

Method of Evaluating the Family Business Vitality – Brief Summary



The method of evaluating the vitality of family business in the Czech Republic is based on the assumption that business principles are the same for all business entities. However, in the case of family business (acronym FB), the activity of these economic entities is influenced by other specific factors. The evaluation of vitality is preceded by the identification of family business. A full version of the methodology is available at the Czech Association of Small and Medium Enterprises portal and the Technical University in Liberec portal (see https://efis.tul.cz/rp/pdf/TaHVRP_el_verze.pdf).

The evaluation tool of vitality is the analysis of strengths and weaknesses within the range of even number of points including 0 (0 to 5). The reason for an even scale (6 options) is to prevent the selection of the mid-term evaluation in the process of self-assessment by the owner/manager of FB.

Evaluating vitality with respect to the specifics of Family Business.

Three areas for the qualitative evaluation of VITALITY were defined, namely the internal environment of a family business that requires a specific approach in contrary to business that does not have family elements. These are:

- Legal – psychological (founding, succession, creating a family constitution)
- Managerial (management of processes in family business) and
- Economy (Economic and financial management of the company and family as a whole).

Based on this, three specific modules were defined to evaluate the internal state of the family business. In the case of criteria evaluating the internal environment of a family business within each of the three modules, the marking 0 to 2 shows the weaknesses of the given factor; 3 to 5 strengths of the factor. The weights of each factor were determined on the basis of expert estimates within the pilot survey. In line with the six-point evaluation of vitality criteria in all three modules, the vitality evaluation levels were also divided into six grades:

- A (excellent vitality)
- B (very good vitality)
- C (good vitality in the planning process)
- D (good vitality with a tendency to worsen if it is not solved systemically)
- E (weak vitality)
- F (very weak vitality)

The grade of the evaluation is assessed separately for each module and then in total. The total (composite) index is the weighted sum of all 30 criteria. In the knowledge system (To be found at <https://efis.tul.cz/rp/>), the review is supplemented by comments.

In relation to the internal environment of family business, areas for evaluating opportunities and threats from the external environment were also defined and solved. Moreover, the evaluation of the opportunities and threats to the development of the family business can be completed individually, in connection with the uniqueness of the company and the communities where it operates. *The survey is carried out using a knowledge system available from January 1, 2018 in the Czech language on the web portal <http://rodpod.tul.cz>.*

1 Legal – psychological module /legal area/

The aim of the module is to define the family business from the point of view of administrative-legal aspects in the Czech Republic and to delimit its specifics which are of a psychological nature. These specificities occur due to the entry of family relationships into the business process, from set-up, start-up, planning, management to generational exchange. Another typical feature of the family business is higher interest in the development of a community in which they live and do business.

*On scale 0 (not realized) to 5 (yes, fully realized), evaluate the state of the phenomenon in your family business. **Please, from each criterion highlight ONE option (tick).***

1.1 A written document (type of a family constitution) which establishes relations between family members, expresses family values and rules of conduct is elaborated in the company/enterprise/farm (hereinafter referred to as "the firm").

1.2 The firm has established "authorities" in connection with its legal form of business (e.g. family assembly, family council, executive council, supervisory board, board of directors) to address possible conflicts, set communication rules etc.

1.3 Family members openly discuss issues of ownership, leadership, and succession.

1.4 In the family (a wider family can be considered), there is a younger generation which is prepared for the future role of successors (e.g., for small children as a game, older children can do temporary jobs, internships, selection of studies, etc.).

1.5 Succession is understood as the stage of enterprise development. If it is a current issue in the company, it is addressed from the point of view of a company management (handing over of the position of a director and related responsibilities), property ownership (property settlement) and from the viewpoint of the impact on family relationships (sibling partnerships ...).

1.6 The company considers the legal aspects of the transfer of the company to the next generation, e.g. the suitability of the legal form of business, the link to tax aspects.

