

“The preferred usage of equity and debt financing in family businesses: evidence from Czech Republic”

AUTHORS

Naděžda Petřů  <https://orcid.org/0000-0002-9927-3337>

Andrea Tomášková  <https://orcid.org/0000-0003-1547-2759>

 <https://publons.com/researcher/3139713/andrea-tomaskova/>

ARTICLE INFO

Naděžda Petřů and Andrea Tomášková (2020). The preferred usage of equity and debt financing in family businesses: evidence from Czech Republic. *Investment Management and Financial Innovations*, 17(3), 27-39.
doi:[10.21511/imfi.17\(3\).2020.03](https://doi.org/10.21511/imfi.17(3).2020.03)

DOI

[http://dx.doi.org/10.21511/imfi.17\(3\).2020.03](http://dx.doi.org/10.21511/imfi.17(3).2020.03)

RELEASED ON

Friday, 07 August 2020

RECEIVED ON

Thursday, 28 November 2019

ACCEPTED ON

Tuesday, 14 July 2020

LICENSE



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)

JOURNAL

"Investment Management and Financial Innovations"

ISSN PRINT

1810-4967

ISSN ONLINE

1812-9358

PUBLISHER

LLC "Consulting Publishing Company "Business Perspectives"

FOUNDER

LLC "Consulting Publishing Company "Business Perspectives"



NUMBER OF REFERENCES

60



NUMBER OF FIGURES

1



NUMBER OF TABLES

6

© The author(s) 2020. This publication is an open access article.



BUSINESS PERSPECTIVES



LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sumy, 40022, Ukraine
www.businessperspectives.org

Received on: 28th of November, 2019
Accepted on: 14th of July, 2020
Published on: 7th of August, 2020

© Naděžda Petrů,
Andrea Tomášková, 2020

Naděžda Petrů, Ph.D., Department of
Economics and Management, Faculty
of Economic Studies, University of
Finance and Administration, Czech
Republic.

Andrea Tomášková, Department of
Economics and Management, Faculty
of Economic Studies, University of
Finance and Administration, Czech
Republic.



This is an Open Access article,
distributed under the terms of the
[Creative Commons Attribution 4.0
International license](https://creativecommons.org/licenses/by/4.0/), which permits
unrestricted re-use, distribution, and
reproduction in any medium, provided
the original work is properly cited.

Conflict of interest statement:
Author(s) reported no conflict of interest

Naděžda Petrů (Czech Republic), Andrea Tomášková (Czech Republic)

THE PREFERRED USAGE OF EQUITY AND DEBT FINANCING IN FAMILY BUSINESSES: EVIDENCE FROM CZECH REPUBLIC

Abstract

Czech family businesses are currently experiencing their first changeover of generations in history. The first generation (founders or successors), two or more generations collectively operate in management and administrative authorities. This article aims to compare and evaluate preference for use of debt or equity financing in family businesses with the differing involvement of generations and the diversity of its allocation for the specific need of the company's growth. This empirical study is performed based on a qualitative analysis of 245 family businesses. Hypotheses were confirmed using the Pearson correlation coefficient. This study confirms the dependence of equity and debt financing on the number of generations in management. This brings differing perspectives, opinions, and practices for financial management in the sense of a preference for debt or equity financing. The need for debt arises at the moment of compensating the transfer of ownership between generations. The analysis results indicate that family businesses managed by one generation prefer equity financing, companies managed by first and second generations prefer debt financing, and companies managed by second and third generations prefer equity financing.

Keywords

family enterprises, founder, successor, capital for
financing, capital allocation

JEL Classification

G31, G32, M21

INTRODUCTION

Family businesses are an important part of the economies of emerging and developed countries alike. Globally, they represent a socially significant phenomenon and contribute significantly to the creation of GDP (Prasetyo, 2016; Krošlák, 2013). They operate in all commercial industries, take various legal forms and organizational structures, and have a range of different sizes – from micro, small and medium-sized enterprises to large, multinational, global corporations traded on exchanges (Cerdan & Hernandez, 2013).

Families have done business for the majority of recorded history family businesses with a long tradition worldwide. And yet research into the specific characteristics of family businesses is a relatively new scientific discipline. In general, they are perceived as a fundamental driving force of global economic growth, prosperity, and stability of nations (Sharma, Chrisman, & Gersick, 2012). Due to their declared and recognized values and family know-how, they are reliable in the eyes of the broader public, vendors, employees, and customers (Petrů, Havlíček, & Tomášková, 2018).

According to Weclawski (2017), most small and medium-sized family businesses struggle with their preferences for equity or debt financing for investment in growth, innovation, and expansion. The scope of the need for financing, including external sources, depends on the family

business's life cycle, the number of members in the family employed in the company, and the specific plans for its development. And yet, founders display an aversion to financing based on debt financing; in the case of a financial investor's entry, they are concerned about the loss of control over the business.

According to Csákné and Karmazin (2016), a review of family businesses' financial characteristics can lead to a duality of family and commercial dimensions. This duality is reflected in the financial decisions on the use of equity and debt financing, which reflects the business's financial needs and the financial needs or means of the family. Unique goals, governance, and financial resources of family businesses are not only the primary source of their heterogeneity, but the ratio of equity to debt financing is a key factor for the continuation of the family succession, development, and expansion of the business, as well as its financial settlement (Chrisman, Sharma, Steier, & Chua, 2013; Aguilera & Crespi-Cladera, 2012). A full understanding of family business requires multi-faceted knowledge of economic, commercial, financial, organizational, psychological, entrepreneurial, managerial, and strategic areas (Ferramosca & Ghio, 2018, p. 14).

