moral in the society on the whole?

Yes, it is! But I would only add to it that to my knowledge this is better in coming more to the west from our border but in real life it is the same.

Do you think so?

Yes, I know this. I know it. This is my experience. I cannot generalize this, everybody is such or such. But in here this gets "cherished", such attitude. Just notice, when somebody murders someone, it is always either a young businessman from North Bohemia or a gipsy. Never it is a post office clerk or other clerk. Always it is a young businessman, sometime middle aged. But always a businessman. But a normal Czech "pub layabout" has perhaps never killed anybody .. or robber. This is a nonsense. It is not true. This is only cliché ...

So you think it is the may media present it ...

Certainly, certainly. But 99 percent of, or rather we all of us, are influenced by this in one or another way, and if not in other way then subconsciously. So every businessman is a suspect, already because being a businessman. And the relations amongst the businessmen are, I think, totally the same as amongst all normal people.

How does the overall societal climate influence the business? Do you feel that the Czech environment - culture, traditions, habits, life style - influence you - positively or negatively? Compared for example to abroad.

I think that we can hardly compare us to abroad. I think that it is not good. Look, we are ten years after the war. If I start comparing us to abroad ... today I cannot look at the times when I could take all the holidays I have and when I could leave to Bahamas or to Southern Bohemia, it does not matter, and simply to stay there for a month in peace with my mobile switched off, with e-mail canceled and so on. This is not possible, we cannot do it, because if we want to reach what we want to, i.e. really to stand on our own legs, to stabilize to such an extent that even if a problem comes, OK, but it does not break us, having alternative plans ... at the moment we do not have alternative plans for many things. Because we do not have the energy left to do even the normal ones, simple ones. And if you were for each of these normal ones to derive an alternative one, which is done by an ordinary well established foreign company, since it can better forecast and it has more experience, it has more data about yourself ...

It has also more resources ... do not you think? Partly...

Well, yet, but I do not think that it is only a matter of resources. I don't think so. I only think that when they plan they do not care about the business's beginnings, they care only about the past ten years... but our past ten years are those when we were at the beginnings. It is, I hope at least, a unique process that does not repeat and from which you cannot learn too much for the "normal business life"

APPENDIX 4 SAMPLE OF BASIC CODING FRAME - CASE A

Main codes

Code	Main category
01	Business management challenges
02	External challenges
03	Family business challenges
04	Entrepreneurial challenges

Sub-categories⁴⁹

Sub-code	Issues
BUSINESS MANAGEMENT CHALLENGES	
01/05	Necessity for technology renewal and to it connected investments
01/06	Too great stress onto technological side of business and neglecting commercial side
01/07	Mismatch between communicated high quality of products and the real attitude that quality in reality does not play an important role („Just OK“ quality is sufficient)
01/08	Underestimating family tradition
01/09	Communicating the importance of marketing and communication but underestimating it in reality
01/20	Inability to obtain loan due to the property of the company being highly written off
02/26	Lack of strategic planning
0128	No product strategy
01/31	Inability to get information from the market, inability to track the market signals, inability to anticipate
01/32	No strategic planning
01/33	Bad payment morality of the buyers
01/34	Bankruptcies of buyers
01/35	Ever harder conditions to obtain a loan
01/39	Missing motivation system
01/40	Lack to money to recruit a capable external manager
01/41	Lack of operational and tactical planning in various functional areas - finance, IS/IT
01/44	Deliveries of low quality inputs

⁴⁹ Note: The basic coding frame represents the very first set of rather freely defined categories. Categories that were overlapping and could have been put under common denominator were clustered later on in the data analysis process - see chapter 6.4. The codes describe the issue from the viewpoint of the main category (e.g. 01 for business management challenges). The number after slash is an ordinal number attributed to the issue in course of the data analysis in and expressed the order in which the issue was discovered in the interviews.

