

BASES FOR DELIVERABLE D.T1.1.3

Report on the obstacles and challenges to
the business succession and identification of
stakeholders

1st Version
10/2017





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2. Objectives

2.1. General objective of the document

To prepare a report on the obstacles and challenges to the business succession and identification of stakeholders.

2.2. Specific objective of the document

To identify technical and non-technical hurdles and challenges to business succession at regional level and compiling the list of stakeholders to be involved into business succession (public, private bodies and related entities) based on the meetings with stakeholders.

2.3. Disclaimer

This document was created in cooperation between LP (EUBA Bratislava) and PP2 (IPC Prešov). The LP is the responsible partner for processing of theoretical background relevant to family business succession in Slovakia, while PP2 focused on listing of addressed stakeholders invited to the meetings with stakeholders (DT1.1.4)



3. The succession of family business

3.1. Specifics of family business

After nearly more than 20 years family business in Slovakia comes to a breaking point. It is time the transfer of the business to the next generation. How are family businesses specific and what problems are they facing?

Family business is recently a rather discussed topic in Slovakia. In the recent period, a legislative initiative in this area has also been recorded. So far, however, there is no specific definition of this category of enterprises as well as the identification of their specific problems. The family business itself in Slovakia does not have a long history. It began to grow in the post-revolutionary period (1989), although some mechanisms of family co-operation in the implementation of economic activities were applied earlier. The impulse for the development of family business has been the beginning of economic transformation, accompanied by relatively simple business start-up conditions as well as new opportunities that have led to the liberalization of economic relations and the opening of borders. At the same time, "post-revolutionary enterprises" arose as a result of problematic work and income security, when it was a necessity for some former employees to start a business.

"In 1992 it was possible to start doing business relatively easily in any area, there was plenty of skilled people, relatively inexpensive materials."

The definition of a family business in Slovakia is not legally established, but there are some features that show that it is a family business: the self-employment of the founder, the family members, the transition from one generation to the next. The survey, conducted by the European Public Policy Partnership (EPPP), in cooperation with the SBA (Slovak Business Agency), states that a family business often involves married couples or the co-operation of one of the parents and their offspring.

The founder of a family business is also the executive manager or director of the firm and determines its direction. An entrepreneur has to learn how to manage his time. It has a key influence on the development of his family business in the long run. There is no dividing line between work and private life and therefore the entrepreneur has to address the crucial question of priorities between business and private activities.

Overlapping of work and private life is reflected in the effort to involve family members in the business. By involving key family members into a business, "family interest". It can be described as the main family business aspect that affects its success and significantly differentiates it from non-family. According to the survey above, family businesses are formed in the context of natural development through gradual integration of individual family members into a business, creating a stronger family unit and giving a better prerequisite for transferring experiences from generation to generation.

Within personal family relationships, there is confidence that transmits to business and creates a specific family business climate. As one of the respondents said: *"A family business is my trust and I know, that family members do the best for the business. What's good for a business is good for me and my family. "*

The personal factor that enters family business is therefore the source of stability and the creation of tradition. In relation to the employment of family members, we are confronted with the trend of giving preference to family members in management positions. The trend is a consequence of confidential climate and serves to ensure succession in the enterprise.

An important feature of family businesses is the creation of tradition and its maintenance through the transfer of experience from generation to generation. This creates a strong foundation for business continuity and future prosperity.



Table 1: Number of active business entities according to the individual legal forms and size categories of enterprises as of 31.12.2015

Size categories / Legal forms	Businesses	Self-employed	Freelance	SHR	Total	
					abs.	%
Microenterprises (0-9)	178 095	315 182	17 657	4 302	515 236	96,9
Small enterprises (10 - 49)	11 721	1 215	39	9	12 984	2,4
Medium enterprises (50 - 249)	2 780	63	0	0	2 843	0,5
Large enterprises (250+)	666	0	0	0	666	0,1
SMEs Total (0-249)	192 596	316 460	17 696	4 311	531 063	99,9
Business subjects Total	193 262	316 460	17 696	4 311	531 729	100

Source: Statistical Office of SR, 2016, edited

According to data of the Statistical Office of the SR, 531,729 active business entities were registered in Slovakia in 2015, of which 531,063 were small and medium-sized enterprises. The largest share in these categories was micro-enterprises (96.9%), small enterprises (2.4%) and medium-sized enterprises (0.5%). Natural persons - entrepreneurs account for almost two thirds (63.7%) of the total number of active SMEs in Slovakia.

3.1.1. Problems of family entrepreneurs

Family business, however, brings with it a number of problems. One of them is the employment of family members, when conflicts from the family environment arise and transfer to business and vice versa. These disputes can ultimately affect the company's performance and bring even an economically successful company to ruin. It is important that the founder is aware of the importance of these relationships and pay attention to their development.

"Everything depends on people, we help each other, we complete each other in many things, sometimes we have a lot to do, and with that comes the risk that it will affect the family."

Problems in the employment of family members arise in the area of employment relations. Consequences and punishments of breaching the work discipline, failure to perform assigned tasks, or low work performance are more difficult to put on family members than on other employees.

A particular problem is the legislative barriers when family members help within the family business. According to Act No. 82/2005 Coll. on illegal work, it is illegal work if a family member assists an entrepreneur without an employment relationship, from which criminal liability is imposed on the entrepreneur. However, by fulfilling certain conditions, the family member's assistance is legal. As indicated by the above-mentioned law, if *"the work is performed by his direct relative, sibling or spouse who has pension insurance, is pension recipient under special regulations or is a student under 26 years of age"*. The condition for non-punishable assistance is, therefore, pension insurance or the status of a pensioner or a student.



"Perhaps it would be better if the employment of family members and the related duties and other obligations were made easier."

Engaging family members into entrepreneurship is closely related to the preparation of a young generation to carry the business on. The importance of preparation in the field of succession is intensifying with the increasing age of founders. Slovak family businesses are in a period when they are mostly undergoing or preparing for the first generational exchange. This moment can be considered critical. A survey of family businesses in Slovakia by PwC shows that only one-third of businesses will handle this generation exchange process successfully.

The first step towards successful generational change is to integrate potential successors into business and create family interest in successors. Underestimation of the succession preparation may lead to the successor not becoming entrepreneurial, will not have sufficient interest in maintaining it, or he will want to get rid of it as unwanted burden. Preparation for succession must not be neglected either by the preparation of the enterprise itself.

The most significant problem - succession or sale of a business

The breakthrough moment in the life of family businesses is the generational exchange process. It includes, in addition to the effective integration of followers into the enterprise structure, the timely delivery of the key management function to the next generation. The founders are often trying to delay this moment as much as possible in an effort to keep things under control. Giving up management positions in the company and leave it to successor is in most cases problematic. It is hard for the founders to leave the business they founded, and which is their lifelong work.

Despite the perception of the need for an intergenerational transition, the older generation feels anxiety about succession as a result of possible harm to family relationships.

"Succession by children, taking over the property. Yes, it can be a problem and it can harm the whole family. "

If an entrepreneur does not have a successor, he often thinks of a possible sale of his business. Both options (transition from generation to generation, sale of business) are related to the problem of securing the transfer of assets. This is a long process that requires careful preparation. Business transfers are typically triggered by retirement, personal decisions or unpredictable events (illness, death). According to a survey conducted by EPPP in cooperation with the SBA, entrepreneurs consider important to ensure continuity in the intergenerational transition and simplify the transformation to achieve fluidity of succession.

It can be said that family businesses represent a significant and specific component of the business environment in Slovakia. A problem that prevents them from being more strongly supported is their "invisibility". In the absence of a legal anchor for this type of business, more substantial public support cannot be expected for the category of family businesses. On the other hand, some support is planned from the EU Structural Funds under the forthcoming Operational Program Research and Innovation 2014-2020.



Intergenerational differences

The older generation considers as its strong side experience gained with age, responsibility and built-up reputation, what is confirmed by the younger generation. They see the young generation as well-linguistically equipped, full of enthusiasm and ideas, but on the other hand very impulsive and impatient. Research has also highlighted the diversity between generations. The young generation (especially in the engineering, manufacturing and agricultural sectors) is rather engaged in management and less in production process itself. On the other hand, the young generation is aware of the importance of knowledge of manufacturing processes in the company and is seeking to gain the necessary information for managing. From the perspective of an older generation, it can be labelled as a more risky, as they are testing the implementation of several differently-oriented projects at once. As the young generation has said, it is based on the traditional attitude of the older generation, which opposes the innovative attitude of the younger generation.

3.1.2. Specific problems of family businesses

Another part of the research was aimed at identifying the specifics of family business. Among the problems faced by family businesses, there was a predominantly administrative burden, an unstable legislative environment, a problem of outflow of know-how, or the problem of ensuring a level playing field for all and, as has already been mentioned, the rather common problems of the small and medium-sized enterprise sector. The problem with the outflow of know-how was quite frequent. Family businesses are especially struggling with the competition of former employees who have been educated and gained their knowledge from them. According to them, this problem should be legislatively treated in the form of a competition clause. Research also reflects the low interest in supporting family business.

Lack of interest stems from bad past experience. On one hand, there is a resonance of disappointment with the unsuccessful applications for aid and the necessary bureaucracy that comes with it, on the other hand, they regard aid as a tool that damages the market and creates an unhealthy environment ("structural funds mess with the market"). This is linked to the need of equalizing aid conditions for everyone. Entrepreneurs call for the creation of a level playing field for all, and thus for an environment in which no entity will be favoured over others. Furthermore, research results point to the tendency of family entrepreneurs to innovate. This is confirmed by respondents' comments on the issue of supporting innovative solutions.

Most entrepreneurs support the introduction of new technologies and production processes. Inclination towards innovation may be slightly influenced by the structure of the representative sample as it is largely made up of enterprises in the sector of agriculture, mechanical engineering and manufacturing, characterized by the frequent introduction of new technologies. Interestingly, innovation is supported in all these businesses, regardless of their size. The analysis of foreign activity points to the active involvement of family businesses in this area. Most of the entrepreneurs said they either exported abroad or are planning to expand to foreign markets or plan other foreign activities. The dominant group is made up of entrepreneurs exporting to EU markets, but also exported to V4 countries or non-EU countries. The results indicate that the main obstacles to expanding abroad include insufficient production capacity, limits resulting from high transport costs, absence of contacts abroad and interest in satisfying the Slovak market. Family entrepreneurs in the foreign environment appreciate the higher degree of stability of the legislative environment, even giving it as an example. Specific adjustments have not been suggested, but the answers show that they would appreciate lower frequency of legislation change.

In particular, one of the entrepreneurs highlighted the functioning of member organizations abroad, which are more focused on the joint presentation of their own interests and, in comparison with the Slovak ones, have a unified concept. Opposing views have emerged in terms of exchanging experiences with other family businesses. One group of family entrepreneurs avoids exchanging experience because they are worried about



the loss of know-how or have had a negative experience of exchanging them in the past. The second group confirmed the exchange of experience with other companies but also the search for technical solutions or mutual assistance in dealing with orders in case of insufficient production capacity. In this context, it is also interesting to note that family businesses are particularly interested in setting up a trade union oriented on the exchange of experience.

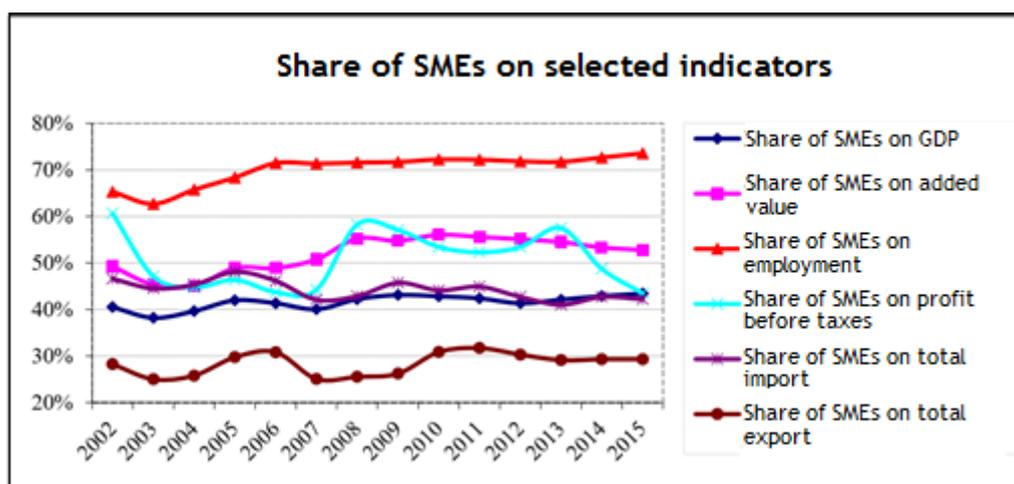
The cycle of family business:

- The owner should be clear about the future positions of the children in the company at the latest when they are about 25 years old
- The offspring successors should have detailed knowledge of the company in their twenties
- They should enter the management of the company in their thirties
- After forties they should take-over the company as new leaders
- When they reach close to fifty years of age, they should begin with incorporating their children into the family business

3.1.3. SMEs, including family businesses, and their recommendations

Surveys among Slovak family businesses show that no selective support tools from the state are very much needed. But Slovakia could introduce legislative instruments to help maintain the integrity of family property.