1. LITERATURE REVIEW

The relevance of research of family businesses and its general applications depends largely on the definition of a family business in a specific country. There are countries in Europe where a single concrete definition of a family business predominates (e.g., Cyprus, Iceland, Ireland, Malta). In contrast, in other European countries one may encounter definitions more derived from legal questions, expert reports, academic research, and social agreements (e.g., Denmark, France, Italy, the Netherlands, Norway, Poland, Romania). Current research into family business indicates that approximately 70-80% of all companies are family businesses. The countries with the largest percentage of family businesses worldwide (90% and higher) include Brazil, Chile, India, Japan, Venezuela, and the USA. European countries with the highest proportion of family businesses include Germany (95%), Italy (93%), Sweden (79%), and Spain (75%). The companies with the largest share in employment are in Ecuador (93%) and Italy (94%), while family businesses in Mexico have the highest share of GDP worldwide at 90% (Ferramosca & Ghio, 2018, p. 24). The economic importance of family businesses impacts more than half of global GDP, and they are becoming an essential source of employment in most countries (Ferramosca & Ghio, 2018, p. 13). Family businesses have a substantial influence on investment, creation of capital, business intellect, and added value (Allouche, Amann, Jaussaud, & Kurashina, 2008; Classen, Carree, Van Gils, Peters et al., 2014; Claver-Cortés, Molina-

Manchón, & Zaragoza-Sáez, 2013; Cucculelli, Le Breton-Miller, & Miller, 2016) and are significant innovators (Diéguez-Soto, Manzaneque, & Rojo-Ramírez, 2016; De Massis, Frattini, Pizzurno, & Cassia, 2015; Feranita, Kotlar, & De Massis, 2017; Hatak, Kautonen, Fink, & Kansikas, 2016; Hauck & Prügl, 2015).

The interest of researchers in the issues surrounding family business has grown in recent decades. And yet this remains one of the newly emerging scientific disciplines, introducing new trends (Benavides-Velasco, Quintana-García, & Guzman-Parra, 2013; Botero, Betancourt, Ramirez, & Vergara, 2015) and new challenges (Carr, Chrisman, Chua, & Steier, 2017; Cesaroni & Sentuti, 2017). The prevalence of family businesses has led to the differentiation of research areas into six major topical areas. These topical areas are as follows: Management of the Firm, Business Performance and Growth, Characteristics and Attributes, Interpersonal Family Dynamics, Governance, and Succession (Evert, Martin, McLeod, & Payne, 2016). Many other global authors build on these basic topical areas, examining such topics as perspectives of strategic management: past, new perspectives, and future outlook (Daspit, Chrisman, Sharma, Pearson, & Long, 2017), the influence of strategic activities and market orientation on the performance of family businesses, the influence of socio-emotional wealth on business orientation (Hernández-Perlines, Moreno-García, & Yáñez-Araque, 2019; Jiang, Kellermanns, Munyon, & Morris, 2018). The number of publications with research topics related to financial decision-making

is also growing (Debicki, Matherne, Kellermanns, & Chrisman, 2009; Abdulsaleh & Worthington, 2013; Bennedsen & Foss, 2015).

Specific features of human management, e.g., family relationships management, economic issues, e.g., modesty, profits' reinvestment to future company growth development are main factors that distinguish family business from their non-family counterparts (Petrů, Kramoliš, & Stuchlík, 2020). In the literature, family businesses are presented as a combination of three systems that overlap and mutually influence one another (Krošlák, 2013). This includes a system of family that is oriented on emotions and primarily focused on non-economic goals. The second is a business system oriented on results and focused on economic goals, while the third system is focused on the management of assets and ownership (Vandemaele & Vancouteren, 2015). Molly, Uhlaner, De Massis, and Laveren (2019) claim that goals focused on family indirectly influence the overall level to which equity and debt financing are used for financing by representing different generations contributing to the management or ownership of the business. It is shown that the perspective of socioemotional wealth also determines decisions on the amount of debt financing. DeTienne and Chirico (2013) also consider that the important driving forces in decision-making on equity and debt financing are socio-emotional goals. Socio-emotional wealth is considered the primary driver of family businesses' strategic behavior in the research of Debicki, Kellermanns, Chrisman, Pearson, and Spencer (2016) as well. The use of equity financing dominates in early generational phases. According to Machek, Hnilica, and Brabec (2014), family businesses show a lower level of indebtedness in their relationship to debt financing due to their founders' aversion to losing family control over the business. The tendency to use less short-term debt financing leads to a more conservative financial policy and higher liquidity. An irreplaceable role is also played by factors originating from the outside (economic, political environment, competitive environment, and market relations), influencing the business risk perceived by companies' owners (Čera, Belás, & Strnad, 2019; Kupec, 2018). This topic is also important in terms of the development of competitiveness of Czech family businesses, which operate in an economy traditional-

ly oriented on export and capitalizes on the EU's open market (Polák, 2019).

According to R. Bizri, Jardali, and M. Bizri (2018), family businesses decide on the form and manner of financing under the influence of the needs of the family and the needs of the business, the influence of the number of family members concerning the management of property and ownership. Family businesses decide on financing under the influence of non-economic considerations, e.g., the long-term outlook of preserving family wealth (Brigham et al., 2014), under the influence of company size (Boateng, Seaman, & Silva, 2019), taking into account the unexpectedness and uncertainty of societal development. Family businesses have a low level of indebtedness, especially those with a significant market position in their field (Gallo & Vilaseca, 1996). The same conclusion was reached by Buzzell, Gale, and Sultan (1975) who describe a company's market position as the key to its profitability. According to Cirillo, Mussolino, Romano, and Viganò (2017), a higher number of generations negatively correlate to the business's performance regardless of the source of financing. The differing structures of the number of generations for the management of family businesses may have a long-term impact on its financing decisions and, thereby, its performance as well (D'Aurizio, Oliviero, & Romano, 2015). The debt-to-equity ratio is a relevant factor in analyzing performance variations. Performance is interconnected with sources of financing, with capital structure (De Massis, Kotlar, Campopiano, & Cassia, 2015).