01/45	Low storing capacities
01/47	Various operational problems
02/50	To high minimum wages
01/51	Mismatch in distribution strategy - supermarket chains vs. small buyers
01/52	Lack of internal information about the company
01/61	Lack of financial resources for operational financing - for example in marketing
01/63	Problems related to production capacity low and to it related inability to react in seasons, or high on another production line)
01/64	Bad investment decisions
01/65	Problems related to disposal of waste glass
EXTERNAL CHALLENGES	
02/01	Strong competition
02/02	Stagnation during communism (low investments)
02/04	Purchase of company and to it related high investments slowing down the later development
02/11	Influence of supermarkets and bad bargaining position
02/12	Prices at the level of profitability
02/14	Loss of production programs during communism - syrups
02/17	Relations in society and bad image of business people
02/19	Location of company (far from home)
02/21	Very complex business environment, instable, hard and complicated conditions
02/22	Instable conditions in food industry
02/23	No regulation of the segment by the state (efficiency of state sector)
02/24	Lack of efficient organizations such as associations, coalitions, alliances
02/25	High prices of production inputs from the EU
02/27	Threats stemming from entering the EU (changed conditions for doing business)
02/29	Obsolete technology (bottling etc.)
02/30	Influences of the past
02/43	Extremely expensive technologies from the EU
02/46	Low working morale and responsibility for work
02/54	Highly dynamic business environment
02/58	Availability of information resources
02/59	Non professional approach of external agencies - marketing
02/60	Inability to assign an order to an external agency properly
02/62	Confusing and messy legislation
FAMILY BUSINESS CHALLENGES	
03/03	Assuring family business continuity (pride, relation to the business)
03/10	Death of the older generation before it managed to pass its relation

	to the business further onto the younger ones
03/18	Children too young to start in the business or to decide about taking it over.
03/36	No succession planning
03/37	Unclear value system in the company (were not passed)
03/38	Lack of "right" values
03/39	Sibling relations
03/40	Neglecting passing the know how onto the younger generation
03/62	Not considering business as a FB
ENTREPRENEURIAL CHALLENGES	
04/13	Lack of sufficient education and experience
04/15	Personality traits - dislike of risk and big challenges, no motivation in achieving something
04/16	Lack of vision
04/42	Underestimating of networking
04/53	Not clearly positive attitude to learning
04/56	Opportunity searching
04/48	Realistic/pessimist nature of the owner
04/49	Slow decision-making (vs. dynamic business environment)
04/53	Lack of entrepreneurial spirit - self employment does not give any advantages
04/55	Lack of time
04/57	Limited ability to gain information and their underestimating
04/66	Coping with stress and relaxation
04/67	Inability to speak foreign languages

APPENDIX 5 FRAMEWORK FOR UNSTRUCTURED INTERVIEWS

Basic information

Basic information about firms

- legal form of business, organizational structure, number of employees etc.
- major changes in company after take-over
- development of company's economy, turnover, profits etc.
- production portfolio
- restitution process

Basic family information

- review of family members, their involvement in the business, planned entries of other family members into business etc.
- attitude to company during communism
- traditional family values

Motives in reestablishing the business

- initiation of the idea to take over the business
- various motives in reestablishing the business – economic, family and relations, retaliation etc.

Business management

Strategic management

- missions and visions
- strategic goals
- review of main threats and opportunities
- strategic analysis
- discussion on Czech business environment
- product strategy
- competitors
- entry into the EU
- course of strategic management process
- greatest success and failure since re-establishment

Production management

- description of production process + short visit of production facilities
- production strategy
- technologies after the take over, technologies now
- investments into technologies and ways of their financing
- availability of investment credits
- production related plans for the future, goals
- production capacity
- availability of technologies
- problems related to production management
- greatest success related to production management
- support of investments from state

Marketing management and sales

- marketing planning, goals
- budgeting

- marketing responsibilities
- review of marketing activities
- media planning
- marketing research
- customer relations
- branding
- cooperation with external agencies
- greatest success in marketing
- product marketing, monitoring of trends
- importance of marketing in company
- distribution channels
- E-commerce
- exporting and sales, their development
- main export markets
- future goals in sales, sales strategy
- export related to our EU entry
- problems and challenges related to sales or exports

Financial management

- current financial position of the firms – profitability, liquidity etc.
- industry profitability
- financial strategy
- responsibilities for financial management
- formal financial management techniques
- financial software
- volume of credits – past and planned; availability of credits
- relations with banks
- greatest problems and challenges related to finance
- greatest goals in finance
- greatest success since take-over
- payment morality of buyers
- utilization of special financial instruments such as for covering the exchange rate risks
- ownership of company by the family – shares etc.
- attitude to ‘going public’

Logistics management and storing

- logistics and distribution strategy, goals
- responsibility for management of logistics
- cooperation with suppliers, their selection
- bargaining position of a firm, monopoly suppliers
- availability of suppliers
- problems and challenges related to logistics and procurement
- organization of storing – types of stores, mechanization etc.
- character of stores
- challenges and problems related to storing
- greatest goals in storing
- optimization of stored volumes, techniques used
- storing and IS/IT
- storing capacity
- idle inventories
- ordering system, functionality, flexibility etc.
- system of distributing goods, distribution networks
- bargaining power relate to buyers, key buyers
- problems and challenges related to distribution
- main goals in distribution
- greatest achievements since take-over in logistics, storing and distribution

Human resource management

- human resource strategy, goals
- planning of future human resource needs

- availability of human resources in the regions
- recruitment and selection
- trade unions
- working morale
- motivation and assessment systems
- remunerations and social benefits
- development, training and education
- wages
- problems and challenges related to human resources
- greatest achievements since take-over

Information technologies

- IS/IT strategy, main goals
- attitude towards IS/It
- utilization of IS/IT in company
- greatest problems and challenges in IS/IT

Other

- importance of innovations
- research and development, strategy, current state
- greatest challenges and achievements in innovations
- business counseling and education – utilization, attitude etc.