Table 4: share of SMEs on selected indicators of the Slovak economy



Source: Slovak Business Agency, 2017, edited

The main economic indicators characterizing the development of SMEs increased year-on-year. The increase in the added value of SMEs (by 4.4%) was the highest in the last 5 years. More than half of the added value generated is the result of the SME's operating in the industry and commerce sector. However, due to higher growth of the added value of larger enterprises than SMEs, the share of SMEs in the total added value created year-on-year fell again to 52.8%. The share of SMEs in gross production increased year-on-year to 43.4% and the pre-tax profit margin, on the other hand, fell to 43.5% year-on-year.



The country is lagging behind, for example, in matters of pre-marital agreements and divorce separation of property of spouses, including the assets of their companies. Although the pre-marital agreement is perceived to be negative in our region, it tends to preserve the integrity of small and medium-sized companies, and thus their greater stability. Slovakia has also not yet legislatively treated the creation of family trusts or foundations.

Due to the high involvement of family members in family businesses and their specific business status, we recommend adopting in the Labour Code a specific type of family-friendly agreement that would support the simplification of family members' employment and ensure that the legislative framework distinguishes the special status of a family member labour relations.

With the approaching period of transition from the older generation to the younger generation, in support of the older generation's preparedness for this process, we propose to develop a methodological tool - a manual for entrepreneurs that will deal with the accounting, psychological and legal aspects of generational exchange in family businesses. Following the example of the Netherlands, we recommend distributing this guide to all entrepreneurs in family businesses who are over 55 years of age. An important area of the succession problem is securing the transfer of property. In this area, we recommend implementing legislation on the transfer of assets in order to ensure transparency and continuity of property transformation in the transition of ownership rights from the older to the younger generation within the family, but especially with regard to the absurd time, administrative and financial costs incurred in transferring assets (in the case of the natural persons) at market prices as currently applicable.

In the framework of the survey, the issue of the outflow of know-how was a very sensitive issue and we therefore propose to legislate in the framework

of labour relations the provisions ensuring the protection of entrepreneurs' know-how for a period of two years from the termination of the dependent activity of employees in the form of a competitive clause with the existence of possibility to "buy-out yourself". In addition, the need for grouping into professional organizations has emerged from family businesses. In this direction, we encourage the creation of networking organizations of a professional nature representing the interests of family businesses. In addition, these organizations would provide advice and encourage mutual exchange of experience.



3.2. List of literature

EPPP, 2014. *Rodinné podnikanie alebo (ne)zostane to v rodine*. EPPP [online][accessed 2017-10-10] Available at: https://www.ePPP.sk/docs/ePPP_studia_fb.pdf (Slovak)

SLOVAK BUSINESS AGENCY, 2017. *Politika štátnej podpory MSP*. SBA [online][accessed 2017-10-10] Available at: <http://www.sbagency.sk/politika-statnej-podpory-msp> (Slovak)

SLOVAK BUSINESS AGENCY, 2017. *Sprievodca iniciatívami na podporu malých a stredných podnikov*. SBA [online] [accessed 2017-10-10] Available at: http://www.sbagency.sk/sites/default/files/sprievodca_2017.pdf (Slovak)



4. Stakeholders of the LP - EUBA, Bratislava and PP2 - IPC Prešov

4.1. Slovak Academy of Sciences

Stakeholder category: National authority

4.1.1. Stakeholder logo



4.1.2. Official information about the stakeholder

Slovak Academy of Sciences successfully presents itself nationally and worldwide through the results in basic and applied research. It consists of 69 organisations, of which 48 are budgetary and 21 are subsidised. The Academy publishes 57 scientific and professional journals and 8 yearbooks. There are 51 scientific and scholarly associations, societies and unions affiliated with the SAS, which operate in accordance with the Law on Civic Associations. The Assembly, the Scientific Council, and the Presidium are the Academy's self-governing bodies.

The Assembly is the supreme self-governing Academy's body. Its members are elected by the academic staff of the respective scientific organisations from the academic staff of the SAS. The Scientific Council is a self-governing body of the Academy that deliberates upon scientific and conceptual tasks. It is composed of the President of the Academy and other members of the Academy's Presidium, representatives delegated from the higher education sector, and a representative from the sector of business enterprising engaged in scientific research and development. Membership of the Scientific Council also includes representatives from organisations and institutions engaged in scientific research and development outside the Academy, appointed by the Chair of the Academy's Assembly on the basis of elections of the members in the Scientific Council held by the Assembly.

The Presidium is an executive self-governing body of the Academy. The Presidium is composed of the President, vice-presidents, Scientific Secretary, and other members of the Presidium, appointed by the Chair of the Academy's Assembly on the basis of the electoral returns for the Academy's Presidium. The Academy is presided by the President, who is appointed and recalled by the President of the Slovak Republic. The Presidium of the Academy coordinates and supervises the activities of the Academy and the performance of its organisations via the sections for the respective groups of science branches.

Source: <http://www.sav.sk/?lang=en&doc=sas-history>

4.1.3. Contact list

Name and surname	E-mail	Te
Róbert Hanák	robohanak@hotmail.com	



4.2. Office for Overseeing Audit Execution

Stakeholder category: National authority

4.2.1. Stakeholder logo



4.2.2. Official information about the stakeholder

The Office for Overseeing Audit Execution was established on January 1, 2008 from Act no. 540/2007 Coll. In the area of public administration, the Office is entrusted with the supervision of statutory audit under Act no. 423/2015 Z. z. on Statutory Audit.

Source: <http://www.udva.sk/sk/urad>

4.2.3. Contact list

Name and surname	E-mail	Telephone
Mária Kozáková	kozakova@udva.sk	



4.3. Academy of Education, Topolčany

Stakeholder category: Private institution

4.3.1. Stakeholder logo



4.3.2. Official information about the stakeholder

The Academy of Education is the largest and oldest organization in lifelong learning in Slovakia. It was founded in 1952 and since 1995 has been working as an independent civic association. The Academy of Education operates through a network of branches and workplaces practically throughout the territory of the Slovak Republic. From 2013 all branches operate as a separate legal entity.

The wide range of educational activities of the Academy of Education is primarily focused on the development of qualifications, retraining and training of employees and the unemployed. We implement management training, skills training, systematic language training for all ages, and professional courses for the workforce. Academy provides preparatory courses for the performance of special professional activities requiring professional competence or advice for the labour market.

Source: <http://www.avtopolcany.sk/o-nas/>

4.3.3. Contact list

Name and surname	E-mail	Telephone
Vladimír Bolek	vladimir.bolek@gmail.com	



4.4. Easytrip Office Slovakia

Stakeholder category: Private institution

4.4.1. Stakeholder logo



4.4.2. Official information about the stakeholder

Easytrip is part of Egis, an International group offering engineering, project structuring and operations services. In engineering and consulting, Egis'sectors of activity include transport, urban development, building, industry, water, environment and energy. In roads and airports, its offer is enlarged to encompass project structuring, equity investment, turnkey systems delivery, operation and mobility services.

Source: <http://www.easytrip.eu/en/office-slovakia>

4.4.3. Contact list

Name and surname	E-mail	Telephone
Kludia Porubanová	kludia.gubova@gmail.com	



4.5. PPCentrum

Stakeholder category: Private company

4.5.1. Stakeholder logo



4.5.2. Official information about the stakeholder

The company is engaged in the development of business plans, bookkeeping, financial analyzes and, last but not least, the elaboration of applications for non-repayable financial contribution from the Eurofunds as well as the implementation of projects.

Source: <http://www.ppcentrum.sk/o-nas/>

4.5.3. Contact list

Name and surname	E-mail	Telephone
Andrea Lukačková	andrea.lukackova@yahoo.com	



4.6. SEKOstav

Stakeholder category: Private company

4.6.1. Stakeholder logo



4.6.2. Official information about the stakeholder

SEKOstav is a renowned construction company with more than 20 years of modern history and the previous 30 years of development in the form of the District Construction Company, which has continuously expanded its operations after the transition to the market economy. For several years, it has been providing clients with a highly qualified and experienced staff with a comprehensive consulting in the construction industry.

Source: <http://www.sekostav.sk/nasa-historia/>

4.6.3. Contact list

Name and surname	E-mail	Telephone
Peter Štetka	stavby@sekostav.sk	



4.7. AlfaPro

Stakeholder category: Private company

4.7.1. Stakeholder logo



4.7.2. Official information about the stakeholder

Since 2006, it has been focusing on the guaranteed proactive management of computer networks for businesses ranging from 2 to 500 PCs. Their clients are successful companies that want to use their time efficiently in their primary business and IT perceives them as an important means to care for the company for which it is the primary business. They are distinguished by the fact that their clients do not pay for the hours worked by fixing bugs, but for an efficiently functioning system. All their team of IT specialists is ready for their clients not only to solve the problems, but also to prevent them and to help them increase the efficiency of their processes in the company with the help of IT solutions.

Source: <https://www.alfapro.sk/o-alfapro/>

4.7.3. Contact list

Name and surname	E-mail	Telephone
Matej Černý	cerny@alfapro.sk	



4.8. Strojstalex

Stakeholder category: Private company

4.8.1. Stakeholder logo



4.8.2. Official information about the stakeholder

The company builds on the tradition of building machinery and mechanization in Slovakia using modern technologies and procedures.

Source: <http://www.strojstalex.sk/>

4.8.3. Contact list

Name and surname	E-mail	Telephone
Anna Hamranová	anna.hamranova@gmail.com	



4.9. ProRate

Stakeholder category: Private company

4.9.1. Stakeholder logo



4.9.2. Official information about the stakeholder

ProRate is an independent investment banking and corporate finance advisory company. *The company specializes in sales and acquisitions of companies, valuation, financing, private equity, corporate finance, business consulting.*

Source: <http://www.prorate.eu/en>

4.9.3. Contact list

Name and surname	E-mail	Telephone
Marián Smorada	smorada@prorate.sk	



4.10. SME's - Business owners and successors

Stakeholder category: SME

This category includes any owners and their successors who are interested in the topic of business succession and were not mentioned.

4.11. General public

Stakeholder category: General public

This category includes any other person from the general public sector (i.e. students) who is interested in the topic of business succession.

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2. Objectives

2.1. General objective of the document

To prepare a report on the obstacles and challenges to the business succession and identification of stakeholders.

2.2. Specific objective of the document

To identify technical and non-technical hurdles and challenges to business succession at regional level and compiling the list of stakeholders to be involved into business succession (public, private bodies and related entities) based on the meetings with stakeholders.

2.3. Disclaimer

This document was elaborated in cooperation between PP3 and PP4. PP3 VSE authored chapter 3 identifying major approaches to business succession and formulation major challenges and obstacles to the process, whereas PP4 JVTP authored chapter 4 listing main stakeholders of business succession in South Bohemian region-



3. The succession of family business

3.1. Terminology in the Czech Republic

Czech terminology, given the "young age" of the branch in this field, has no settled concepts. Someone calls it succession, another generational exchange, or just takeover. Succession is a misleading terminology in Czech language, as it mentions not only the process of taking over the business, but the process of assuming some employee function in the enterprise (Sysel, 2014; Lynch, 2008). Successor planning is to ensure that appropriate managers are available within the organization if the job is released. A vacancy may result from the promotion of a given manager, his retirement, death, leaving the company or moving to another job (Armstrong, 2002).

There is no uniform definition of the term company succession in the literature. Lüders (2008) understands company succession to be a process "in which the management power is transferred, simultaneously and parallel to the transfer of ownership, from one generation in the company to the next (...). In addition, it is usually assumed that company succession involves a family company, which is supported by the fact that ownership and management are combined in the hands of a single person in these companies and must be passed on - whether it is family-internally or family-externally - at a certain time for reasons of age (Lüders, 2008, p. 8 quoted by Odak, 2016, p. 36). Olbrich (2014) defines succession as the subsumption of all processes in which the ownership of a company or part of a company and its associated management power are relinquished by an economic subject independently of whether or not that transfer takes place between family members (Olbrich, 2014, p. 232 quoted by Odak, 2016, p. 36). Even if no uniform definition can be found, the prevailing general understanding is that the company succession represents a process that goes through multiple phases (Cf. Halter a Schröder, 2010, p. 128 quoted by Odak, 2016, p. 36).

