

Specific Features of Family Entrepreneurship in Agriculture

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Abstract

Purpose of the article: The purpose of the paper is to define the specific features of Czech family businesses operating in agriculture, identify the main problem areas and advantages that family farms subjectively perceive in this form of entrepreneurship.

Methodology/methods: In order to define the specific features of family entrepreneurship in agriculture, it was necessary to obtain data from family farms. Thus, in 2018, primary data were collected using in-depth interviews with the selected family farm owners or other family members in the Czech Republic.

Scientific aim: The scientific objective of the paper is to define the specifics of Czech family business in agriculture, as this topic is not described in detail in the scientific literature and the situation of Czech family farms is different from that of foreign family farms, to which more space is devoted in the scientific literature.

Findings: The authors identify the subjectively perceived benefits as well as problem areas of family entrepreneurship in agriculture through in-depth interviews conducted on 11 family farms. The main advantages as seen by Czech family farms include the individual planning of their working time, family flexibility, working from home, and spending time with their families. The respondents also emphasize the positive attitude to working on a family farm. The main disadvantages include overlapping of personal and working relationships, financial situation, dependence on weather, the lack of land, and the lack of support from the state.

Conclusions: Overall, the subjectively perceived advantages of family entrepreneurship prevail, which fully corresponds with the findings of the AMSP CR survey although it should be noted the family farm owners have also reported in detail about the downsides of this business.

Keywords: family entrepreneurship, agriculture, advantages and disadvantages of family entrepreneurship

JEL Classification: M15, M21

Introduction

The paper deals with identifying the specific features of family entrepreneurship in agriculture, namely the problem areas and advantages of family farms. Family entrepreneurship plays a crucial role in agriculture, as family farms are an indispensable part of Czech agriculture and the foundation of thriving country life. Family farms are by far the most common type of farms in the European Union, encompassing a wide range of agricultural holdings, from small farms with only family workers to much larger and more productive farms which nevertheless maintain family management (Agriculture statistics, 2016). According to Rychvaldová *et al.* (2015), the share of family businesses in GDP in the Czech Republic is far behind the rest of the world, where it reaches 85%. International studies focusing on the position of family businesses in the world show that, for example, the contributions of family businesses to the GDP and job creation in specific world economies are typically in the range of 45–75% (Neubauer, Lank, 1998). According to Rychvaldová *et al.* (2015), in the Czech Republic, the share is approximately one third. In 2016, the Czech Republic had a total of 26.3 thousand farms, of which 21.6 thousand farms were family farms (Agriculture statistics, 2016). Corsi (2002) states that family farms are the most prevalent type of family business in most western countries. Therefore, the issue of family farms and in particular the issue of the success of family farms is often discussed in the literature, eg. Kerbler (2012), Cavicchioli *et al.* (2015), Kimhi, Nachlieli (2001). According to Graeb *et al.* (2016) estimated the number of overall agricultural holdings in the world is 570 million farms. Lowder *et al.* (2014), estimates that more than 90% of farm holdings are family farms.

Family farms, especially in rural regions, are seen as having a positive impact on the region's development, as family farms

participate in municipality development, increase the region's attractiveness for tourists and residents, help to maintain traditions, and facilitate local employment. This is exemplified by Lyson *et al.* (2001). By maintaining the landscape, family farms contribute to its enhancement and a better overall environment and participate in the production of quality and fresh regional products. In farming, family farms usually promote methods that do not deteriorate soil quality and allow the next generation to continue doing business. The Food and Agriculture Organization defines a family farm as “an agricultural holding that is managed and operated by a household and where that household largely supplies agricultural work”. The term family farm is used all over the world, but surprisingly; it is difficult to define it. Galeski, Wilkening (1987) generally consider a family farm to be one that is owned and operated by a family consisting of one or more generations. Most of the work is provided by the family members living on the farm, but non-family members may also be employed for certain seasonal jobs.