The area of financial decision-making in family businesses has been insufficiently explored thus far. Although most studies on financial decision-making focus on capital structure, they do not offer clear answers to the question of what factors are relevant for the use of equity financing vs. debt financing, such as their actual financial logic (Motylska-Kuzma, 2017). Thus far, it has not been categorically decided whether, under what conditions, and for what purpose family businesses prefer debt financing over the use of their equity financing. Both forms respect the level of family and ownership and are relevant from an economic, social, and emotional perspective (Strážovská, Strážovská, & Krošlák, 2008; Cerdan & Hernandez, 2013; Cano-Rubio, Fuentes-

Lombardo, Hernández-Ortiz, & Vallejo-Martos, 2016; Carr et al., 2017). A survey focused on internally perceived advantages and disadvantages of family businesses demonstrated that a company's access to outside financing is considered by owners to be their most significant disadvantage for various reasons (Břečková, 2016). It can be expected that family businesses will continue throughout the process of their development, to encounter a choice between decisions by their relevant management structure on financing either from internal or external sources while making investment decisions, performing financial settlement as part of generational change, and expanding to international markets (Wiener-Fercherhofer, 2017).

The paper aims to evaluate and compare the overall preference between equity and debt financing in companies with various generations involved.

To achieve this research aim, three research questions took an account and hypotheses to them as follows: RQ₁ – H₁; RQ₂ – H₂, H₃, H₄, H₅; RQ₃ – H₆.

RQ₁: In the Czech Republic, the process of generation exchange is taking place. Are multiple mutually collaborating generations represented in management in the family businesses of the Czech Republic?

H₁: The number of companies whose management involves both the first and second generation together will predominate.

RQ₂: Is there a correlation between the number of generations in management and a preference for equity vs. debt financing?

H₂: In companies where one generation is represented (only the first or only the second), equity financing is prioritized.

H₃: In companies in which the first and second generations are represented, debt financing is prioritized.

H₄: In companies where the first, second, and third generations are represented, debt financing is prioritized.

H₅: In companies in which the second and third generations are represented, debt financing is prioritized.

RQ₃: Is there a correlation between the number of generations in management and the specific form of allocation/use of equity vs. debt financing?

H₆: There is a strong dependence between generations and the need for funds for their allocation.

2. METHOD

The analysis examines family businesses, phases of intergenerational transfer, the position of different generations on equity vs. debt financing, and specific areas of need for capital to promote company growth.

Given that it was necessary to maintain the randomness of the sample and at the same time the dependence of the results of the survey on the format of the survey performed, the authors in the first phase used qualitative research, informal meetings (round tables, interviews) and semi-structured interviews, open discussions with top management of family businesses. The qualitative research methods allowed for a view of the subject of the study, its contextual logic, and the explicit and implicit rules that function in the practice of the issues being studied. The research provided more detailed information about why the given phenomenon appeared (Hendl, 2016). The progress of the qualitative research took on a circular form. This means that during the years specific companies could return to the individual phases of the research and in some cases to retroactively supplement or modify them (Švaříček & Šedová, 2014).

The responses received were subsequently processed mathematically in the manner described below in the text. From 2014 to 2019, qualitative research took place with representatives of 848 family businesses. For 245 of them (limited liability companies, joint-stock companies), it was possible to obtain the relevant financial data/financial reports for the calculation of financial structure using data obtained from the ARES database of economic entities, the public register and docu-

Table 1. Frequency of family businesses by legal form

Source: Authors' analysis.

Frequency \ Legal form	Sole proprietor	Limited liability company	Joint-stock company	Total
Absolute	603	218	27	848
Relative	71	26	3	100.0

ment repository (financial statements from the years 2014–2018 were used, financial data from the year 2019 was not available to the public at the time of preparing this article).

The research sample was tested for completeness using the program SPSS. The research sample complied 100%. The next step was data validation using Cronbach's Alpha. Cronbach's Alpha value is 0.887. This means a good value of acceptability and research data can be declared as reliable. Based on previous reasons, the results and conclusions stated can be accepted with a high degree of probability.

The Generations variable was used as the independent variables in the calculation, while the dependent variables used were Legal form, Succession process,

Financial capital, and Real need for capital. Based on the range of the data and the aim, descriptive statistics were mainly used to evaluate the research data. For averages, no standard deviation or coefficient of variation was calculated. Dependencies between research variables were declared per the Pearson correlation coefficient that measures the strength of the linear dependency between two variables. This enables to define the strength of the relationship between the analyzed variables (Řehák & Brom, 2015). Correlation analysis was processed by the statistics program IBM SPSS ver. 25. The analyzed variables for this research are shown in Table 2.

Table 3 shows (without need for completeness) forms of allocation of Czech family businesses' capital.

Table 2. Description of the study sample

Source: Authors' analysis.

Variable	Grouping of variables	Description	Relevance of variable to the study
Year of incorporation	Before 1989 inclusive, 1990–1994, 1995–2000, 2001–2005, 2006–2010, 2011–2014	Initial establishment of the company by the founder	Irrelevant
Legal form	Limited liability company, joint-stock company	Statistical legal form	Relevant
Number of employees	1-9, 10-19, 20-49, 50-99, 100-199, 200-249, 250-499, 500-999, over 1,000	Employees who work in a family business based on employment contracts, without distinguishing based on shifts. The number is stated as of the date of registration with the database. Source: Database of family businesses of VŠFS	Irrelevant
Generations	1 st , 1 st and 2 nd , 1 st , 2 nd and 3 rd , 2 nd and 3 rd , 2 nd	Members of the family who contribute to the management of the family business. Does not reflect ownership share. Source: Round table discussions and meetings with successors of family businesses	Relevant
Succession process	Not current, in progress, transferred	Applicable status/progress of the process of transfer of the family business to the next generation. Source: Round table discussions and meetings with successors of family businesses	Irrelevant
Financial capital	Equity financing, debt financing	Equity financing (company contributions (owners), registered capital, capital funds, profit funds, retained earnings). Debt financing (short-term and long-term liabilities, provisions, loans from family members, etc.). Time series for 2014-2018. Source: ARES, document repository	Relevant
Real need for capital	Settlement and transfer, Commercial activities, Stock supplies, Changes of technology, Technical innovations, Product portfolio innovations, Support of customer relations, Brand visibility, Investment in assets	See Table 3	Relevant

Table 3. Real need for capital

Source: Authors' analysis.