Views on the definition and objectives of succession planning vary from one author to another. The purpose of succession planning according to Armstrong is: "Planning succession in managerial positions should as far as possible ensure the organization has the managers it needs to meet its future business needs" (Armstrong, 2002). According to Dvořáková, the aim of planning succession is to identify and develop workers with high working potential from the internal human resources organization to occupy key management functions. Another objective is to ensure the smooth running of the organization so that its operation is not disturbed by personnel changes (Dvořáková, 2007). Succession planning is a process, not a one-time event. And this process begins for every business as soon as it starts its activity (Deloitte Česká republika a AMSP ČR, 2014).

Ownership succession is defined as a complete and irreversible legal transfer of the property of one owner (group) to another. Succession of leadership is defined as the transfer of the highest position and the associated responsibilities from a person up to this function (executive director, owner-manager) to another person (regardless of whether or not a member of the family). In most legal systems, owners have the right and duty to appoint and employ as well as to reject and dismiss the leader through counseling. From the legal point of view, consequence ownership is more important than the succession of leadership (Kenyon-Rouvinez a Ward, 2016).

In the practice, there are various forms of company succession models; for example, sale over a stock exchange, foundations, equity investment companies and sale strategies for third parties such as management buy-out (MBO), management buy-in (MBI) or owner buy-out (Cf. Schmeisser and Grothe, 2003, p. 6). Succession can also take place within the family. The family buy-in (FBI) is the most traditional form of company transfer, whereby a difference must be made between three major variations of succession within the family: the company transfer as an anticipated case of inherited succession, the purchase of the company or the transfer of the company in return for a pension, instalment payments or recurring services (Cf. IHK Berlin, 2013, p. 14 quoted by Odak, 2016, p. 37).



3.2. Development of the field and current situation in the Czech Republic

In the Czech Republic, the topic of succession actively began to be tackled around 2015, mainly for historical reasons (Navláčil, 2016). Most family businesses were founded in the Czech Republic after the collapse of communism, about 25 years ago. The generations of these founders are approaching retirement age in recent years and solve the problem of succession (Weikert a Family Business Forum, 2015), ie family businesses in the Czech Republic are experiencing the first generation of exchanges (Deloitte Česká republika a AMSP ČR, 2014). In more developed countries of Europe, this issue has been solved for a longer period, due to the longer existence of small and medium-sized businesses.

The largest family businesses was ranked by Forbes magazine (Mašek, 2015). In the Czech Republic, each fifth company is a family business and accounts for more than a quarter of the GDP of the state (Navláčil, 2016). Therefore, the survival of a family business becomes an important issue not only for themselves but also for the economy of the state as a whole. Family businesses have proved to be the healthiest core of the Czech economy. They hide not only capital, but above all future potential (Vesecný, 2013).

In the Czech Republic, 2/3 of the owners want to hand over the business to a family member. About one-third of them are already in the handover phase. The process of handing over the company often takes more than two years. We are in the first generation of handing over family businesses. The fact that the owners assume that nearly 2/3 companies will be handed over within 5 years is a crucial message. It is clear that, unlike in the past, owners are aware that the transfer of a business is not a short-term process, only a fifth estimates that it will take up to one year (AMSP ČR, 2016; for more see p. 18).

Based on the development of the demographic curve, substantial transfers of assets linked to the transfer of businesses from one generation to the next may be expected in the next 10 to 15 years in the Czech Republic. Whether they survive in the long run, and whether they will be able to maintain the assets in the future depends to a large extent on the strategic planning of the succession, carried out thoroughly, transparently and in good time (Deloitte Česká republika a AMSP ČR, 2014; for more see p. 5).

The concept of succession is beginning to become a strong ownership, management and business theme, which is also one of the current pillars of the activities of The Association of Small and Medium-Sized Enterprises and Tradesmen of the Czech Republic (hereinafter "ASMP CR") (Deloitte Česká republika a AMSP ČR, 2014). The ASMP CR regularly conducts surveys of family businesses by means of interviewing CATI, and incorporates into questioning attitudes to succession. In 2017, for example, such a survey found that 70 % of respondents planned to hand over the firm within the family (only 9 % do not want to transfer the firm to the family, and for 21 % of respondents are not important) (AMSP ČR, 2017).

Similar research (AMSP ČR, 2016) revealed in 2016 that In the middle of the companies work the children of the owners. They have a tendency for family businesses to pass on to their offspring on a continuous basis, and they are often employed in the company right after they reach the age of majority. Intergenerational cooperation is also important to them because younger generations have more experience with new technologies. But it is also important for business owners that their children draw on their experience abroad and practice in other companies (AMSP ČR, 2016; for more see p. 4) and that Family business owners are of the opinion that intergenerational cooperation is important. The company is good to convey them at a time when the owner is still actively working in it, handing over the company to the will is not happy (AMSP ČR, 2016; for more see p. 18).

The development of the succession field is hampered by the fact that in the Czech Republic most family business owners are willing to accept a favorable offer and sell the business. This trend is becoming popular with development: fewer owners insist that the company be taken over by a family member (AMSP ČR, 2016).



3.3. Legislation

Commercial property (buildings, machinery, tools, means of transport, supplies of goods, goods, etc.) can be transferred to donations or sales to sons and daughters. Both methods of property transfer have their tax consequences. The Income Tax Act in § 3 (4) provides that income earned on the donation of immovable property, movable property or property rights is not subject to income tax, which does not apply to gifts received in connection with the exercise of a dependent activity or with a business or other self-activities. The subject of income tax is not income earned from the transfer of property from a close person who was an agricultural entrepreneur and has prematurely terminated the business (Opatrný a Jablonecký deník, 2011).

Act No. 586/1992 Sb. Czech National Council Act on Income Taxes. Income tax of natural persons. § 3 Subject of personal income tax. (4) The subject of the tax is not ... (f) income earned from the transfer of assets between persons in proximity in the context of termination of the agricultural activity of a farmer if the person close to the activity of the farmer continues at least until the end of the third tax period following the cessation of the agricultural activity of the farmer transferring such property, except for the non-continuation of activity due to death. In the event of a breach of this condition, such income is subject to tax in the taxable period in which the transfer of such property occurred and the taxpayer is deemed not to be in default if he submits a tax return or an additional tax return and pays the tax at the latest on the day he is obliged to file tax return for tax for the taxable period in which he did not fulfill this condition (živnostník.cz).

Entrepreneurship in agriculture is governed by Act No. 252/1997 Sb., On Agriculture, as amended. An agricultural entrepreneur under the Agriculture Act is a natural or legal person who intends to carry out agricultural production as a continuous and independent activity in his own name, under his own responsibility, in order to obtain a profit under the conditions established by the Act On Agriculture. Such a person is obliged to register as a farmer (Novák a Dashöfer, 2015). For more see the article "Transferring a farm to a close person" (živnostník.cz).

Section (§) 240 of the Tax Code states: "If the legal person who has the legal successor ceases to pass on his tax liability to that legal successor; the legal successor gains the position of the tax entity instead of the extinct legal entity ..." In Section (§) 240 (2), the Tax Code also lists entities that are the legal successor for tax administration purposes. In this enumeration, the acquirer of a business plant is not mentioned (Kryl, 2015). See section (§) 241 of the Tax Code; The provisions of Section (§) 13 (8) a); Article 19 a Article 29 (účetní-portál.cz).

The Court of Justice of the European Union (hereinafter "CJEU") has repeatedly dealt with the question of the transfer of the plant (enterprise). The CJEU judgments can be summed up into several points that we consider to be essential to the solution. Business transfer is an autonomous concept of EU law that must be interpreted uniformly within the European Union, regardless of how it is defined by the national law of the individual EU Member States. If the definition of this term is missing in the Directive, it is necessary to rely on the context of the entire provisions and objectives of the relevant legislation. Legal succession means that the transferor passes for the purposes of VAT all the rights and obligations associated with the transfer of a business (Kryl, 2015). For more see "Legal succession for VAT purposes when transferring a business" (účetní-portál.cz).

As of January 1, 2014, Act No. 357/1992 Sb., On inheritance tax, gift tax and real estate transfer tax, was abolished, with the subjects of inheritance tax and gift tax newly incorporated into Act No. 586/1992 Sb., On Income Taxes (hereinafter "ITA"). For this purpose, the income tax has a new concept - free income, which includes not only income from gifts and inheritance but, in general, all gratuitous property benefits (eg debt waiver or free use of a foreign matter). At the same time, the inheritance and gift taxes were abolished for most of the reasons for the tax exemption and the new income tax office. Year after year, another of the endless series of amendments to the ITA (Act No. 267/2014 Sb., Hereinafter referred to as



"the Amendment") has again intervened in the free-income scheme from 2015 (Děrgel, 2015). For more see also "Changes to free of charge" (portál.POHODA.cz).

Table 1: A Summary of Resources Concerning the Legislation of Succession of Family Companies

Sources in the field of family succession legislation	
<ul style="list-style-type: none"> ▪ Income Tax Act in Section (§) 3 (4); ▪ Act No. 586/1992 Sb., Czech National Council Act on Income Taxes. Personal Income Tax; ▪ Entrepreneurship in agriculture is governed by Act No. 252/1997 Sb., On Agriculture, as amended; 	<ul style="list-style-type: none"> ▪ Section (§) 240 of the Tax Code; ▪ Court of Justice of the European Union ("CJEU"); ▪ Act No. 586/1992 Sb., On Income Taxes; ▪ Regulation No. 89/2012 Sb., Civil Code (new) Act No. 89/2012 Sb. - Succession succession (§ 1512 - § 1524).

Source: own literary research and processing

The legal aspects then depend on the subject of business that the entrepreneur wants to pass on the successors. For example, other consequences occur when the business property is leased. "Therefore, while the business premises, the branch or just the equipment of the lease can be transferred by the lessee to another without restriction, the user's rights to the subject of the lease, and thus the right to operate the acquired property in the lease, can only be transferred to the acquirer with the prior consent of the landlord. This arrangement corresponds to the fundamental rights of the owner enshrined in § 1012, according to which the owner has the right to arbitrarily dispose of his property within the limits of the legal order and to exclude other persons from this" (Kabelková a Dejlová, 2013).

3.4. Planning and succession

Succession planning is not an easy task and it is certainly not a unique matter that can be solved in isolation. This is a combination of many steps that are needed to successfully transfer family property from one generation to another. Planning is an absolutely crucial element that cannot be underestimated. Planning can be reactive, adaptive or strategic. In the case of reactive or adaptive planning, chances of success are diminishing (Deloitte Česká republika a AMSP ČR, 2014).

Each enterprise is different and is influenced by the sector, strategies, roles of family members and their relationships, future plans and values. There is therefore no universal solution that the owner of the company could use. However, a structured approach to strategic succession planning the owner will help the process not only to start but to achieve the desired results (Deloitte Česká republika a AMSP ČR, 2014). For more see "Chyba! Nenašiel sa žiaden zdroj odkazov."

Incorrect succession from the elderly to the new generation can even lead to mortality of the family business. To bring succession to a family business with the least negative pages, the owner has to consider two different aspects (Koráb et al., 2008). According to Koráb et al. (2008), these are the following:

- **Schedule the way** property is handed over in good time
- **Schedule the process** of generational change in company management (the way in which both administration and management powers are transferred)

In order for the family business to cope with generation change, it is necessary for these two views to be considered by the owner globally, taking both aspects and comparing it to the same extent (Koráb et al., 2008).

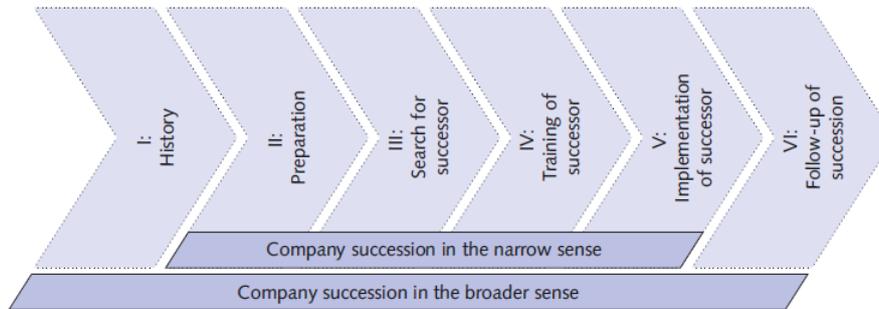
3.4.1. St. Gallen succession model based on Halter/Schröder

As shown in the following figure, Halter and Schröder differentiate between a succession process in the



narrower sense and one in the broader sense. The dotted lines should reflect permeability, i. e. that the individual phases can also be handled parallel to each other and must not necessarily follow each other (Cf. Halter and Schröder, 2010, p. 128 quoted by Odak, 2016, p. 38).