However, there is still insufficient attention paid to family farming in the Czech Republic in comparison with other European countries. The Czech Republic has no form of family farming anchored in its legislation, which merely defines the “family enterprise”, and the Association of Private Farming of the Czech Republic points to low support provided to family businesses in agriculture by the state. Although it is clear that family entrepreneurship in agriculture has its specific features, it is almost impossible to find information on the subjectively perceived advantages and disadvantages of this form of farming in the Czech Republic, even though knowledge of these specific features could help in the planning of tailor-made aid provided to this form of entrepreneurship.

The aim of the paper, therefore, is to define the specific features of Czech family businesses operating in agriculture, identify

the main problem areas and advantages that family farms subjectively perceive in this form of entrepreneurship.

1. Material

According to Heskova, Vojtko (2008), family entrepreneurship is typical in that the ownership of a company in one family is passed on from generation to the next. European Family Business (2013) defines a family business as a business of any size if it meets all of the following criteria – the majority of decision-making rights are in possession of the natural persons who established the business, or natural persons who have acquired the share capital of the firm, or in possession of their spouses, parents, children or children's direct heirs. Moreover, the majority of decision-making rights in the family business are indirect or direct. Furthermore, at least one representative of the family is formally involved in the management of the business. Lastly, the natural person who established the business or acquired the share capital or their families or descendants possess 25% of the decision-making rights determined by their share capital. Drawing on the definition of family business according to Neubaer, Lank (1998) or according to Shanker, Astrakhan (1996), Hanzelková (2004) acknowledges a broader definition encompassing three groups based on family involvement in their business. The broad definition of a family business only requires direct participation of family members who exert influence over the strategic direction of the business, and the owners' goal is to keep the business in the family. The medium-broad definition is based on the ownership control exerted by the founder and his descendants running the business. The narrow definition defines a family business as a business with several generations involved directly managing and owning the business. Koráb *et al.* (2008) classify the types of family bu-

sinesses in the Czech Republic based on the size and age (history) of the business and mention specific types of the family business – restitution farms or estates of former aristocratic families.

Family entrepreneurship is characterized by the fact that several, mostly contradictory, factors clash within one company. The family business is a basis while the dilemma between the family and business creates the specific factors which family members have to deal with. In their research, Tagiuri, Davis (1996) show how certain specific features of the family business can be both an advantage and a disadvantage. These attributes include overlapping roles, the shared identity, life-long history of family members, the involvement of emotions, the use of their mother tongue, and the mutual knowledge of their private lives. Koráb, Hanzelková, Mihalisko (2008) also agree with this and describe how mutual interpersonal understanding results in shared common interests between family members working in the family business and the business owners. This perceived commonality is primarily due to the system of values shared by the family, which translates positively into the working environment. According to Neubauer, Lank (1998), two-thirds to three-quarters of family businesses either fail, or the founding family sells them within the first generation. Only 5–15% continue to run to the third generation in the hands of the founder's descendants. Neubauer, Lank (1998); Donnelley (1964); Ibrahim, Ellis (1994); Kets de Vries, (1996) or Tagiuri, Davis (1996) provide many reasons for this situation, which include, for example: reluctance of outgoing generations to abandon ownership and management at the right time, inability to attract and retain capable and driven family successors, sibling rivalry and family conflicts that have a direct impact on business, favouring unsuitable family members, inadequate remuneration systems, and inability to attract and retain non-family managers, spoiled child

syndrome, difficulties in acquiring optimal capital funding for business growth without impairing family assets, limited access to capital markets, confusing internal processes, the chaotic organizational structure, a lack of clear division of tasks, inability to balance family needs with the requirements of the business regarding liquidity, or the insufficient use of mobile marketing tools. The organizational structure of family businesses, according to Strážovská, Stážovská (2002), differs considerably from ordinary forms of a company. The reason for this is that family relationships influence the organizational structure of the business. Hesková, Vojtko (2008) agree with this notion. According to Astrachan *et al.* (2002), the vital question is not how many family members or other employees are involved in the business, but the primary concern is how they engage in business and how much influence they exert on it. According to the authors, there are three essential dimensions of the influence of the family, namely the strength, or rather power, experience, and culture. These three pillars form the basis of the model of family influence on business, referred to as the F-PEC (Family influence through Power, Experience, and Culture). The strength of these three pillars then represents the degree of family involvement in the business.