Family business

- familiarity with the concept of family firms
- advantages of the business being a family business
- disadvantages
- family business governance –family meetings etc.
- family goals in business
- relations in core and wider family
- succession planning and continuity
- roles
- nepotism, remunerating and intake of family members into business
- conflicts, their character and their solving
- values
- attitudes of other members towards re-establishment of the business

Entrepreneurial management

- attitude to risk
- innovativeness
- opportunity seeking
- attitude to education
- networking
- personal characteristics
- time management and planning
- decision-making
- leadership
- communicating skills
- solving conflicts
- coping with uncertainty and attitude towards being an entrepreneur

APPENDIX 6 FAMILY BUSINESS STRENGTHS

Family and family relations as a powerful motive in continuing the business and overcoming obstacles

“The main motive of Ferdinand Jr. in re-establishing the business was to keep the company alive to save the company tradition. ... Certain role was played also by the fact that Ferdinand Jr. had a very close relations to his father and felt positive about helping him.” (Case A, 2/1)

“But my father said, I have to go for it, I am obliged to my predecessors - the company has been existing since 1864, that is a continuity. ... he went to it ‘for the family.’” (Case B, 2/1)

“The main driving fore was my father who was thinking he really had to, other wise his predecessors would have to turn in their graves, if we would not do it. Already because of them he though that we must not miss the chance. ” (Case B, 2/1)

‘We were all of us aware, that behind the fact that we used to be so much famous, was a tremendous effort. Our grandfathers went through a very hard education in Swiss boarding schools - they were studying for example with Mr. Bata - they slept on hard beds, had to learn three world languages’ - describes Zuzana the atmosphere where she grew up. ” (Case B, Hospodarske Noviny, 27.9.2002)

“He entered the company when we was twelve. [about predecessor] When you see your family starting like that, it is hard to say then that you do not care about it [business].” (Case C, Hospodarske, 2002)

“I first of all though that I would go to the business for a while and then that professionals should be in its management. Overall I was away from home for long. Traveling! Also my father ... went old faster and uncle Jiri, that was a sudden death. They worked for 12 to 15 hours a day. I would probably have to go for it again. It is a family firm. Have you ever read Tolkien? ... the one who carries the burden? You will understand why ... no one else could have done it. It is our duty towards our predecessors, people that are here.” (Case C, 1/1)

“If this business went to coupon privations, it would not be probable that it might survive. This production gets to the East. So we thought that we have to meet what our processors were building, that we have to go for it. It is simply an obligation, to renew it. ... [family] before that war was helping to build up this state.” (Case C, 1/1)

Family pride

“First that they had in mind [about motives of father and uncle in re-establishing the firm] was an obligation towards the predecessors. Second, somewhere at the back of their minds was, that we will show them [those who took the business away from the family] that we do have it in our genes, that it was not chance that out of almost bankrupt blast furnace [one of the predecessors] created slowly something, no imperium, but a firm, that worked well, that it was no chance, no serendipity, no

favoritism, but simply that we [family name] have it in our blood. That we would manage once more." (Case C, 2/1)

Family business as a common goal for the family members

"Another value and a glue is that we are a family and therefore we should pull the same rope." (Case B, 2/1)

"Often one comes across problems, these are often generational problems, but you always have to remind yourself that you all work for one common issue and an idea." (Case B, 2/1)

Long term orientation

"... This company is projected to be here for ever ... Since this respect to tradition, history, respect to ... and humility to what was before necessarily leads you to think three times before you do something what might have some impacts onto the future. Since in fact you want so that your children would continue in it ... and build on it. You, implicitly have this idea somewhere there." (Case C, 5/1)

"Everything is subordinate to our pride that we are a family firm that should therefore in its genes carry the desire for long-time existence" (www.profit.cz)

Clear value system

"Value is though hard and fair work, and terrible sturdiness." (Case B, 2/1)

"Well, I would put there, not even knowing in what order I would put there humility, I would probably put there optimism and I would probably put there courage. If you want just three of them ... " (Case C, 3/1).