Figure 1: St. Gallen succession model based on Halter/Schröder



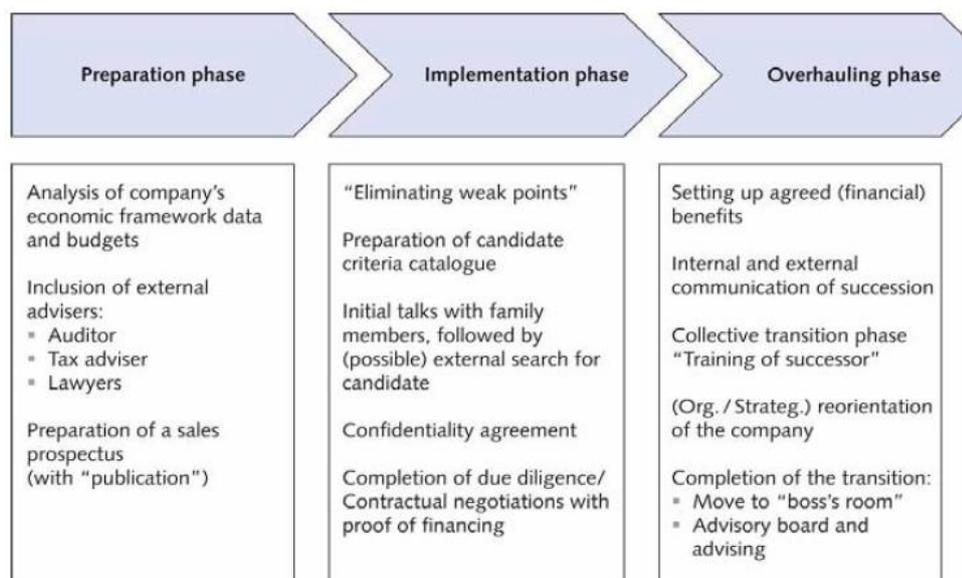
Source: (Halter and Schröder, 2010, p. 129 quoted by Odak, 2016, p. 38)

The St. Gallen succession model provides a description of an idealised succession process with an integrated character since all of the phases are taken into account: from the preparation of the succession to the work following the succession. Furthermore, it includes emotional aspects with respect to the successor and the transferring owner, as well as individual stakeholders and interactions in the training phase. As a result, each phase of company succession is given comprehensive consideration in this model (Cf. Halter and Schröder, 2010, p. 128-129 quoted by Odak, 2016, p. 39).

3.4.2. Company succession model based on Kary/Dittmers

The figure shows that the succession process by Kary and Dittmers is broken down into three phases (Odak, 2016 p. 40).

Figure 2: Succession model based on Kary/Dittmers



Source: (Kary and Dittmers, 2010, p. 159 quoted by Odak, 2016, p. 40)

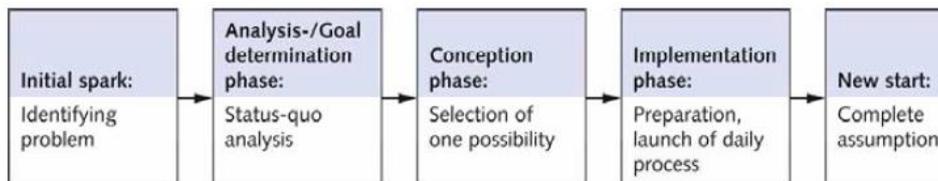
The phasemodel according to Kary/Dittmers concentrates on a rational and smooth handling of succession. The focus is on minimising the likelihood of erroneous decisions and avoiding risks for both the involved parties and the company. The key importance of advisers and contracts emphasises the risk-averse



character of this model (Kary and Dittmers, 2010, p. 157 quoted by Odak, 2016, p. 41). For more see the source.

3.4.3. Company succession model based on Viehl

Figure 3: Succession model based on Viehl



Source: (Viehl, 2003, p. 140 quoted by Odak, 2016, p. 42)

The focus of the succession model by Viehl is the change of generations in family companies and therefore succession within the family. Due to the great complexity of a transfer, which requires much time and intensive preparation, the planning of the transfer should begin at a very early point in time (Cf. Viehl, 2003, p. 9 quoted by Odak, 2016, p. 42).

Viehl's model deals intensively with the prospects and roles of seniors and juniors in the succession process phases with a change of generations at family companies. The longer time horizon for the process and comprehensive consideration of how to prepare succession in light of personal matters are equally important (Cf. Viehl, 2003, p. 142 quoted by Odak, 2016, p. 43). For more see the source.

3.4.4. Witten phase model for succession

In contrast to many succession models, the Witten phase model does not view succession as a transfer decision made at a certain time. Instead, it is an ongoing process of reflection within the family (Cf. Groth et al., 2012, p. 100 quoted by Odak, 2016, p. 43). Based on this fundamental mind-set, the following five phases are differentiated in the Witten model (Odak, 2016, p. 43).

Figure 4: Witten phase model for succession



Source: (Groth et al., 2012, p. 101 quoted by Odak, 2016, p. 43)

The Witten phase model for succession focuses on raising the successor as a future manager. Both educational and psychological aspects are applied in this model, which places succession in an interdisciplinary context (Cf. Groth et al., 2012 quoted by Odak, 2016, p. 45). For more see the source.

3.4.5. Wiesbaden model

The Wiesbaden model is considered the most important model with a tax focus. Above all, the Wiesbaden model is important to avoid the tax construct of a company split in the new arrangements for the company (Cf. Landsittel, 2006, p. 383 quoted by Odak, 2016, p. 45).

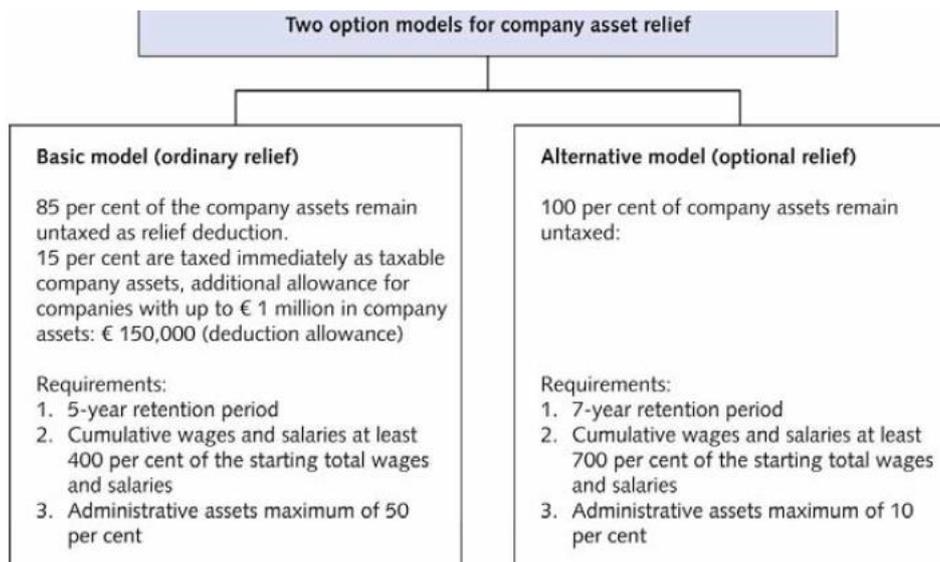
The form of company succession according to the Wiesbaden model solely considers the tax issue in the new constellations after the transfer and therefore only one aspect of the many-layered process. Due to its partial perspective of the process, it is meaningful to use this model as a supplement for another model and under the assumption that a company split into an ownership and an operating company is being



considered (Kaminski and Strunk, 2012, p. 95 quoted by Odak, 2016, p. 47). For more see: (Landsittel, 2006); (Fehrenbacher and Tavakoli, 2007); (Dinkelbach, 2012); the source and many other sources (see Odak, 2016).

3.4.6. The 5-year model and 7-year model

Figure 5: Option models for company asset relief



Source: (Lindmayer and Dietz, 2014, p. 341 quoted by Odak, 2016, p. 47)

In the planning of company succession, the inheritance tax must especially be taken into account at family companies. The reform of the German inheritance tax law in 2009 (Cf. Kaminski and Strunk, 2012, p. 95) gave rise to new alternatives for those who inherit companies. Attention should be focused on the relief provisions (*Verschonungsregelungen*) for company assets within this context. In this case, relief (*Verschonung*) means that inheritors of companies can lay claim to preferential treatment in some circumstances. The figure shows that there are two models for company asset relief, the 5-year model and the alternative model, which is also referred to as the 7-year model (Cf. Haufe Kompass, 2010, p. 13 quoted by Odak, 2016, p. 48).

Like the Wiesbaden model, the above-described models also focus solely on the tax issue in company succession and are therefore relevant for company heirs so that they can optimise the financing. Consequently, they must be considered as a supplement to more comprehensive models (Odak, 2016, p. 48). For more see the source and (Cf. Haufe Kompass, 2010, p. 14 quoted by Odak, 2016, p. 48) and “Chyba! Nenašiel sa žiaden zdroj odkazov.”.

3.4.7. Simplified approach to succession planning

Phase 1. Preparing a succession plan

The goal of this phase is to take in the company's overall business strategy and to link it with leadership requirements, in close cooperation with management and business owners. Consideration must be given to family dynamics and relationships. The key outputs of this phase are the identification of critical / key positions and roles, the definition of criteria and metrics for assessing the potential and skills, the experience and knowledge of future management (the "successor profile") and the formulation of the succession strategy (Deloitte v České republice, 2014).



Phase 2. Talent identification and implementation of the succession plan

The aim of this phase is to validate successor resources, identify them, evaluate and prepare action plans for the managed development of selected successors for key positions in the company. The key outcomes of this phase are the list of potential successors to key positions in the company and development plans that will help successors prepare for their future role in the company (Deloitte v České republice, 2014).

Phase 3. Monitoring the succession program and mobilizing the successors

The aim of this phase is to measure and adapt development activities according to the needs and possibilities of individuals and to monitor the effectiveness of the succession program on a long-term basis. A key outcome of this phase is the preparation and use of targeted growth strategies based on experience and capabilities of individual successors and their continuous adaptation to changing market demands (Deloitte v České republice, 2014).

The process dynamics [succession] could be summarized into four phases. **At first**, the current owner of the family business has some initial reluctance to pass on the firm. On the other hand, the successor has resistance to taking over the business stemming from relations with the current owner. This can be attributed to the period of adolescence, when children tend to define their parents and conflict arises between them. **In the second phase**, the parent is aware of the forthcoming need to transfer the business to the next generation. The successor overcomes resistance and aversion to his parents, most often to his father. There is reconciliation. **During the third phase**, the transfer or takeover of the company takes place. **The fourth phase** involves separating parents from family businesses while children continue to lead. The problem and difficulty of the fourth stage lies, among other things, in that the outgoing generation does not even have to be financially compensated for when leaving the company, such as retaining its status, identity, influence, respect (Koráb et al., 2008).

Because succession planning has become an integrated process, one model cannot be universally applied; company leaders have to find the best fitting system and adapt it individually to their needs, structure and program priorities. The following theories of succession planning are of high relevance. The Common-Sense theory of succession suggests that replacing management due to inefficient operations will result in performance improvements and increased effectiveness. Good performance does not require any management changes. Advocates of this theory state the positive change of organizational output as the key reason for succession planning (Guest, 1962, p. 47-56).