However, according to Staňková (2007), a large number of children perceive family business negatively and are not interested in joining it and often justify this because their parents spent much time building a business and failed to pay proper attention to them. Another problem that the family often faces when choosing its successor is which of the children in families with more children, will take over the business. According to Morris, McCann (2011), family-run business is traditionally run by three generations, but only 13% of family businesses are viable in the third generation. The authors reflect on whether it is the last generation that is to blame for the situation or the previous

one and come to the same view as Staňková (2007) and encourage the current generation to focus on a careful selection and upbringing of the next generation, passing on their experience and supporting their descendants in independence. The new generation can be a great source of innovative ideas and market development. The actual succession of generations is a very complicated matter, where, according to Koráb *et al.* (2008), the planning of the succession process is the most critical task. This problem is discussed also by Dumas *et al.* (1995), Kihmi, Nachlieli (2001) or Cavicchioli *et al.* (2015).

In agriculture, all entrepreneurs face the problem of balancing the relatively inflexible labour market with seasonally fluctuating demand. However, family farms have traditionally provided a vital source of flexible labour. Gasson, Errington (1993) report that family farms have many strengths, but each strength can be at the same time a weakness. Using the data collected from a survey carried out on family farms, Gasson, Errington (1993), identify, among other things, the following key weaknesses and strengths: although officially descendants working on a family farm receive wages at a level comparable with other hired employees, they actually receive a rather small amount of money at irregular intervals, which becomes a source of frequent conflicts. However, the bond between descendants and their family farms has a deeper meaning. Nowadays, the professional requirements for agricultural labour are increasing, and workers thus need to be trained. If workers later leave to another farm, they cause a considerable loss to farmers. The employment of family members who are “locked” on a farm because of their emotional ties, therefore, reduces the risk of losing the investment in human capital, which is positive for the family farm. In bad times when the farm business struggles, family members are willing to work for a lower wage, and thus ride out the economic downturn together. While some family

members working on a farm can be highly motivated and have a close personal tie to farm work, others may have opposite sentiments about it. They are only engaged in the farm business in order to fulfil their parents' wishes and take over the business someday. Fall, Magnac (2004) state that one obvious determinant could be the individual tastes of children for agriculture, which could induce them to accept the takeover of a farm, even if it provides a lower income than alternative employment. Corsi (2002) draws attention to the fact that higher education negatively affects the desire of children to take over their parents' farm because it provides them with the possibility of higher income outside the farm.

The Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic (hereafter referred to as the "AMSP CR") pays attention to the issue of family entrepreneurship in the Czech Republic. The AMSP CR collects all data about family businesses and conducts regular surveys. The surveys conducted between the years 2014–2017 show that more than two-thirds of respondents perceive entrepreneurship on a family basis as an advantage. The main benefits as perceived by family businesses include flexibility, stability, the atmosphere within the business, ethics, and treatment of workers. The disadvantages of running a family business include, in particular, the system of management, difficult access to funding, or the problem with recruiting new non-family workers. The results of the ASMP CR surveys also show that the majority of businesses are not sufficiently prepared for generational succession with only 5% of the respondents having a plan for the transfer of the company, while another 65% do not consider making the plan at all. Two-thirds of family businesses report conflicts among family members, often between founders and the next generation, but also among founders and siblings themselves.

2. Methods

In order to define the specific features of family entrepreneurship in agriculture, it was necessary to obtain data from family farms. Thus, in 2018, primary data were collected using in-depth interviews with selected family farm owners or other family members in the Czech Republic. The South Moravian Region was chosen for the survey. Eleven in-depth semi-structured interviews were conducted in order to identify subjectively perceived advantages and disadvantages of family farming in agriculture.