Form of allocation	Description
Settlement and transfer	Settlement with founder(s) of the company from the 1 st generation and transfer of assets to successor(s) in the 2 nd generation. Settlement between family members, buyout of original partner, etc.
Commercial activities	Expansion to new international markets, development of business activities in existing international markets, entry to new customer segments, investment in sales offices, creation of e-shops, etc.
Stock supplies	Purchase of supplies due to extraordinary jobs, sudden expansion of production, advantageous purchases of materials related to bulk pricing, seasonal fluctuations, etc.
Changes in technology	Changes in manufacturing technologies, e.g., as a result of legislative, safety, or hygienic measures. Implementation of process innovations. Technical equipment, new technologies (nano, bio), etc.
Technical innovations	Investments in digitization, robotization, automation, general 4.0 trend
Product portfolio innovation	Optimization of product portfolio, products in various phases of the life cycle, investments in new products, or innovation in old products. Expansion of offering in-depth and breadth of assortment, offering supplemental services, etc.
Support for customer relations	Software CRM, implementing new forms of communication via online media, investment in social networks, innovation in the process of interactive communication with customers, etc.
Brand visibility	Investments in communication mix, brand building, rebranding, change of packaging, advertising and notification subjects, participation in trade shows, etc.
Investment in assets	Purchase of property, mergers, acquisitions, strategic partnerships

The value of the Pearson correlation coefficient r expresses the relationship of this dependence: $r = 0.19 - 0$ very weak; $r = 0.39 - 0.20$ weak; $r = 0.59 - 0.40$ moderate; $r = 0.79 - 0.60$ strong; $r = 1.00 - 0.80$ very strong. Descriptive statistics allow us to evaluate H_1-H_5 . The results of correlation analysis are used to confirm or reject hypothesis H_6 .

3. RESULTS

The first research question (RQ₁) focused on the following issue: In the Czech Republic, the process of generation change is taking place. Are multiple mutually collaborating generations represented in management in the family businesses of the Czech Republic? H_1 : The number of companies whose management involves both the first and second generation together will predominate. The representation of the number of generations is shown in Table 4.

Multiple mutually collaborating generations are represented in management in the family businesses of the Czech Republic. Either the first and

second, or first second and third, or second and third generations work together. H_1 may be confirmed; in 38.8% of companies, the first and second generation is working together in management.

The second research question (RQ₂) focused on whether there is a correlation between the number of generations in management and a preference for the use of equity vs. debt financing. Use of equity and debt financing in the years 2014–2018 in the individual generations is shown in Figure 1.

Figure 1 shows that there is a correlation between the number of generations in management and a preference for equity vs. debt financing.

Based on the calculated average, using descriptive statistics, hypothesis H_2 "In companies in which one generation is represented (only the first or only the second), equity financing is prioritized." can be confirmed.

Based on the calculated average, using descriptive statistics, hypothesis H_3 "In companies in which the first and second generations are represented, debt financing is prioritized." can be confirmed.

Table 4. Representation of the number of generations

Source: Authors' analysis.

Generation/Frequency	1 st	1 st and 2 nd	1 st , 2 nd , and 3 rd	2 nd	2 nd and 3 rd	Total
Absolute/number of companies	10	95	40	47	53	245
Relative % representation	4.1	38.8	16.3	19.2	21.6	100.0

Source: Authors' analysis.

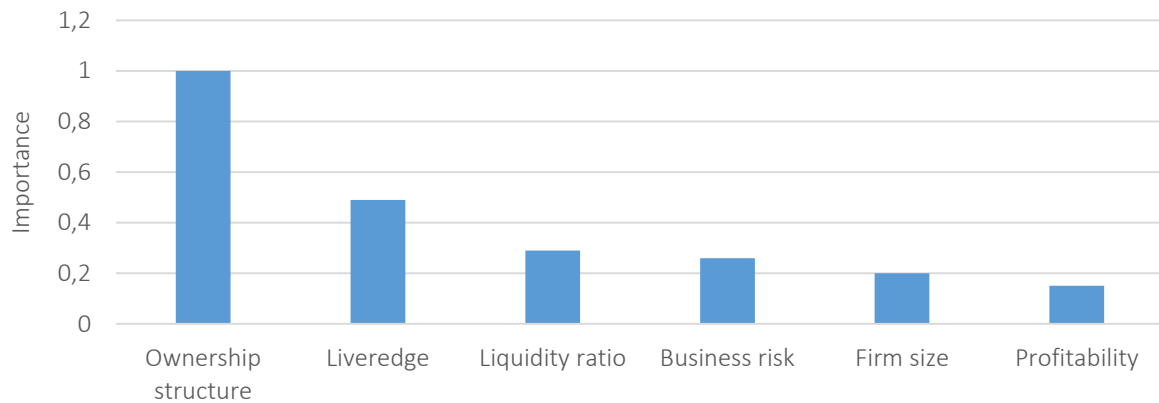


Figure 1. Comparison of equity and debt financing in 2014 – 2018 by the representation of the number of generations

Based on the calculated average, using descriptive statistics, hypothesis H_4 “In companies in which the first, second, and third generations are represented, debt financing is prioritized.” can be confirmed.

Based on the calculated average, using descriptive statistics, hypothesis H_5 “In companies in which the second and third generations are represented, debt financing is prioritized.” is rejected.

The third research question (RQ₃) focused on whether there is a correlation between the number of generations in management and the specific manner/need for the use of equity vs. debt financing.

Table 5 uses descriptive statistics to evaluate the third research question (RQ₃) that there is a correlation between the number of generations in management and the specific manner/need for the use

Table 5. Real need for capital concerning the number of generations

Source: Authors' analysis.