*In comparison, Grusky (1960) introduced the **Vicious-Circle theory** of succession planning arguing that administrative succession disrupts structures and relationships in all corporations. Frequent leadership changes have a reciprocal effect on performance and lead to less employee motivation. The successor is often isolated from colleagues and finds him or herself in a vicious circle. Because new management tends to alter known bureaucratic procedures, people are afraid of changes. Through replacing employees whom the successor can trust and communicate with, he or she has the opportunity to overcome the vicious circle (Grusky, 1960, 105-115).*

*In response to Grusky, advocates of the **Ritual-Scapegoating theory** contend that management succession does only have a limited effect on the performance of a team or corporation. Powerful leaders will find a scapegoat to blame for poor performance. For more see: Gamson a Scotch (1964, p. 69-72).*

*The **Acceleration Pools model** advises corporations to group high potential employees in order to prepare them for executive positions. Each candidate has a mentor and a wide learning experience with the help of task forces and action learning (Byham, 2002, p. 10-12).*

*The **Seven-Pointed Star model** was introduced by Rothwell (2005) who developed seven steps to implement a succession planning program successfully. The steps are: to make the commitment; to assess current key positions and their competency requirements; to determine individual actual performance and establish talent inventories; to estimate future work requirements as well as future individual potential in order to*



find out how to close the development gap; evaluating and improving the program after its implementation (Rothwell, 2005 quoted by Course Hero, Inc., 2017).

3.5. Counseling services in solving succession

There are consultancy firms on the Czech market that provide financial and legal advice when arranging succession. Such services include, for example, the creation of a generation exchange plan (succession), the introduction of the successor possibilities and benefits (NOVO Solution, 2017a). Coaches and consultants, in cooperation with the AMSP CR, conduct seminars on this topic and emphasize its importance (for example Spousta, 2015). Most companies that deal with family business issues as counselors also deal with succession in family businesses.

Deloitte Česká republika (2014) in cooperation with the Association of Small and Medium-Sized Enterprises and Tradesmen of the Czech Republic, prepared a publicly available extensive set of "Succession Planning". According to AMSP ČR (2015; for more see p. 6) One fifth of companies receive consultancy offerings for consultations on family transfer or sale". "In the Czech Republic, a quarter of companies met with a consultation offer to hand over the company, which is more than last year. The consultations mainly concerned the possibilities of selling the company. 8 % of companies offered these advisory services (AMSP ČR, 2016; for more see p. 23).

In most cases, the owner of the family business for the search and training of his successor is not enough, so he hires expert advisers. However, conflicts can also arise in cooperation:

- The mother/daughter - daughters increasingly have a greater influence on the decision of the entrepreneur more than their mothers, they take this as a loss of confidence and a threat to their influence in the family.
- Conflict of successor versus long-term employee - Long-term employees feel in most cases that they might be advisors to the new owner in view of their experience in the company. It also happens that the employees and the owner of the company are very friendly and, after handing over the business to the new owner, this relationship can be complicated (Zahrádková, 2012; for more see p. 51).

3.6. Problems and barriers to succession

Reassessing expectations from the successor generation, influencing the managerial work of their offspring, linking key employees to the business, or personal relationships with customers and the company's surroundings may be the cause of the failure of the entire transaction (Deloitte Česká republika a AMSP ČR, 2014). Deloitte Slovakia (2016; for more see p. 37) highlights important aspects that may negatively affect the succession process: family aspects (lack of experience and education, insufficient role formalization, ...); legal, tax and other aspects (asset protection - claims by third parties, creditors, divorces, etc.).

As the main problems of succession NOVO Solution (2017b) notes, for example, the fact that the succession owner postpones: he is not ready to pass on the business and does not want to retire; the problem may also be the indifference of the children (to be taken over by the company) to the enterprise or their inability to do business: they may be irresponsible in the eyes of their parents. The new generation does not want to be "clumsy" and does not say about the succession, and the old owner can wait until the successor shows the willingness to take over the business. When there are many candidates in the family for the successor, it is not so easy to decide and agree to whom the business will be handed over. The biggest problem, however, is the lack of power, time and energy: some companies are only excusing this, but some justifiably postpone succession because there are many operatives and everything works at full speed and there is no time to go into a long-term complicated succession process (to busy doing business) (NOVO Solution, 2017b; Deloitte Česká republika a AMSP ČR, 2014; for more see p. 5).



Conflicts within the family may negatively affect the transfer of the family business. If an enterprise is in the transfer phase, old conflicts between generations and siblings may emerge, or, of course, new conflicts may arise. The most important issue that arises in generational renewal is that the handover of the business is greatly underestimated, the family thinks that succession from generation to generation is a short-term issue. Other incentives that are underestimated are the social and psychological dimensions of this process where the family primarily addresses only the tax and legal issues that are associated with the transfer of a family business (Koráb et al., 2008).

Family dynamics: the main causes of possible conflicts include:

- Non-compliance of family members with company priorities;
- Requirements by owners who are not family members;
- Different conceptions of family members and between generations;
- Involvement of spouses of family members in a family business;
- Rivalry of siblings;
- Different approaches to the role of men and women in entrepreneurship;
- Expectations of family members in the field of financial evaluation (Deloitte Česká republika a AMSP ČR, 2014; for more see p. 9).

It is essential to take care of society and family matters in a balanced way and to give the same care to the two areas. Only in this way is it possible to ensure a positive environment that will help the growth of society as well as satisfaction within family relationships (Deloitte Česká republika a AMSP ČR, 2014).

An important succession criterion for the outgoing owner is also who is the life partner of the successor. "In the Czech Republic, 56% of [family-owned owners] consider the choice of the successor's life partner to be important for the further development of the company, it is still less compared to foreign ones. This may be the case, for example, in the fact that our companies still have not accumulated as much property as abroad, where there is already a generational handover of the company" (AMSP ČR, 2016; for more see p. 20).

Nepotism (favors of family members)

According to research, family business owners have greater demands on family members than on other employees. These are primarily their experience, skills and abilities. This is usually the case when the family business is passed on to the next generation. This is mainly justified by the ownership of a family business. The founders do not want to transfer the family business to someone else. But it is a clear negative that nepotism brings. It is, for example, the demotivation of employees and the leading position occupied by an incompetent family successor. This place could be occupied by someone much more qualified. Family businesses struggling with nepotism have the problem of retaining capable external staff. This can lead according to Odehnalová (2008) to the bankruptcy of the company.

Paternalism and inclination towards autocracy

These are distrust of other employees, the inability to delegate its powers, the strong need for control and the need for recognition. From the beginning, this behavior leads to good business results. To the new management, the former owner does not trust and tries to have permanent control of the business, even if the former owner does not manage the business. Employees are confused because they do not know which orders to take for given (Zahrádková, 2012; for more see p. 55).

The succession barrier may also be the high demands of the outgoing owner and the successor requirements. In contrast to 2015 in 2016, however, owners less insist on the practice of successors in other firms (for more see AMSP ČR (2016, s. 20)). Another barrier is the fact that in the Czech Republic (allegedly) there are no schools focusing on family business (for more see AMSP ČR (2016, s. 16)). If the family tradition in the



company does not plan to continue, mainly because the owners do not want to exert pressure on other family members or because they are heading for other fields (for more see AMSP ČR (2016, s. 21)).

The transfer of business leadership is to a large extent a reversible matter, while the transfer of ownership is, by contrast, a more complex process that is irreversible. Research from the United States has even shown that the misappropriation of ownership transfers has far more disastrous consequences for an enterprise than a poorly planned generation change in the management of a family business (Koráb et al., 2008).

The objective to which ownership transfer planning is directed is to achieve concentrated ownership, with personal involvement, active and integrated, or at least in parallel with management, not burdened with significant debts. Also, care must be taken to avoid family concerns (Koráb, 2001). If a succession issue is solved in a business, there is a conflict between two limits of what the company needs and what the family wants (Drucker, 1998).

Barriers to family business, these are threats that arise in the wider business environment, not inside the business itself. The business is unable to influence these threats. These external pressures include: Public opinion; Investor position; Tax policy; State sector; Economy (Koráb et al., 2008).

In conclusion, Novotná and NOVO Solution (2016) state that in the Czech Republic (unlike other European countries) family business has not such long-term tradition, succession is more complex and it is not customary to turn to a specialized institution that will help the succession.



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4. Stakeholders of the PP4 - South Bohemian Park of Science and Technology

4.1. API - Agency for Entrepreneurship and Innovation

Stakeholder category: National public authority

4.1.1. Stakeholder logo



4.1.2. Official information about the stakeholder

The Entrepreneurship and Innovation Agency (API) was set up on June 1, 2016. This state contributory organization, subordinate to the Ministry of Industry and Trade, is in charge of the implementation of entrepreneurship and innovation support from the EU Structural Funds. Provides administration of the Operational Program Enterprise and Innovation for Competitiveness (OP PIK) 2014-2020.

The new agency was established by the division of Structural Funds Division of CzechInvest. Its staff have years of experience in providing entrepreneurship and innovation support from the EU Structural Funds and will continue to do so in their work. Just under the head of a new agency. CzechInvest will continue its main activity, ie mediating investment in the Czech Republic.

Source: <http://www.czechinvest.org/agentura-pro-podnikani-a-inovace-zahajuje-cinnost>

4.1.3. Contact list

Name and surname	E-mail	Telephone
Eva Simotová	eva.simotova@czechinvest.org	+420 296 342 946



4.2. Regional Authority of the South Bohemian Region

Stakeholder category: Regional public authority

4.2.1. Stakeholder logo



Jihočeský kraj

4.2.2. Official information about the stakeholder

The South Bohemian Region is the sole shareholder of the South Bohemian Science and Technology Park and within the framework of the projects there is a close cooperation and exchange of information with the Regional Authority.

4.2.3. Contact list

Name and surname	E-mail	Telephone
Lucie Dlouhá	dlouha@kraj-jihocesky.cz	+420 386 720 422



4.3. Regional branch office of the Czech Invest - Investment and Business Development Agency

Stakeholder category: Sectoral agency

4.3.1. Stakeholder logo



4.3.2. Official information about the stakeholder

“The main objective of The Business and Investment Development Agency CzechInvest, is to advise and support existing and new entrepreneurs and foreign investors in the Czech Republic.”

“Business and Investment Development Agency CzechInvest, is an agency of the Ministry of Industry and Trade. Established in 1992, the agency contributes to attracting foreign investment and developing domestic companies through its services and development programmes. CzechInvest also promotes the Czech Republic abroad and acts as an intermediary between the EU and small and medium-sized enterprises in implementing structural funds in the Czech Republic.”

“CzechInvest is exclusively authorized to file applications for investment incentives at the competent governing bodies and prepares draft offers to grant investment incentives. Its task is also to provide potential investors current data and information on business climate, investment environment and investment opportunities in the Czech Republic.”

Source: <http://www.czechinvest.org/en/about-czechinvest>

4.3.3. Contact list

Name and surname	E-mail	Telephone
Radka Rajnochová	radka.rajnochova@czechinvest.org	+420 296 342 943



4.4. CzechTrade

Stakeholder category: Sectoral agency

4.4.1. Stakeholder logo



4.4.2. Official information about the stakeholder

The CzechTrade Agency is a national pro-export organization established by the Ministry of Industry and Trade with the aim of developing international trade and mutual cooperation between Czech and foreign entities.

CzechTrade offers exporters information and assistance services provided by professionals in the Czech Republic and mainly in foreign offices. The result is comprehensive export support, which is as fast as possible and especially easily accessible to Czech companies.

The most significant added value of cooperation with CzechTrade is the expertise and long-term experience of the agency's foreign agents, which have resulted in proven time, cost and minimization of risks associated with international trade.

An extensive network of foreign offices in five dozen countries across five continents covers Europe from Scandinavia to the Balkans, Eastern Europe and the CIS, major African and Asian territories, Canada, USA, Latin America, Australia and New Zealand.

Source: <https://www.czechtrade.cz/o-czechtrade/predstaveni>

4.4.3. Contact list

Name and surname	E-mail	Telephone
Ondřej Chroboček	ondrejchrobocek@czechtrade.cz	+420 296 342 945



4.5. South Bohemian Chamber of Commerce

Stakeholder category: Sectoral agency

4.5.1. Stakeholder logo



4.5.2. Official information about the stakeholder

“The South Bohemian Chamber of Commerce is an association of businessmen, which was founded under Acts No. 301/1992 Coll. and No. 259/1996 Coll. on the Chamber of Commerce of the Czech Republic and the Agrarian Chamber of the Czech Republic. As a legal entity, it is incorporated in the Commercial Register and works independently of political parties, state bodies and local authorities.”

“The key mission of the South Bohemian Chamber of Commerce is to promote the development of business environment and interests of business people. Its role in the area of gathering and providing information to businessmen and in that of developing informal business contacts is irreplaceable. Currently, increasing importance is seen in the formation of conditions for cooperation and general business collaboration with chambers and businessmen in the EU member states, in particular with those directly bordering on the Region of South Bohemia, i.e. Austria and Germany.”