All of the included family farms are self-employed, and seven of the farms surveyed have been on the market for more than 25 years. In eight cases, the family farm is run by two generations, in two cases by three generations, one farm (the newest) is in the hands of the first generation. Most farms (8 out of 11) specialize in livestock production and their plant production only supports their livestock production, while two farms focus solely on plant production, *i.e.* grain, seed, fruit or vegetable production. The newest farm combines livestock production and plant production. All farms (except for cattle breeding farms that sell to slaughterhouses) sell their products directly on their premises, two farms also supply smaller shops, one farm participates in farm markets, one supplies products to hotels and restaurants in the vicinity and lastly, one farm sells its produced seeds to specific firms with a proven track record.

3. Results and discussion

The obtained qualitative data were processed using SW Mind Maps. Based on the analysis of qualitative data obtained through in-depth interviews, it is possible to define subjectively perceived advantages and disadvantages of family entrepreneurship in agriculture. These are processed in the

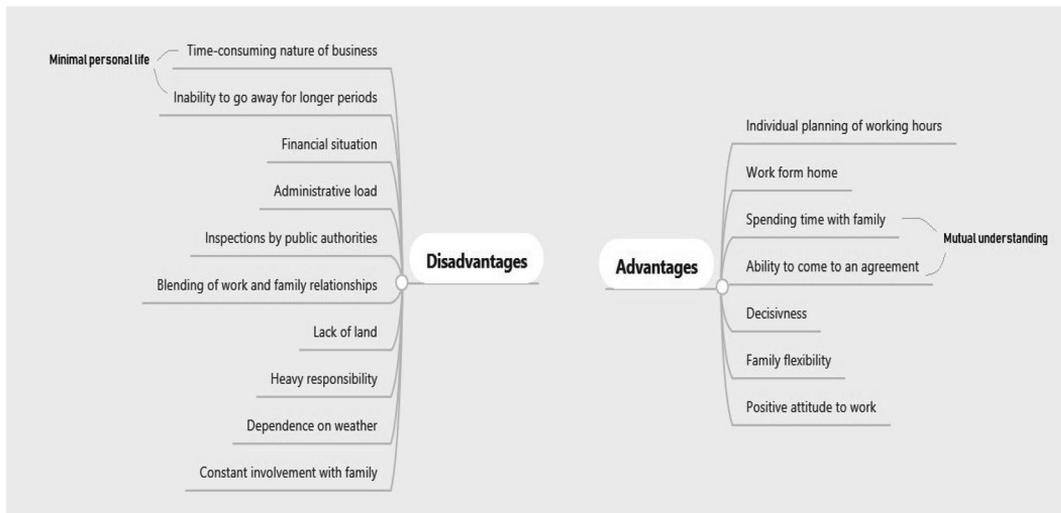


Figure 1. Advantages and disadvantages of family entrepreneurship in agriculture.
Source: in-depth interviews, 2018.

mind map in Figure 1. Most farms (8 farms out of 11 addressed) perceive family business as an advantage. The main advantages include individual planning of working time (8 from 11), family flexibility, working from home, or spending time with family, and the respondents also emphasize the positive attitude to working on a family farm. As a significant disadvantage, the interviewed farm owners (10 from 11) mention the time-consuming nature of their entrepreneurship and the associated lack of personal life. The respondents stressed the blending of work-related problems with their home environment and the time spent on farm work. The farm owners also report that it is frequently necessary to sacrifice almost all day for farm work. As a result, they cannot afford to go away for more than a few days in a row in order to have a break from their daily work and relax, which leaves a minimum space for their personal life. In the little free time they have with their family, they typically sort out work issues or deal with necessary administrative work. Another serious drawback is the lack of funds (7 farms out of 11 respondents answered), where they only make a minimum profit and are forced to cut down on

their consumption – most of the interviewed family farm owners agree they can “make a living” out of their business, however, they only make a minimum profit as they spend their income on purchasing material needed for the next season, new machinery or other equipment, maintenance, and repair of the existing assets, acquiring new livestock, among others. The farm owners also mentioned that their clients consist mostly of regular customers and locals. However, they do not know and do not have enough time to find out ways of targeting and attracting new customers and promoting their businesses in the broader community. Other reported subjectively perceived disadvantages include inspections by public authorities and mandatory record-keeping or the lack of new land, which is difficult to obtain. For an overview of the advantages and disadvantages of the family business in agriculture, see Figure 1.