Form of allocation/Generations	Frequency	1 st	1 st and 2 nd	1 st , 2 nd , and 3 rd	2 nd	2 nd and 3 rd
Settlement and transfer	AF	0	53	12	0	14
	RF	0%	55.8%	30%	0%	26.4%
Commercial activities	AF	0	15	7	9	7
	RF	0%	15.8%	17.5%	19.1%	13.2%
Stock supplies	AF	1	0	0	3	1
	RF	10%	0%	0%	6.4%	1.9%
Changes in technology	AF	3	8	7	8	7
	RF	30%	8.4%	17.5%	17%	13.2%
Technical innovations	AF	2	7	4	7	15
	RF	20%	7.4%	10%	14.9%	28.3%
Product portfolio innovation	AF	2	7	5	6	0
	RF	20%	7.4%	12.5%	12.8%	0%
Support for customer relations	AF	1	3	3	7	2
	RF	10%	0%	7.5%	14.9%	3.8%
Brand visibility	AF	1	2	2	7	5
	RF	10%	2.1%	5%	14.9%	9.4%
Investment in assets	AF	0	0	0	0	2
	RF	0%	0%	0%	0%	3.8%
Total	AF	10	95	40	47	53
	RF	100%	100%	100%	100%	100%

Note: AF – absolute frequency, RF – relative frequency.

Table 6. Correlation analysis between generations and the need for funds

Source: Authors' analysis.

	Indicator	Generations	Real need for capital
Generations	Pearson correlation	1	0.457**
	Sig. (2-tailed)	–	0.000
	N	245	245
Real need for capital	Pearson Correlation	0.457**	1
	Sig. (2-tailed)	0.000	–
	N	245	245

Note: ** Correlation is significant at the 0.01 level (2-tailed).

of equity vs. debt financing. In companies where only the 1st generation is involved, equity financing is used primarily to finance technology changes. In a company where the first and second generations are active, debt financing is used primarily to finance settlement and transfer of assets. In a company with the first, second, and third generations, debt financing is used primarily to finance settlement and transfer of assets. In companies where the second and third generations are involved, equity financing is used primarily to finance technology changes. In companies where only the second generation is involved, equity financing is used primarily to finance commercial activities.

The statistical significance of the dependence between generations and the need for funds for their allocation is reflected in calculating the Pearson coefficient (see Table 6).

Hypothesis H_6 “There is a strong statistical significance between generations and the need for funds for their allocation” was rejected; the resulting value of $r = 0.457$ indicates a moderate dependence.

4. DISCUSSION

Family members may be represented in the management of companies by several generations. Cirrilo et al. (2017) take a skeptical position toward the larger number of generations in management due to possible conflict of opinions, including regarding the allocation of funds. The conflict between generations when managing family businesses is also noted by Visser and van Scheers (2018), Cabrera-Suárez, Déniz-Déniz, and Martín-Santana (2015). This study showed that there currently exist five variants of generational

representation in Czech family businesses, namely 1st generation; 1st and 2nd generations; 1st, 2nd, and 3rd generations; 2nd and 3rd generations; 2nd generation. Given that family businesses were founded in the Czech Republic after 1989, they are logically dominated by the representation of 1st and 2nd generations in 38.8% of cases.

According to Birzi et al. (2018), family management and engagement of generations influence the preference for using types of capital for financing. Weclawski (2017) presumes that a successful intergenerational transfer requires a quantity of capital. Moussa and Elgiziry (2019) come down in favor of debt financing, stating that multigenerational involvement in top management leads to increased indebtedness when using debt financing. The study has confirmed this finding. In companies where the first and second generations are represented, debt financing is allocated primarily to settlement and transfer of assets, as it is in the situation with first, second, and third generations. Successor generations need sufficient capital for financing settlement with the founding generations or other family members or the buyout of an original partner.

According to Birzi et al. (2018), family businesses decide on the form and manner of financing under the influence of the needs of the family and the business's needs, the influence of the number of family members concerning the management of property and ownership. This finding can be validated, e.g., the business's needs in this study are represented by the allocation of funds to commercial activities, changes to technology and technical innovations, product portfolio innovation, support of managing relationships with customers, and increasing brand visibility.

According to Gallo and Vilaseca (1996), the preference for equity financing is explained by the strong identification of the owner with the business. The research demonstrated that if a company is continually owned and managed by the first generation, this generation will favor financing using equity. A similar situation exists if a company is owned and managed only by the second generation. The use of equity financing dominates in early generational phases.

Motylska-Kuzma (2017) concluded that it had not been categorically decided thus far whether, under what conditions, and for what purpose family businesses prefer debt financing over the use of their equity financing. From the research outcomes, it can be seen that equity financing is invested primarily in changes to technology and commercial activities, while outside capital serves to balance and transferring assets, implementing technical innovations, and introducing product portfolio innovations.

Lam and Lee (2012), D'Aurizio et al. (2015), Csákné and Karmazin (2016) state that family businesses prefer their own funds primarily as a source for financing the company's growth. The research outcomes comparing accounting data from the years 2014–2018 concerning the number of generations in the company's management led partially to a simi-

lar conclusion. Equity financing was not shown to be predominant. Demsetz and Villalonga (2001), Chrisman et al. (2013) did not demonstrate in their research any difference in the use of equity or debt for financing company growth. Thus far, no research has been conducted that would analyze preference for the use of equity and debt financing in the process of generation exchange with several groups of generations. In this respect, the current study is unique.

This research has some restrictions and limits. Mainly, these consist of owners of family businesses' willingness to share financial information – sole proprietors who do not have a legal obligation for such disclosures – are not willing to share this data. Another limitation is the ease/convenience, or lack thereof, of access to obtaining outside funds in various phases of the economic cycles. If the economy is doing well, its growth is driven by the final consumption expenditure of households, companies and governments' investment activity, and family businesses are motivated for further expansion and use of debt financing for their own development. Another limitation is the willingness of owners to subject them to the risk of use of debt financing. Another limitation is the lack of interest in political representation in supporting the family business segment.