Source: <http://www.jhk.cz/basic-information-about-the-south-bohemian-chamber-of-commerce.html>

4.5.3. Contact list

Name and surname	E-mail	Telephone
Dana Feferlová	feferlova@jhk.cz	+420 387 699 321



4.6. Association of Family Businesses

Stakeholder category: Business support organisation

4.6.1. Stakeholder logo



4.6.2. Official information about the stakeholder

“Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic (AMSP ČR - Asociace malých a středních podniků a živnostníků ČR) was founded in 2001 upon three fundamental pillars: INDEPENDENCE, EXPERTISE, EXPERIENCE. AMSP ČR provides an open, apolitical platform for small and medium-sized enterprises, self-employed persons and their organisations across the Czech Republic. It is a legal entity, specifically an association registered at the Municipal Court in Prague under filing number L 12282.”

Source: <http://amsp.cz/about-us/?lang=en>

4.6.3. Contact list

Name and surname	E-mail	Telephone
Eva Svobodová	svobodova@amsp.cz	+420 236 080 454 (secretary)



4.7. SME's - Business owners and successors

Stakeholder category: SME

This category includes any owners and their successors who are interested in the topic of business succession.

4.8. General public

Stakeholder category: General public

This category includes any other person from the general public sector (i.e. students) who is interested in the topic of business succession.

BASES FOR DELIVERABLE D.T1.1.3

Report on the obstacles and challenges to
the business succession and identification of
stakeholders

1st Version
10 2017





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2. Objectives

2.1. General objective of the document

To prepare a report on the obstacles and challenges to the business succession and identification of stakeholders.

2.2. Specific objective of the document

To identify technical and non-technical hurdles and challenges to business succession at regional level and compiling the list of stakeholders to be involved into business succession (public, private bodies and related entities) based on the meetings with stakeholders.



3. Hurdles & challenges to business succession

3.1. Management-related

3.2. Economic/ financial

3.3. Psychological/ cultural

3.4. Governance aspects



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The new agency was established by the division of Structural Funds Division of CzechInvest. Its staff have years of experience in providing entrepreneurship and innovation support from the EU Structural Funds and will continue to do so in their work. Just under the head of a new agency. CzechInvest will continue its main activity, ie mediating investment in the Czech Republic.

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Jihočeský kraj

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Source: <http://amsp.cz/about-us/?lang=en>

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This category includes any other person from the general public sector (i.e. students) who is interested in the topic of business succession.

REPORT ON THE OBSTACLES AND CHALLENGES TO BUSINESS SUCCESSION AND IDENTIFICATION OF STAKEHOLDERS

Version 2
12 2017

Jasmin Schiefer, Margarethe Überwimmer, Yasel Costa, Robert Füreder
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1. Objectives

Technical and Non- technical hurdles and challenges of business succession in Austria will be shown. Relevant Stakeholders will be analysed and interviewed.

2. Introduction

Every business and situation leading to a succession is unique. Multidimensional problems occur involving personal management, law, financial, organisational and psychological factors (Thom and Zaugg, 2005). Business succession plans have to be tailored for each individual company, which is one of the main challenges. Especially family businesses include a high conflict potential during an internal succession. The personal relationship between old and future business leaders influences the process and success of a succession. Besides the personal relationships, also financial, business strategic and planning processes have strong influence on the success or failure of business succession (Ziniel et al., 2014).

About 90% of Austrian companies are family businesses. Half of these family businesses are in first generation, 20% of Austrian family businesses are in 2nd generation, 20% are in the third or even 4th generation and 10% of the family businesses are a mixture of different generations (BMWWF, 2014).

This shows that many businesses transfer were successful the last generations in Austria. Most of transferors and successors are general satisfied with the environment for business succession in Austria. However, especially for family external succession, a new suitable successor is difficult to find and recognised as main obstacle besides administrative and tax related burdens. (Ziniel et al., 2014)

The main expected challenges for all successors are tax burdens (30%) and the least critical expected challenge is the conflict between different generations (3%) (Figure 1). These challenges greatly vary between internal and external succession. 94% of those who think that finding a new potential successor is a problem, transfer their business to a family external person (Figure 1). The determination of the enterprise value (96%) and achieving a reasonable purchase price (73%) are also almost exclusive in family-external handovers an issue. On the other hand, the planning of the transfer process (67%), the tax burden (63%) and the investment requirement (57%) are mainly family-internal succession problems. However, the main challenge in family- internal handovers are intra-family conflicts (91%). (Ziniel et al., 2014)

At the end of a succession, 85% of the former entrepreneurs were satisfied with the transfer to the new successor. Those 15% who were unsatisfied define the “planning process of succession” as the main obstacle. In addition, business and technical qualification were defined as other strong obstacles after their transfer. Legal and Tax burdens were less critical obstacles and administrative burdens were experienced as only small obstacles. (BMWWF, 2014)

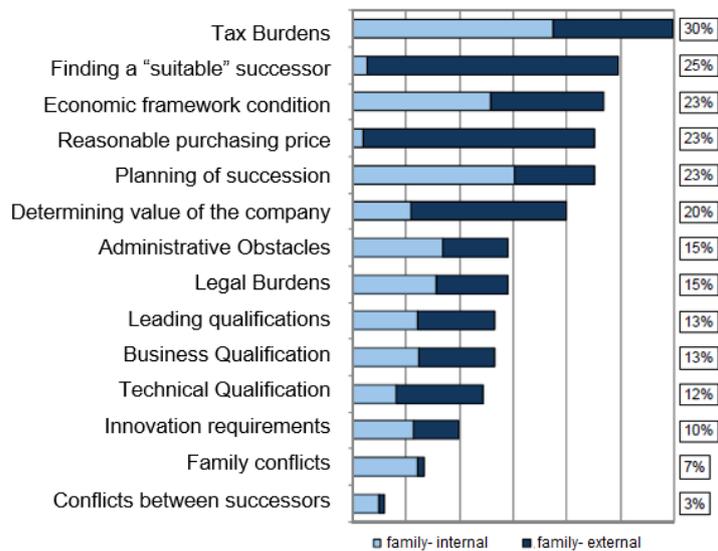


Figure 1: Expected challenges for successors (in %) separated by family internal and external succession (multiple nominations were allowed). Source: Ziniel et al. 2014 (translated in English by Jasmin Schiefer)

This report separates the main technical and non- technical challenges and obstacles in four categories:

- Psychological and Cultural related
- Management and Knowledge related
- Economic/financial related
- Governance related

For each obstacle and challenge statistical numbers from scientific surveys are given. Based on these numbers, a discussion was created with the participating stakeholders (questions and stakeholder list see Appendix 1). The statistical numbers are supplemented with the information gained from the stakeholder meeting.

3. Public Stakeholders in Austria

The most important stakeholders relevant for business succession are:

The most important stakeholder for business succession in Austria is the **Austrian Chambers of Commerce (Wirtschaftskammern Oesterreich WKO)** which work on national, regional and local scale. https://www.wko.at/service/Our_Organisation.html



The “Junge Wirtschaft” is part of the Austrian Chambers of commerce and is a lobby focusing on the interest of young entrepreneurs.

<https://www.jungewirtschaft.at/>



The **Federation of Austrian Industries (IV)** is a voluntary representative of the interests of Austrian industry. A part of this is the “**Junge Industrie**” (young industry) which offers a network especially for young and future oriented industrialists.

<https://www.iv.at/en/federation-austrian-industries>

<https://www.jungeindustrie.at/de/>



The **Federal Ministry of Science, Research and Economy** is another important stakeholder on the national scale. Especially the section “Horizontal Enterprise Policy Division” is responsible for business succession topics.

<https://www.en.bmwf.gv.at/>



In Upper Austria legal consultants and auditors are very important for business succession. In Steyr the biggest cooperation of auditors is **GRS** (<http://grs.at/>).



Austria Wirtschaftsservice AWS are supporting business related funding by the state, awarding and executing grants and provide several other consultancy services also related to business succession.

<https://www.aws.at/en/>



Important stakeholders are also banks financing business succession. In Austria there are several important **banks** offering support for business succession which usually operate on national, regional and local scale:

- Sparkasse
- Raiffeisenbank

- Volksbank
- BAWAG P.S.K
- HYPO Oberösterreich
- Oberbank

4. Management/Knowledge related obstacles

4.1. Plan of business succession

The detailed and timely planning of business succession is one of the most underestimated tasks that causes a main obstacle of business succession. As already mentioned above, those entrepreneurs who are unsatisfied with their business succession, define the planning process as the main obstacle and challenge for succession in Austria (Ziniel et al., 2014).

Although 54% of transferors have a succession plan, 31% of them elaborated the plan by and for themselves and only 26% made a written concrete plan. Only 14% of those transferors with a business succession plan started with their plan several years before the actual succession. (Ziniel et al., 2014)

This shows that although there is a high awareness about the importance of the issue, many entrepreneurs still try to procrastinate their plan for succession.

The Austrian Chambers of Commerce (WKO) developed “7 golden rules” for succession. They try to spread these “rules” among potential successors. Interviewee 3, a representative of the WKO in Upper Austria explained that they “usually tell potential successors that their first question they should ask themselves is IF they would like to success their business. If they decide for succession, the Austrian Chambers of Commerce recommends a planning period of 3-5 years. Detailed information and support is offered by the Austrian Chambers of Commerce. In Austria, missing planning is not due to missing information or support but rather due to missing awareness. Most of the time the main reason for no planning is also because entrepreneurs have to fulfill everyday business first and have only limited time to mind about a succession plan”.

Interviewee 1, responsible for financial issues of business successions in Upper Austria, also confirmed that especially small family businesses do usually not plan ahead their succession. He further mentioned “only entrepreneurs who know that they succeed their business to an employee start with a plan long ahead and also involve experts such as tax consultant etc.”

The discussion confirmed the statistical numbers. There is a strong need to increase the awareness of the importance of planning business succession long ahead in Austria.

4.2. Technical and economical qualifications

To take over a business in Austria, future entrepreneurs must fulfil special qualifications. Each person intending to takeover (or establish) a business must be older than 18 years, must be citizen of a country of the European Union, the European Economic Area or must have a residence permit for the purpose of practicing the profession (WKO, 2017).

Usually a requirement for a business registration is a concession approval (masters certificate/ “Meisterprüfung”). For regulated professions special admission requirements (proof of competence or final decision on the existence of individual qualifications, reliability) must be fulfilled. The certificate of proficiency is dependent on the respective registered trade and can be provided by master's, school's or service certificates. (WKO, 2017)

Companies (Limited Liability Companies, stock companies ...) and other legal entities must fulfil the following general business entry requirements (WKO, 2017):

- No opened or suspended insolvency proceedings (in case of insurance mediation also opening of insolvency proceedings)
- Absence of reasons for exclusions grounds for persons with significant influence on the business of the Company (law persons), e.g. Complementary or significantly involved shareholders, managing directors etc.
- Appointment of a suitable commercial law director.

During the discussion with the public stakeholders, it was asked if stricter rules or even increased regulations of needed qualifications would minimize the risk of entrepreneurs who fail due to limited qualifications. All the experts agreed that it would make no sense to force willing entrepreneurs to take additional exams. “People can only learn to a limited level what it needs to be a good entrepreneur. Most things necessary to be a good entrepreneur is a talent and disposition. These things cannot be learned. It is important that people (entrepreneurs) like what they do. It cannot be trained to create a network if you don't like to go to events and talk to people”. (Interviewee 1) “Most young people and future successors are well educated but are simply not interested in what they are doing. “Old” company owners are very often strong personalities with whom other people identified the company and are well connected. If somebody new takes over, it will be difficult to be as successful if he is not as dominant and fast as well connected as his predecessor.” (Interviewee 2)

The experts also agreed that not every good craftsman is a good business man. It is a common problem that people who are good in their profession and technically perfectly qualified cannot lead a business as they underestimated the “economic qualifications”.

It can be concluded that technical and economical qualifications are a bit overestimated as possible obstacles and challenge as young (future) entrepreneurs are usually well educated. Personality and talent seems to be of much higher importance deciding about success or failure of a company. “A father who wants to success his business has to see and accept that his son or daughter is not talented enough and has to accept this. If it is planned to hand over a business to a well (technically) qualified employee it is also important to find out if he/she is also talented enough to lead a business”. (Interviewee 1)

Although it is rather recommended to leave the decision of education to the children, two company owners with children who participated at our discussion clearly mentioned that it is very important for them to softly lead their kids to make a education supporting their ability to lead the family company.(Interviewee 6 and 9). However, Interviewee 6 mentions that she leaves all the decisions to their children and accepts all decisions they make. “I put a lot of effort in preparing my children to take over the company. I try to achieve this goal with creating love of my children for the company. A company can also be lead with love, especially if it is a family business”.