1.7 When transferring a family business, the fact that it can be managed by a hired professional may be taken into account.

1.8 The founder of a family business has an idea of his /her active retirement/ life annuity.

1.9 The company deliberately presents itself as a family, appealing to the positive aspects of family business (cohesion, value, long-term existence, quality, know-how ...).

1.10 The firm has a close link to the municipality /place of business (it has concluded a contract with the municipality for cooperation, it is visible within the municipality e.g. on the web portal of the municipality, it has a support from the municipality).

2 Managerial module /management of processes in family business/

The aim of the module is to define the specifics of family business in terms of managerial functions and roles. It focuses on creating a development plan, taking into account the differences in internal family business processes, addressing family and non-family relationships in a family business, and social responsibility.

*On scale 0 (not realized) to 5 (yes, fully realized), evaluate the state of the phenomenon in your family business. **Please, from each criterion highlight ONE option (tick).***

- 2.1 Long-term family and business goals are specified both in the family and in the company.
- 2.2 Not only a business owner but also family members are involved in making decisions about the strategic planning of family business.
- 2.3 A strategic / development plan is drawn up in the company, including the succession phase.
- 2.4 A clear organizational structure is set up in the company, tasks and responsibilities are defined. Their performance is regularly evaluated.
- 2.5 Family conflicts are strictly separated from conflicts in the company, communication in conflict resolution is open and efficient.
- 2.6 The employment policy of the family members is worked out, the expected knowledge, skills, qualifications are defined. Continuing education is planned.
- 2.7 Non-family members (employees) are involved in business activities. The company has tools to avoid family benefits in the company at the expense of non-family workers.
- 2.8 A family company offers the opportunity to work for people from the village/place of work. That is why the municipality is a significant subject.
- 2.9 A family company seeks to obtain a social /industry-recognized certificate (BIO, ISO, Quality Award, Local Exhibition Award, Family Farm /Firm of the Year, etc.).
- 2.10 The company strives for its innovative development along with the preservation of positive family relationships and their continuation despite the changes that come with innovations. There is a consensus in the company and family about the future.

3 Economic module /economic and financial management of the company and family as a whole/

The aim of the module is to define rules for the balance between family and family interests in finance. The design and preparation of a company's strategic financial plan is always a responsible and demanding work, and the quality of such a plan may in the future significantly affect the company's performance. Unfavorable complications may arise, resulting in a threat to the existence of the company and the standard of living of the entire family.

*On scale 0 (not realized) to 5 (yes, fully realized), evaluate the state of the phenomenon in your family business. **Please, from each criterion highlight ONE option (tick).***

3.1 The property of a family business and the private property of the owner and family members is strictly separated.

3.2 A strategic financial plan was established at the beginning of a family business. It is further evaluated and updated in relation to the development phase of the company.

3.3 The company's own financial resources are mainly used for initiating and realizing significant changes in company development.

3.4 In the case of other forms of financing the operation of a company than from its own sources (e.g. leasing, credit, factoring, subsidy programs, etc.), these options are compared and the most appropriate option or combination is chosen.

3.5 In the family business, profit is largely reinvested in its further development.

3.6 In the case of the distribution of profits among the family members, objective rules are laid down in advance.

3.7 In the family business, remuneration rules are clearly laid down, including other motivation factors/benefits (company car, meal vouchers, purchase coupons, extra holiday week, etc.)

3.8 In the case of acquisition of larger assets (investment in more expensive technology, purchase of machines, equipment, etc.), the financial risks of these projects and their possible impact on the stability of the family/company are discussed and evaluated in the company and in the family.

3.9 In the event of a dispute over the implementation of such an investment, see paragraph 3.8, and the majority shall decide by vote (e.g. family, board of directors, etc.). In the family business, a financial management control system is set up.

3.10 The company sponsors or otherwise supports selected activities (e.g. sports, social, cultural, educational) in the place of its business, is a positive business example and engages in environmental care.