Furthermore, the in-depth interviews have revealed that family farm owners (8 from 11) consider the aid provided in the form of subsidies to small family farms to be entirely insufficient. It is the family farm owners’ opinion that the subsidies are paid mostly to companies that own more than

100 hectares of land and that the majority of subsidies go only to large agricultural holdings. Most of the respondents consider the administrative process of getting subsidies to be quite complicated and time-consuming. For this reason, two farms included in our interviewing do not apply for subsidies at all. However, family farms not only in the Czech Republic complain about the lack of state support. This fact is mentioned in his work for example by Dumas *et al.* (1995). The in-depth interview also revealed that some family farms do not have enough time to follow new information regarding agricultural entrepreneurship and identify their potential opportunities to obtain subsidies. This problem concerns above all the generation that has newly taken over the family business, or the young generation that has freshly embarked upon entrepreneurship. To illustrate this, based on the information received in the interviews, only two farms have used the subsidies aimed at supporting young start-up farmers.

As regards the issue of succession, most farms (6 from 11) have already considered handing over their business. However, neither farm has started to work on a property ownership transfer plan yet. In two of the interviewed family farms, the succession process is under negotiation, and the owners have already transferred half of the farm business to children. The owners of the other two farms have made an agreement with their descendants about the future takeover. However, the children view the eventual takeover of the business as more of an obligation, and they do not want to disappoint their parents. This may have a negative impact on the future operation of the farm and may result in the termination of the business. This fact also appears in foreign studies, but *e.g.* Corsi (2002) or Fall, Magnac (2004) state that the obvious determinant of succession on the farm may be the individual tastes of children for agriculture, which can induce them to work on the farm even if in

another sector would have a higher income. Concerning family conflicts, most farms reported only minor conflicts that do not affect the existence of the business. The main reasons for the termination of the family farm business, as reported by the owners, are the lack of interest on the side of the next generation to continue their business and the unsustainable financial situation. In the final questions, most of the family farms surveyed confirmed their financial situation, and lack of free time pose a severe problem.

4. Discussions and conclusion

Subjectively perceived advantages and disadvantages of family entrepreneurship in agriculture are identified based on 11 in-depth interviews; qualitative data have enabled a more in-depth look into the examined area. Overall, the subjectively perceived advantages of family entrepreneurship prevail, which fully corresponds with the findings of the AMSP CR survey although it should be noted the family farm owners have also reported in detail about the downsides of this business. The financial situation of the family farms has been identified as one of the serious problems with just minimum profit made. Family farms do not know and do not have enough time to find out how to attract new customers. They focus primarily on their regular customers or locals. The municipal and regional authorities could help family farms by involving them in the development strategy of the region and tourism. Creating a profile on social networking sites or creating a website (most of the family farms either do not have a website, or if they do, it contains out-dated information) would also contribute to increasing visibility and attracting new customers. If businesses are too busy for such a form of promotion, their municipality could support them by publishing information about their business on its website.

The state policy on subsidies poses another key problem area. Although most family farms cannot imagine doing business without subsidies, they also declare that the amount of subsidies they receive is not sufficient for small family farms and that most of the funds go to big farms. Another drawback is the complicated and time-consuming administration associated with the processing of subsidies. Authorities also often return the required documents for corrections, which is quite stressful for the owners. It would, therefore, bring great relief to family businesses if authorities could provide any assistance in completing the required documents. Another problem for farm owners is their lack of time to follow new information regarding agricultural entrepreneurship and identify their potential opportunities to obtain subsidies.

This problem concerns above all the generation that has newly taken over the family business, or the young generation that has freshly embarked upon entrepreneurship. Yet another severe problem related to the problems mentioned above is the overlapping of work issues with the home environment and the time spent on farm work. These findings fully correspond with the findings presented by, for example, Taguiri, David (1996) or Gasson, Errington (1993). If family farms were able to achieve sustainable long-term higher profits, they could afford to hire external workers, more temporary workers, or buy more powerful machines. All this would help them to better diversify, accelerate, and facilitate their work. The last identified problem is the lack of land, which some family farms would like to expand.

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