The private company owners also agree, that they think it is more important that the knowledge of the technical aspects of their company is of high importance to lead a small enterprise.(Interviewee 6, 7, 8, 9, 10). “Needed knowledge to lead a company is very individual. It depends on many facotrs such as type and size of the enterprise. I the end “everything” must be there relevant for the job” (Interviewee 8).

The interviewees from the private enterprise did not agree if it is important for children to work for many years in the parents company or not. Interviewee 6 and 9 see a huge problem that children do not know enough about the enterprise they should take over as they spent no time working there. Interviewee 8 sees a huge potential that children are new to the company if they takeover. "If they are new they do not make everything just like their father and bring new ideas. If the old company owner/father is still available the new ideas can create many new discussions and improve some processes which were never good but done simply because they were always done like that." (Interviewee 8)

"I had to takeover my fathers company 37 years ago from one day to the next. I was not prepared for this. My father gave me trust and let me implement my own ideas. However, the most value I had was that I could always go and ask my father for advice." (Interviewee 7).

4.3. Finding a potential successor

Only in Upper Austria 63 900 business successions are expected until 2023. Although the number of potential enterprises for succession increase, a decrease of actual business succession occurred from 2013 (750 business succession) to 2014 (623 business succession). (Junge Wirtschaft, 2017)

For 96% of Austrian entrepreneurs who plan to handover their business to a family external successor finding a suitable candidate is the main challenge of business succession (Ziniel et al., 2014). The problem of finding a potential successor is very common in Europe. According to the 2004 Flash Eurobarometer, only 29 % Europeans would prefer taking over an existing company over founding a new (EC, 2012).

A trend which could positively influence the search for new successors (internal and external) is that more and more women become entrepreneurs. In 1993 already 31% and in 2013 already half of successors were female (Ziniel et al., 2014).

However, during the discussion with successors it was still a major discussion point for an interviewee that he would definitely prefer to transfer his company to one of his sons and therefore also prepares his sons more than his daughters to takeover business. Also interviewee 6 mentioned that it was very difficult for her, especially because she is a women, to be accepted as new head of the company. Her father did not want her to take over the company mainly because she is a women. "Now, after six years my father starts to accept that women can lead a business but he is still very surprised about this fact" (Interviewee 6).

The auditor Interviewee 2 said that he also experienced that finding a new successor is huge problem in Austria. He further mentions that it is problematic that most entrepreneurs believe that their offspring's will take over which is not true in most cases. There is no more automatism that it is given for a son to take over the company of his father. Young people very often receive good education and decide that they want to do something different with their lives.

However, good education and the freedom to decide for children might also make some youngsters taking over the family business. It was mentioned during the discussion (Interviewee 3) that "old entrepreneurs" allow their children nowadays more and more freedom if it comes to education. "This is a good trend as it is usually a huge mistake to keep its descendant in the own company. It is a high risk for entrepreneurs that their kids might decide for something different once they leave home and get education in the field they want to. However, there is also a trend that currently young people leave their home and "fulfil their dreams" and then come back to take over the company on their own. These successions usually have a good

basis as the descendants have good background in the company but also learned important lessons in other companies.” (Interviewee 3)

Interviewee 3 from the Chamber of Commerce also gave attention to the situation that many entrepreneurs only complain about their company and show their children (and people from outside) only the negative aspects of being an entrepreneur. “If parents say nothing positive about their company the children must think he/she would be stupid considering taking over the business” (Interviewee 3). “Children nowadays also have different expectations of life and ask for an equal “work-life-balance”- especially children of entrepreneurs who had to experience what their parents had to give up for the company are themselves not ready to make the same sacrifice” (Interviewee 2).

Entrepreneurs must carefully think critical about succession. A succession should only be considered if the company has a substantial value (customers, good will ...).

Another reason complicating the search of a new successor is that employees become very worried if they hear that their company is taking over by an external person. “I cannot discuss my business transfer in public because I am afraid that my employees will become afraid and leave my company” (Interviewee 7).

Besides missing talent (see above) most external potential successors have not enough money to take over a business (Interviewee 1). “Such business transfers cannot just be financed by raising a credit. Most people intending to takeover usually have no own capital and there are only limited financial instruments for support.” (Interviewee 1) (see more in 5.2)

Most companies are located in rural areas in Austria. Companies which survived already more than two generations are more common in rural areas than in cities (KMU Mittelstand, 2013). Although there was no discussion about the aspect of urbanisation for business succession during the meeting with the stakeholders, urbanisation must also be considered as challenge considering that it is such a huge problem finding new potential successors.

Another topic which was not discussed is the negative influence of demographic trends (increasing ageing society) on finding new potential successors in the future.

5. Economic/financial obstacles

5.1. Value of the company

The financial aspect is one of the most crucial topics and involves the highest conflict potential in business succession.

Once the transferor and successor have found their “match” the price of the company can easily become the reason why one side is taking back their offer. Studies show that the sellers and buyers of a company have a very different perception about the value of the company (Haunschild, 2010).

Successors usually determine a much lower value of a company as they mainly consider the future potential and “cash-flows” of a company. The transferor who created the business mainly sees the financial and personal investments he has done in the past.

Family intern successions are usually free of charge. However, also in this case an estimation of the value of the company can create conflicts if other heirs exist who receive a compensation (Thom and Zaugg, 2005).

Company owners are well aware that they cannot always ask for an adequate price as other factors has to be considered. Some business sections like woodwork have no great future. As the potential to make money with such a company is limited a “selling price” has to be much below the “value” of the companies. “An employee of mine would like to takeover my business and I am very confident that he will do great work. However, I am well aware that I cannot ask for any money. I am financial in a good situation and not dependent on the selling price of my company. However, I am asking myself everyday why I should simply give away my company.” (Interviewee 7)

Although literature mentions the determination of the value of a company as crucial factor that can become a big challenge, the experts from public authorities did not mention this topic in the discussion.

5.2. Financial obstacles

Almost half of the successors (44%) wish that there would be more financial support for business succession in Austria. However, in the period 2003 to 2012 only 34% of Austrian successors made use of financial support. Those who made use of financial support mainly accepted an offered loan (55%), one off investment grant (48%) and benefits on taxes and fees (29%). The least chosen financial support were subsidies for consultancy (19 %), liability and guarantee assumptions (16%), and subsidies for interests (13%). (Ziniel et al., 2014)

66% of Austrian successors did not receive funding due to different reasons. Most successor mention that they did not know about financial support offers (30%), 23% say that they did not find a suitable offer and 21% said that they had no need for support. Another 20% mentioned other miscellaneous reasons and the application process for support was too complicated for 5% of successors. (Ziniel et al., 2014)

As already mentioned above, the challenge of raising enough money for taking over a business is the main reason for the problems of family external succession according to Mister Interviewee 1 from the Sparkasse Bank in Upper Austria. The problem is that “the federal government has essentially withdrawn its support policy and currently only offers default guarantees. There are no cash subsidies anymore. There are instruments like low-interest loans that are easy to use, but the problem is often the high credit risk. Here, a balance must be found that the state, bank and entrepreneur share the risk to a less extent on the shoulders of the entrepreneur. Even if the entrepreneur only pays $\frac{1}{4}$, it is still for most people not affordable to pay 1 million Euro if the company has a value of 4 million Euros.

In Upper Austria there is the UBG (offering long-term investments as silent participant) an in Lower Austria the NÖWEG is taking over parts of financing companies. However, other states and the federal state offer no support. There are missing instruments to gather investments. Crowdfunding is basically good, but too limited (deposits / person, prospectus obligation) and is beyond reality.” (Interviewee 1)

Although it seems to be as easy as never before to get a new credit due to the low interest on credits the opposite is occurring in Austria. “Due to new legal regulations many projects are not financeable for a bank

with credits although eight to ten years ago it would have been no problem to finance them” (Interviewee 1).

These regulations and technical innovations can be very expensive for business successors. “It would have been much cheaper to open a new company than taking over my fathers company” (Interviewee 6).

Although stakeholders from public authorities say that most entrepreneurs do not inform themselves enough about (financial) support (see 4.1) and therefore say that it is too complicated to ask for support, entrepreneurs have a different position. “I applied for financial support at the AWS. A few years alter I still did not receive all the money. They told me that this support scheme is not available any more. There were so many issues about the support mechanisms. If I would not have finished a study programme in this field and informed myself very detailed about the tax and financial support issues I would have had a huge problem.” (Interviewee 8)

5.3. Tax burdens

Entrepreneurs who plan to success their business to their descendant perceive tax, legal and administrative hurdles as biggest burdens in the process of succession. These issues are for family external successors only a medium burden. However, most entrepreneurs (64 %) asking for more support say that it would be most helpful to offer additional support in tax questions. (Ziniel et al., 2014)

As there is no inheritance tax in Austria, this possible conflict potential does not matter in business succession planning. There were discussions to re- introduce inheritance taxes in 2012. However, it is not expected that political developments re- introduce inheritance taxes in Austria in near future.

According to our invited experts, taxes are rather of minor importance for business succession in SMEs in Austria. “Taxes are not causing high challenges for business succession. According to my clients they do not cause any problems. Especially in family internal successions no money is floating. Therefore, taxes do not occur and are not a topic. If the company is sold and everything is planned properly, the taxes are still not a problem. Of course, they increase with increasing purchase price, but that is normal and not seen as challenge. The topic of taxes is exaggerated in public but not a problem in reality.”(Interviewee 2)

5.4. Investment and innovation backlog

Economic and political interests are usually concentrating on the stages of establishing and increasing companies. The awareness of the potential of companies in a maturity stage is still limited.

More than half of Austrian SMEs are in a “maturity stage” of their companies’ life cycle. One fifth of the companies are in the growing/expansion phase and another fifth in the consolidation and shrinking phase.

Most companies in “maturity stage” are “older“ companies who soon have to transfer their business.

In the maturity stage, there is a high danger of losing competitiveness due to an innovation and investment lag. 63% of transferors have implemented no innovation in the last three years before their succession. Only one third of companies in the process of succession has steady or increasing sales (Ziniel et al., 2014).

During the discussion, it was mentioned that there is a correlation between the succession plan and the investments of the entrepreneur in the last years of the company. “If there is a successor, “old” entrepreneurs continue investing and no lag occurs. If the entrepreneur has not arranged a succession usually no investments are done within the last years of a company.” (Interviewee 2) “However, innovations do not occur due to new investments (machines) but due to new ideas and inputs of the successor.” (Interviewee 4)

“The reason for the low investments in companies without arranged successor is that new technologies are expensive and loose dramatically fast its value” (Interviewee 2). “However, the question is why all small enterprises need their own expensive machines although it is not used most of the time. In future there has to be done much more cooperation on the entrepreneurs side. In Steyr there is a case study of several bakeries who found a cooperation. They had many great ideas and did an excellent job with the product development. The common production still needs to be improved. However there is always one person who boosts such cooperation’s.”(Interviewee 5)

There are several such cooperation in Upper Austria. In future, such cooperation and its funding will be more and more important especially in view of increased innovation potential of small companies.

6. Psychological/cultural obstacles

6.1. Relationship between transferor and successor

An entrepreneur defines his company very often as “lifework” which easily makes clear that many emotions are involved handing over his company.

Negative tensions in the relationship between successor and transferors are one of the main reasons for a failed business succession. The mutual respect of the business partner and his/her desires as human and businessperson but also the relationship to other involved persons in the succession (e.g. employees) reduces the challenge of successions (Baumgartner, 2009; Ziniel et al., 2014).

Small and medium-sized enterprises (SMEs) are mostly strongly dependent on the personality of the entrepreneur. The existing basis of trust is therefore closely related to the personality of the predecessor and not to the company itself. Receiving the same acceptance of business partners (Costumers, suppliers, banks) and employees of the predecessor is often seen as a challenge for the successor. If the new successor already worked in the company this has a usually positive effect on the successors trust.

Harmony within the family is one of the most critical and important factors during business succession. Most old entrepreneurs wish that their (established) business stays within the family. Sometimes the will and the competences of the descendants are only of minor importance for the transferor. An early succession planning is also for this hurdle of high importance as it allows the descendant much time to think about their motivation and gain extra knowledge but also to find other “perfect” candidates. Besides early planning of succession, an open communication is of special importance in family internal succession. An (steady) open communication before and during the planning of the succession is the basis for a good family harmony and success of the transfer.