„What would be three things you would want to pass on your daughter? [researcher]. Openness, courage and humility. Are these the same values as those of your father? [researcher]. Certainly, despite the fact that he would never express it in this way, but in its ultimate effects these certainly are the same. In his case these were apparent in his behavior, you might see these. But my grand father and even great grand father, they would express it in a similar way. " (Case C, 5/1)

Strong sense of responsibility to society

„The biggest thing that we manager was removing pollution There was oil everywhere and its penetration into the grounds was huge, we had to build new floors, that was an extensive investment." (Case C, 1/1)

„Look, we base out thinking of the fact that the company was established and remained here due to a great effort of many people, not only my granddad and great grandfather. And only with them it can develop and further and remain here. We need to show, that despite the fact that under some circumstances the relations between employer and employees can be more tensed, it always must be correct and always fair. The company will support you if you support the company. And the

company must be there, it should be a part of life of the whole of this valley.“ (Case C, 2/1)

„The company tries in a discrete way to help where it can. Long before the ministers thought this up and realized it we connected the school to the internet ... we pay the flat fee anyway so it is not a problem. ... We do not loose anything and it serves a good thing. It has not commercial effect to us. The only effect is that apart from producing something we serve also something else. The same thing is that the local sport club holds the name [of the company’s founder]. We contribute a very modest amount reaching several tenths of thousands a year to it and other wise then of course when their car gets broken and we knot how to repair it, we do it. ... Also our products go as prizes to the competitions they organize. “ (Case C, 2/1)

„You cannot want a Czech firm to behave as a firm in Russia. That means that on the long run ... a catastrophe can happen to you, but you have to tidy it up! I fit happens due to reasons that go beyond your control, but it happens you have to direct all your powers onto patching it. ... There is not need to do too much fuss about it Someone makes ecology, we tidy up.“ (Case C, 2/2)

„Here we built a lavatory for the workers in 1941. it look s like currently built [researcher]. If I took you there now, you would be sick ... That is one of our debts we have to fix yet ... that is a the different between a family firm and the ... other firm! We simply have to do these things too. Not because of the state hygienic norms ... you can pour detergent on it and it would meet the norms ... but we want to do it so that it would look nice!“ (Vase C, 5/1)

„this is waiting to be equipped – sauna, fitness, simply so that the employees would have to place to build their bodies. ... it is only for the employees ... and the local sports clubs. ... We do not want to earn money on it ... not that. “ (Case C, 5/1)

„ ... Simply out big interest is to automate, to decrease the share of hand work, at lest of the hard one. Simply because they are people, are not they?!“ (Case C, 5/1)

„Especially my father [of Zuzana] has been a great patriot and feels a great responsibility for the city. ... one „event“ costs about five to six thousand and we led the Instruments for free, several times a year, we support also activities of small artists, when people from the theatre come and tell they do not have finance, then of course we help.“ (Case B, 2/1) 50

Readiness for personal financial or other sacrifice

“May be if the interruption of continuity would not occur.... Since the family would have finance, the family would be rich in the real sense of the word. Then the family would not have to on the one had pump money out of the firm, it would not need to get any remuneration, if needed. And contrary under some circumstances it might donate the firm from family finance. ... As it used to be before nationalization. ... But

⁵⁰ For more on the issue of social responsibility in Czech restituted family firms see researcher’s paper presented at the F.B.N. Annual International Conference in Helsinki, 2002; Kerkovska, A. (2002). Family businesses, social responsibility and business ethics. Paper presented at the F.B.N. world annual conference in Helsinki, 2002.

like this it is problematic, the family has no change to give the company nothing else but human power. It has nothing else ...” (Case C, 2/1)

“We have huge debts, but that means that the family does not earn a single penny apart from its salaries.” (Company B, 2/1)

“Overall I have been often away from home, lots of traveling. Also my father got older faster and Jiri [uncle, second of the post revolutionary founders], that was a sudden death. They worked twelve to fifteen hours a day.” (Case C, 1/1)

“We worked almost 8 hours a day [in addition to normal employment], for 6 to 8 years. ... He [father of Zuzana] dedicated terrible much time to it [restitution].” (Case B, 2/1)

“She [daughter of Zuzana] is already a bit desperate when we talk about the factory at home, as when we meet, we work all the time – and that takes her mother away from her, and also the granny and granddad and everybody.” (Case B, 2/1).

Family tradition as competitive advantage

“Is family tradition a competitive advantage for you? [researcher] Certainly it is! “ (Case C, 1/1)

Trust related to employing family members

“... Look if it [employees] is ... a family member, then there is a very low probability, that he wants to cheat you. It is possible that he makes mistakes ... but it would not be on purpose.” (Case C, 5/1)

Family as guarantee for business partners

“When the company was taken entirely over by the family ... the foreign partners welcomed that fact that the business is once again a family business.” (Case B, 1/1)

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