CONCLUSION

Several generations collectively operate in management and administrative authorities in the family businesses. This brings differing perspectives and practices for financial management in the sense of a preference for debt or equity financing. It was demonstrated that in companies where one generation is represented (only the first or only the second), equity financing is prioritized. In companies in which the first and second generations are represented, debt financing is prioritized. In companies where the first, second, and third generations are represented, debt financing is prioritized. In companies in which the second and third generations are represented, debt financing is prioritized. Debt financing is used primarily for intergenerational settlement and transfer of assets, investment investments in technology, product portfolio innovation, and expanding commercial activities. Equity financing is used primarily for technological development, support of customer relations, and increasing brand visibility. The study demonstrated the need for outside capital in the transfer of assets as part of the first intergenerational change and the need for capital in changing technologies, commercial activities, etc.

This topic prompts other possible areas of research. These may include financial stability, level of indebtedness of family businesses before and after generational succession, evaluation of the level of usage of guarantees and support for the family business, level of aversion to the risk of debt financing among younger generations, etc. It also compares evaluated criteria in countries of the former socialist sector or countries with uninterrupted traditions of the family business.

ACKNOWLEDGMENT

The result was created in solving the project TA ČR ETA 2 (STA02018TL020) “Family businesses: Value drivers and value determination in the process of succession”, TL02000434. We are grateful also to representatives of enterprises who were willing to participate in this research.

AUTHOR CONTRIBUTIONS

Conceptualization: Naděžda Petrů.
Data curation: Andrea Tomášková.
Formal analysis: Andrea Tomášková.
Funding acquisition: Naděžda Petrů.
Investigation: Naděžda Petrů.
Methodology: Andrea Tomášková.
Project administration: Naděžda Petrů.
Resources: Andrea Tomášková.
Software: Andrea Tomášková.
Supervision: Naděžda Petrů.
Validation: Andrea Tomášková.
Visualization: Naděžda Petrů.
Writing – original draft: Naděžda Petrů.
Writing – review & editing: Andrea Tomášková.

REFERENCES

1. Abdulsaleh, A., & Worthington, A. (2013). Small and Medium-Sized Enterprises Financing: A Review of Literature. *International Journal of Business and Management*, 8(14), 36-54. <https://doi.org/10.5539/ijbm.v8n14p36>
2. Aguilera, R. V., & Crespi-Cladera, R. (2012). Firm family firms: Current debates of corporate governance in family firms. *Journal of Family Business Strategy*, 3(2), 66-69. <https://doi.org/10.1016/j.jfbs.2012.03.006>
3. Allouche, J., Amann, B., Jaussaud, J., & Kurashina, T. (2008). The Impact of Family Control on the Performance and Financial Characteristics of Family versus Nonfamily Businesses in Japan: A Matched-Pair Investigation. *Family Business Review*, 21(4), 315-329. <https://doi.org/10.1177/08944865080210040104>
4. Benavides-Velasco, C. A., Quintana-García, C., & Guzman-Parra, V. F. (2013). Trends in family business research. *Small Business Economics*, 40(1), 41-57. <https://doi.org/10.1007/s11187-011-9362-3>
5. Bennedsen, M., & Foss, N. (2015). Family Assets and Liabilities in the Innovation Process. *California Management Review*, 58(1), 65-81. <https://doi.org/10.1525/cmr.2015.58.1.65>
6. Bizri, R., Jardali, R., & Bizri, M. (2018). Financing family firms in the Middle East: the choice between Islamic and conventional finance. *International Journal of Entrepreneurial Behavior & Research*, 24(4), 842-865. <https://doi.org/10.1108/IJE-BR-10-2016-0349>
7. Boateng, B., Seaman, C., & Silva, M. (2019) Financing decisions of migrant family businesses: The case of a Ghanaian-owned shop in Kent. *Journal of Family Business Management*, 9(1), 24-39. <https://doi.org/10.1108/JFBM-11-2017-0037>
8. Botero, I., Betancourt, G. G., Ramirez, J. B. B., & Vergara, M. P. L. (2015). Family protocols as governance tools: Understanding why and how family protocols are important in family firms. *Journal of Family Business Management*, 5(2), 218-237. <https://doi.org/10.1108/JFBM-01-2015-0001>
9. Břečková, P. (2016). Family Business in the Czech Republic. *European Research Studies Journal*, 19(4), 3-16.
10. Brigham, K. H., Lumpkin, G. T., Payne, G. T., & Zachary, M. A. (2014). Researching Long-Term Orientation: A Validation Study and Recommendations for Future Research. *Family Business Review*, 27(1), 72-88. <https://doi.org/10.1177/0894486513508980>
11. Buzzell, R. D., Gale, B. T., & Sultan, R. G. M. (1975). Market Share a Key to Profitability. *Harvard Business Review*, 53(1), 97-106.
12. Cabrera-Suárez, M. K., Déniz-Déniz, M. C., & Martín-Santana,

