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RESEARCH NOTE

Toward a Measurable Definition of Family Business: Surname Matching and its Application in the Czech Republic

Jiří Hnilica · Ondřej Machek

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Family-controlled enterprises play a powerful role in the world economy constituting more than 30 % of all companies with sales in excess of $1 billion. It is therefore no wonder that academics have been attracted to studying family businesses. As an emerging field, the family business discipline has been developing in two areas: defining family business and measuring performance gaps between family and non-family businesses.

In the Czech Republic, "succession issues" are of particular interest. In the early 1990's there were fewer family businesses due to the existence of a state-controlled economy (with the possible exception of those who ran family businesses before the nationalization of private companies by the communist government after the Second World War). Now it is quite common for owners (fathers and mothers) to transfer businesses to their heirs or to at least consider it. From this perspective, the family business situation in the Czech Republic resembles the situation in other non-socialistic countries around the world. However, the role of family businesses in the Czech Republic has been neglected and there has not been any significant research pertaining to this issue.

The definition of family business is crucial because researchers compare family and non-family businesses from differing perspectives. Researchers conclude that due to unique institutional legal contexts in various countries it makes no sense to derive a universal definition. Nevertheless, each study must explicitly state what is understood by the term "family business" because different definitions lead to different findings. Despite the fact that there is no universal definition, three dimensions are inherent in each definition of family business: ownership (one or several families hold a significant part of the share capital), management (family members hold top management positions), or board-membership (family members retain significant control over the company via membership in the executive or supervisory board).

J. Hnilica · O. Machek (✉)
Faculty of Business Administration, University of Economics, W. Churchill Sq. 4, Prague 3 130 67, Czech Republic
e-mail: ondrej.machek@vse.cz

The dilemma is how to create a database of family businesses when companies have no legal obligation to disclose whether they are family or non-family firms. To distinguish family from non-family firms, we applied the following criteria:

1. Among owners there are at least two individuals with the same surname, or
2. within the supervisory board there are at least two individuals with the same surname, or
3. within the management board there are at least two individuals with the same surname.

When applying the above-mentioned algorithm, we took into account several issues. First, traditionally family names of spouses in the Czech Republic usually end in –ová. This means, of course, that the algorithm cannot detect companies where husband and wife have different last names; however, heirs usually do carry a family name of one of their parents. Second, relatives often own or control a company via an intermediary company (legal person) – it was therefore necessary to check the ownership/ management structure of owning companies as well. Third, the algorithm will not detect companies where relatives are not involved in ownership or management but contribute to a substantial part of the firm's success by various types of work, help and support.

After applying the algorithm to the set of all Czech companies with a registered ID (financial data are included in the Bisnode's Magnus database (MagnusWeb [online], available at: https://magnusweb.bisnode.cz/), we identified 3,560 companies which were marked as family businesses in 2011. Out of these companies, we selected 800 subjects with the largest headcount. Then, a manual check was conducted of all records for possible mistakes. During this step, some degree of arbitrary judgment was inevitable. The most frequent sources of mistakes were namesakes (accidental occurrence of the same last names, especially more frequent Czech family names such as Novák or Svoboda, in which case the kinship cannot be confirmed) and marginal family influence (for instance, two relatives among tens of other non-related people in the supervisory board, in which case the company is clearly not a pure family business, or relatives in insignificant positions such as press officers). The final sample contains 520 companies (ranging from 2,533 to 93 employees) that can be objectively classified as family businesses.

Our database is the first of this kind in the Czech Republic and it is large enough to empirically test performance differences between family and non-family firms. In the future, we will improve database quality by preparing a tailor-made questionnaire that will help us better differentiate among family businesses in terms of ownership structure, governance and management practices, financing, diversification, internationalization, and performance.

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