- J. D. (2015). Family Social Capital, Trust within the TMT, and the Establishment of Corporate Goals Related to Nonfamily Stakeholders. *Family Business Review*, 28(2), 145-162. <https://doi.org/10.1177/0894486514526754>
13. Cano-Rubio, M., Fuentes-Lombardo, G., Hernández-Ortis, M. J., & Vallejo-Martos, M. C. (2016). Composition of familiness: Perspectives of social capital and open systems. *European Journal of Family Business*, 6(2), 75-85. <https://doi.org/10.1016/j.ejfb.2016.12.002>
 14. Carr, J. C., Chrisman, J. J., Chua, J. H., & Steier, J. P. (2017). Family Firm Challenges in Intergenerational Wealth Transfer. *Entrepreneurship Theory and Practice*, 40(6), 1197-1208. <https://doi.org/10.1111/etap.12240>
 15. Çera, G., Belás, J., & Strnad, Z. (2019). Important factors which predict entrepreneur's perception in business risk. *Problems and Perspectives in Management*, 17(2), 415-429. [http://dx.doi.org/10.21511/ppm.17\(2\).2019.32](http://dx.doi.org/10.21511/ppm.17(2).2019.32)
 16. Cerdan, A. L. M., & Hernandez, A. J. C. (2013). Size and performance in family managed firms: surviving first generation. *Management Research: Journal of the Iberoamerican Academy of Management*, 11(1), 13-34. <https://doi.org/10.1108/1536-541311318053>
 17. Cesaroni, F. M., & Sentuti, A. (2017). Family business succession and external advisors: the relevance of 'soft' issues. *Small Enterprise Research*, 24(2), 167-188. <https://doi.org/10.1080/13215906.2017.1338193>
 18. Chrisman, J. J., Sharma, P., Steier, L. P., & Chua, J. H. (2013). The Influence of Family Goals, Governance, and Resources on Firm Outcomes. *Entrepreneurship Theory and Practice*, 37(6), 1249-1261. <https://doi.org/10.1111/etap.12064>
 19. Cirillo, A., Mussolino, D., Romano, M., & Viganò, R. (2017). A complicated relationship: Family involvement in the top management team and post-IPO survival. *Journal of Family Business Strategy*, 8(1), 42-56. <https://doi.org/10.1016/j.jfbs.2017.01.004>
 20. Classen, N., Carree, M., Van Gils, A., & Peters, B. et al. (2014). Innovation in family and non-family SMEs: an exploratory analysis. *Small Bus Econ.*, 42, 595-609. <https://doi.org/10.1007/s11187-013-9490-z>
 21. Claver-Cortés, E., Molina-Manchón, H., & Zaragoza-Sáez, P. (2013). Intellectual capital model for family firms. *Knowledge Management Research & Practice*, 11(2), 184-195. <https://doi.org/10.1057/kmmp.2013.14>
 22. Csákné F. J., & Karmazin, G. (2016). Financial Characteristics of Family Businesses and Financial Aspects of Succession. *Vezetéstudomány – Budapest Management Review*, 47(11), 46-58. <https://doi.org/10.14267/VEZ-TUD.2016.11.06>
 23. Cucculelli, M., Le Breton-Miller, I., & Miller, D. (2016). Product innovation, firm renewal and family governance. *Journal of Family Business Strategy*, 7(2), 90-104. <https://doi.org/10.1016/j.jfbs.2016.02.001>
 24. D'Aurizio, L., Oliviero, T., & Romano, L. (2015). Family firms, soft information and bank lending in a financial crisis. *Journal of Corporate Finance*, 33, 279-292. <https://doi.org/10.1016/j.jcorpfin.2015.01.002>
 25. Daspit, J. J., Chrisman, J. J., Sharma, P., Pearson, A. W., & Long, R. G. (2017). A strategic management perspective of the family firm: Past trends, new insights, and future directions. *Journal of Managerial Issues*, 29(1), 6-29. Retrieved from https://www.researchgate.net/publication/313469153_A_Strategic_Management_Perspective_of_the_Family_Firm_Past_Trends_New_Insights_and_Future_Directions
 26. De Massis, A., Frattini, F., Pizzurno, E., & Cassia, L. (2015). Product Innovation in Family versus Nonfamily Firms: An Exploratory Analysis. *Journal of Small Business Management*, 53(1), 1-36. <https://doi.org/10.1111/jsbm.12068>
 27. De Massis, A., Kotlar, J., Campopiano, G., & Cassia, L. (2015). The impact of family involvement on SME's performance: Theory and evidence. *Journal of Small Business Management*, 53(1), 924-948. <https://doi.org/10.1111/jsbm.12068>
 28. Debicki, B. J., Matherne, C. F., Kellermanns, F. W., & Chrisman, J. J. (2009). Family Business Research in the New Millennium: An Overview of the Who, the Where, the What, and the Why. *Family Business Review*, 22(2), 151-166. Retrieved from https://www.researchgate.net/publication/235687985_Family_Business_Research_in_the_New_Millennium_An_Overview_of_the_Who_the_Where_the_What_and_the_Why
 29. Debicki, B. J., Kellermanns, F. W., Chrisman, J. J., Pearson, A. W., & Spencer, B. A. (2016). Development of a socioemotional wealth importance (SEWi) scale for family firm research. *Journal of Family Business Strategy*, 7(1), 47-57. <https://doi.org/10.1016/j.jfbs.2016.01.002>
 30. Demsetz, H., & Villalonga, B. (2001). Ownership Structure and Corporate Performance. *Journal of Corporate Finance*, 7(3), 209-233. [https://doi.org/10.1016/S0929-1199\(01\)00020-7](https://doi.org/10.1016/S0929-1199(01)00020-7)
 31. DeTienne, D. R., & Chirico, F. (2013). Exit Strategies in Family Firms: How Socioemotional Wealth Drives the Threshold of Performance. *Entrepreneurship Theory and Practice*, 37(6), 1297-1318. <https://doi.org/10.1111/etap.12067>
 32. Diéguez-Soto, J., Manzaneque, M., & Rojo-Ramírez, A. A. (2016). Technological Innovation Inputs, Outputs, and Performance: The Moderating Role of Family Involvement in Management. *Family Business Review*, 29(3), 327-346. <https://doi.org/10.1177/0894486516646917>
 33. Evert, R. E., Martin, J. A., McLeod, M. S., & Payne,

- G. T. (2016). Empirics in Family Business Research: Progress, Challenges, and the Path Ahead. *Family Business Review*, 29(1), 17-43. <https://doi.org/10.1177/0894486515593869>
34. Feranita, F., Kotlar, J., & De Massis, A. (2017). Collaborative innovation in family firms: Past research, current debates and agenda for future research. *Journal of Family Business Strategy*, 8(3), 137-156. <https://doi.org/10.1016/j.jfbs.2017.07.001>
 35. Ferramosca, S., & Ghio, A. (2018). *Accounting Choices in Family Firms: An Analysis of Influences and Implications*. Cham, Switzerland: Springer. <https://doi.org/10.1007/978-3-319-73588-7>
 36. Gallo, M. A., & Vilaseca, A. (1996). Finance in Family Business. *Family Business Review*, 9(4), 387-401. <https://doi.org/10.1111/j.1741-6248.1996.00387.x>
 37. Hatak, I., Kautonen, T., Fink, M., & Kansikas, J. (2016). Innovativeness and family-firm performance: The moderating effect of family commitment. *Technological Forecasting and Social Change*, 102, 120-131. Retrieved from https://www.researchgate.net/publication/273443034_Innovativeness_and_Family-Firm_Performance_The_Moderating_Effect_of_Family_Commitment
 38. Hauck, J., & Prügl, R. (2015). *Innovation activities during intra-family leadership succession in family firms: An empirical study from a socioemotional wealth perspective*. *Journal of Family Business Strategy*, 6(2), 104-118. <https://doi.org/10.1016/j.jfbs.2014.11.002>
 39. Hendl, J. (2016). *Kvalitativní výzkum: základní teorie, metody a aplikace*. 4., přeprac. vyd. Praha: Portál.
 40. Hernández-Perlines, F., Moreno-García, J., & Yáñez-Araque, B. (2019). The influence of socioemotional wealth in the entrepreneurial orientation of family businesses. *International Entrepreneurship and Management Journal*, 15(2), 523-544. Retrieved from https://ideas.repec.org/a/spr/intemj/v15y2019i2d10.1007_s11365-019-00561-0.html
 41. Jiang, D. S., Kellermanns, F. W., Munyon, T. P., & Morris, M. L. (2018). More Than Meets the Eye: A Review and Future Directions for the Social Psychology of Socioemotional Wealth. *Family Business Review*, 31(1), 125-157. <https://doi.org/10.1177/0894486517736959>
 42. Krošláková, M. (2013). Rodinné podnikanie na Slovensku. *Studia commercialia Bratislavensia*, 6(21), 95-104.
 43. Kupec, V. (2018). Risk Audit of Marketing Communication. *European Research Studies Journal*, 21(1), 125-132. Retrieved from https://www.ersj.eu/dmdocuments/2018_XXI_1_11.pdf
 44. Lam, T., & Lee, S. (2012). Family Ownership, Board Committees and Firm Performance: Evidence from Hong Kong. *Corporate Governance*, 12(3), 353-366. <https://doi.org/10.1108/14720701211234609>
 45. Machek, O., Hnilica, J., & Brabec, M. (2014). Current State of Knowledge on the Performance Gaps Between Family and Non-Family Firms. *International Advances in Economic Research*, 20(3), 349-350. <https://doi.org/10.1007/s11294-014-9470-3>
 46. Molly, V., Uhlaner, L. M., De Massis, A., & Laveren, E. (2019). Family-centered goals, family board representation, and debt financing. *Small Business Economics*, 3(1), 269-286. <http://dx.doi.org/10.1007/s11187-018-0058-9>
 47. Motylska-Kuzma, A. (2017). The financial decisions of family businesses. *Journal of Family Business Management*, 7(3), 351-373. <http://dx.doi.org/10.1108/JFBM-07-2017-0019>
 48. Moussa, A. A., & Elgiziry, K. (2019). The impact of family involvement in business on capital structure decisions: a literature review. *Investment Management and Financial Innovations*, 16(1), 258-266. [https://doi.org/10.21511/imfi.16\(1\).2019.20](https://doi.org/10.21511/imfi.16(1).2019.20)
 49. Petrů, N., Havlíček, K., & Tomášková, A. (2018). Comparison of Marketing Vitality of Family and Non Family Companies doing Business in the Czech Republic. *Economics and Sociology*, 11(2), 138-156. <https://doi.org/10.14254/2071-789X.2018/11-2/10>
 50. Petrů, N., Kramoliš, J., & Stuchlík, P. (2020). Marketing Tools in the Era of Digitization and Their Use in Practice by Family and Other Businesses. *E&M Economics and Management*, 23(1), 197-212. Retrieved from <http://publikace.k.utb.cz/handle/10563/1009644>
 51. Polák, J. (2019). Determining Probabilities for a Commercial Risk Model of Czech Exports to China with Respect to Cultural Differences and in Financial Management. *Journal of Competitiveness*, 11(3), 109-127. Retrieved from https://www.researchgate.net/publication/336340976_Determining_Probabilities_for_a_Commercial_Risk_Model_of_Czech_Exports_to_China_with_Respect_to_Cultural_Differences_and_in_Financial_Management
 52. Prasetyo, H. A. (2016). What driver international competitiveness? An empirical test in emerging Indonesian market. *Journal of Competitiveness*, 8(4), 124-139. <http://dx.doi.org/10.7441/joc.2016.04.08>
 53. Řehák, J., & Brom, O. (2015). *SPSS – Praktická analýza dat*. Praha: Computer Press.
 54. Sharma, P., Chrisman, J. J., & Gersick, K. E. (2012). 25 Years of Family Business Review: Reflections on the Past and Perspectives for the Future. *Family Business Review*, 25(1), 5-15. <https://doi.org/10.1177/0894486512437626>
 55. Strážovská, H., Strážovská, E., & Krošláková, M. (2008). *Podnikanie formou rodinných podnikov*. Bratislava: Sprint vŕa.
 56. Švaříček, R., Šedová, K. et al. (2014). *Kvalitativní výzkum v pedagogických vědách*. Praha: Portál.

57. Vandemaele, S., & Vancauteran, M. (2015). Nonfinancial Goals, Governance, and Dividend Payout in Private Family Firms. *Journal of Small Business Management*, 53(1), 166-182. <https://doi.org/10.1111/jsbm.12063>
58. Visser, T., & van Scheers, L. (2018). Can family business managers manage family business risks? *Management: Journal of Contemporary Management*, 23(1), 123-137. <https://doi.org/10.30924/mjcmi/2018.23.1.123>
59. Węclawski, J. (2017). Dilemmas of family businesses financing by private equity. *Acta Universitatis Lodzensis. Folia Oeconomica*, 1(327), 203-214.
60. Wiener-Fererhofer, A. (2017). Credit rating process: A distinction between family and non-family firms regarding their rating score. *Journal of Family Business Management*, 7(3), 256-290. <https://doi.org/10.1108/JFBM-06-2017-0013>