Nowadays it is not a matter of course anymore that the son takes over business. From 1996 to 2006 a constant decrease of family internal succession took place. However, since 2006 this trend starts to level off and an equilibrium between family internal and external successions can further be expected (Ziniel et al., 2014).

Children of entrepreneurs are usually well educated, have high demands on themselves and very often the desire to follow their own “dreams in life” and not their parents. There was a strong sensitization and realisation that children should follow their own way and do not always have to take over the family businesses. This also had positive influence as many descendants worked many years in different companies and gained valuable experiences they would not have made in their family business. Many of the children decide to take over their business due to their own decision.

6.2. Retreat of former entrepreneurs and multi-generation enterprise

The topic of “retreating” or “letting go” and allowing the new generation to concede their own style, is “not always easy” for transferors (Ziniel et al., 2014).

Especially for small companies it is important to involve employees in the business succession. “Most entrepreneurs think about their costumers but forget about their employees in the business succession process. It takes a lot of psychological empathy to involve employees in the business succession process.” (Interviewee 3) “If a new successor tries to do everything new and different employees will most probably work against the plan of the successors. However, if the senior is still operating and deciding in the company, the new successor won’t be perceived as new head of the company. This can bring employees in a discrepancy. There are several negative examples in Upper Austria where employees left the company due to such a discrepancy. Therefore, it is important that the senior boss is retreating from the company.”(Interviewee 1)

However, a multi generation enterprise can also be a very good solution. “There are several examples where multi generation led enterprises show a perfect performance. However, due to digitalization we are the first generation where young people also can teach important knowledge to the older generation. In former times, it was common that only the old generation taught the young generation. This is a unique historical situation nowadays difficult to accept for the older generation. Old entrepreneurs must accept that they can also learn from the new generation. There has to be more appreciation from the older generation.”(Interviewee 3) “If there are clear structure usually multi-generation companies work out very good”. (Interviewee 1) “However, the structures are not allowed to be too strict as young people like to break up structures.” (Interviewee 5)

6.3. Communication

An open communication is necessary not only for a good business succession but generally for the success of a company and the personal situation within families.

“We see very often that young generations are not involved in the in the communication about business succession. Seniors talk to their employees and clients that their children are receiving a good education with the purpose to take over the business. However, very often their children do not know about this plan.” (Edelsbrunner) “Although it seems that cultural questions and communication is common sense they are very often not present in business succession. Only if topics about the distribution of work, competences

responsibility and structures are discussed business succession can work.” (Interviewee 5) “A possible reason for the missing communication is that it is difficult to speak out personal wishes. This can often lead to controversies. However, if such controversies are already there not talking won’t help to solve these problems and may just reinforce them.” (Interviewee 1)

7. Governance related obstacles

7.1. Administrative obstacles and restrictions

Legal restrictions and the control by authorities are perceived as huge challenge for business succession in Austria. “Taxes are not felt as problem for entrepreneurs and the young generation. The overall system and the laws are the problem. Young people see how authorities control companies and how the system is treating SMEs in Austria. Of course they ask themselves why they should want to deal with such restrictions.” (Interviewee 5) “Restrictions are extremely intense in Austria. They exist on local, regional and national level and many of them do not even complement each other. Theoretically, all the restrictions make sense. However, the implementation of these cause high problems in reality. The authorities control these restrictions very strictly. There were decades the authorities ”looked away” and then it changed. Nowadays authorities fine even if only small restrictions were not fulfilled properly.” (Interviewee 2)

“For successors such strong restrictions causes a high risk. If a company has not had an inspection for many years and not implemented all necessary restrictions, the new successor has to invest a lot of money only for implementing restrictions causing no other beneficial effects. However, implementing all restrictions is necessary as businesses which were recently handed over are usually strictly inspected by authorities.” (Interviewee 5)

The Austrian Chambers of Commerce is aware of this big issue and tries to fight against “unnecessary” restrictions since many years. However, “if the WKO was successful to change one restriction several others were already changed in the meanwhile.” (Interviewee 5)

7.2. Political awareness

The political awareness of business succession is very limited. “Politicians are not aware that business succession is at least as important as founding new companies” (Interviewee 2). “Political economy is not aware that it should be easier to succeed a business due to many aspects such as working places. It would be easily possible to relief potential successors due to changed frame conditions (e.g. in view of acquisition of equity capital).” (Interviewee 1)

“The government tries to change the frame condition. However, these changes are only beneficial for big companies. SMEs are not considered. It feels that politicians miss a relation to reality.” (Interviewee 2) “Authorities do not care about SMEs. They also do not care if they cannot afford employees due to high restrictions.” (Interviewee 5)

“The task for politicians should be to think about what problems they actually cause in real life with their restrictions. Especially for the SMEs. Politicians usually do not think about the consequences of their restrictions for SMEs.” (Interviewee 1)

Another problem is that not only politicians are not aware about the importance of SMEs and the succession of these. The broad public also do not know about the importance of this topic. “The broad public is not aware of the economic power of SMEs in their local region. They miss knowledge and appreciation of economy. Therefore they also have no appreciation for business succession.” (Interviewee 5)

8. Conclusions

The main conclusion of literature review and the discussion is that there is not “one main” challenge for business succession. Each business has its own personal obstacles and challenges. As each entrepreneur has individual wishes and attitudes he or she receives obstacles and challenges very different.

Especially for family businesses the missing communication can intensify problems during business succession. Although it seems “common sense” to talk about the future and personal wishes of involved people in companies, many people do not communicate. Most people are afraid to talk about their wishes and are afraid that they are negated.

Missing communication is also problematic while creating a business succession plan. Although many entrepreneurs have a vague plan, most people start not early enough with it. The main reason for this is very often that they are too busy with every day work. Planning business succession consumes much time which many entrepreneurs do not have. Another reason is simply that a potential successor is missing for whom a plan can be created. If no successor is available, entrepreneurs usually also stop investments which can cause an innovation lag. Entrepreneurs who have a successor usually continue investing in their company.

A huge problem in Austria about business succession is the missing awareness of the importance from political and broad public. There are many restrictions which have strong negative effects on small SMEs. On the one hand this causes massive investments to fulfill current legislations and on the other hand it is one of the main reasons why many potential successors do not decide to takeover business. The Austrian government has to establish better frame conditions in view of financing for business succession and should more carefully consider the consequences of their restrictions for SMEs.

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10. Appendixes

Appendix 1: Questions (German and English) for the Stakeholder Meeting

Appendix 2: Mail Invitation (which was adapted for each invitation) in German

Appendix 3: Pictures taken during the Stakeholder meetings

Appendix 4: Attendance List

BASES FOR DELIVERABLE D.T1.1.3

Report on the obstacles and challenges to
the business succession and identification of
stakeholders

1st Version
11 2017





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2. Objectives

2.1. General objective of the document

To prepare a report on the obstacles and challenges to the business succession and identification of stakeholders.

2.2. Specific objective of the document

To identify technical and non-technical hurdles and challenges to business succession at regional level and compiling the list of stakeholders to be involved into business succession (public, private bodies and related entities).



3. The succession of family business

3.1. Introduction

The issue of the impact of family businesses (business) on running a business as a whole is discussed relatively recently (the beginning of research and analyses of family businesses took place in the second half of the 1970s). Its importance in the economy and social life was recognised as well as the need to support the development of family businesses and the inclusion of this issue in the subject of economic policy. It can be said that the subject of the science of a family enterprise was distinguished at the end of the 20th century¹. Family businesses are not a separate type of entrepreneurs in formal and legal terms and - so far - the literature in question has not developed a uniform definition of a family business that would be accepted by most researchers. The solution of the definitional problem and making the typology is necessary for the further development of the management of family businesses.

3.2. Definition of family business

The adopted family business definition influences the estimates of the share in the enterprise population, and as a consequence the expected participation in employment or GDP creation, which significantly hampers the comparability of the conducted research. For example, in the study carried out by the Polish Agency for Enterprise Development², under the research program Panel of Polish Enterprises in 2014, the percentage of family enterprises in the population of enterprises used four variations of the definition, namely: subjective (when the respondent acknowledges that his company is a family business); structural (family members have majority shares); functional (the family is involved in running the business - i.e. at least 2 people in the family work with the family or 2 family members have influence on the company management or family members are involved in the company's operations); strict (when the criteria are met simultaneously):

- (1) at least two family members work together,
- (2) at least one family member has a significant impact on the management of the enterprise,
- (3) family members have significant shares in the enterprise).

The information on the results of these surveys shows that 68% of Polish enterprises can be included in the family businesses (32% of companies do not meet any of the definitions of family businesses presented). Due to systemic transformation (from a centralized economy to a market economy), Polish family businesses are mainly the effect of the functioning of the economy over the last 25 years, and their managers are actually the first generation of entrepreneurs.

Family entrepreneurship is characterized by both advantages and weaknesses and threats³. The issue of a family business is interdisciplinary, including the fields of economics, finance, management, sociology and psychology. Typically, the culture of the organization is focused on power on the one hand, and on the other it takes into account the family's influence on business development. Most problems related to family businesses are typical for the sector of micro, small and medium enterprises. Among the specific problems specific to family businesses, the issue of succession in the long-term development strategy is of key importance, the goals of which consist in ensuring the continuity of operation and maintaining the enterprise in the possession of the family. The reorganization process associated with the change of the manager is considered a typical challenge for family enterprises.

¹ Firmy rodzinne w polskiej gospodarce - szanse i wyzwania. PARP, Warszawa, grudzień 2009, p. 6; https://www.parp.gov.pl/images/PARP_publications/pdf/2009_firmy_rodzinne_szanse.pdf (21.11.2017).

² Firmy rodzinne w Polsce '2014. Projekt badawczy PARP Panel Polskich Przedsiębiorstw, Warszawa 2015; https://www.parp.gov.pl/images/PARP_publications/pdf/2015_panel_firmy_rodzinne_2014.pdf (21.11.2017).

³ Szczegółowo w pracy: Marjański A., Strategie małych i średnich przedsiębiorstw rodzinnych w Polsce (rozprawa doktorska). Akademia Ekonomiczna we Wrocławiu; pp. 62-63; http://www.amarjanski.san.edu.pl/userfiles/file/A_Marjanski,%20Strategie%20ma%C5%82ych%20i%20srednich%20przedsiębiorstw%20rodzinnych.pdf (04.12.2017)



Succession in a family business is identified with generational change (intergenerational). According to A. Lewandowska, "succession is a dynamic process occurring between two generations, the aim of which is to transfer to the younger generation of knowledge, power and property while maintaining individual values for a given business and family, important for both sides of the process"⁴. The main sides of succession are nestors (founders) and successors, but in the group of stakeholders of the succession process there are other company owners, employees, as well as suppliers and recipients. Successful succession is a condition for the continued functioning (survival) of a family enterprise and thus contributes to improving the stability of the economy and building public confidence in running this type of business. The key to achieving proper succession is balancing various objectives and developing solutions in this area, including - following the succession goals in a carousel⁵: retaining key employees, continuous development of the company, successor with passion, maintaining justice, securing seniors, proper legal regulations, proper tax regulations.

3.3. Process of business succession

The process of succession depends on many factors, including the type of business, relations in the family and the environment (including applicable legal and fiscal solutions). Planning succession is one of the key problems, with no simple prescriptions for successful succession. The complexity of succession requires careful planning. Meanwhile, an in-depth analysis of family business research results signals a tendency to postpone succession in time⁶; the most difficult challenges and barriers included: a barrier of good communication, a barrier to the selection of successors, formal barriers (the method of confirmation of succession does not properly secure the pages of succession), the management barrier (lack of a shared vision of the owner and successor regarding further development of the company), barriers psychological (fear of the nestors and successors), the owner's vision of life after succession). Succession planning should be initiated earlier in order to be able to prepare a potential successor for it. Most often, enterprises remain unprepared for this process. In contrast, knowledge about the succession of a family business concerns a wide range of problems (legal, economic, financial, tax, organization and management, psychological, educational, etc.) and due to the lack of need for its use has not been sufficiently widespread. The approaching wave of succession (called the "successive tsunami"), which in the coming years will be one of the most serious challenges for a large part of family businesses, requires the launch of educational programs and the development of consulting services (regarding legal and financial aspects of succession, preparation of a potential successor, professionalization of management company), as well as popularizing good practices illustrating in a comprehensive and comprehensive way the paths of successful business succession. In the results of the research carried out, PwC in cooperation with the Institute of Family Business stated that "succession at the highest levels of the organization, i.e. handing the company over to the next generation, is a key challenge for 50% of family businesses in Poland, 27% in Central and Eastern Europe and 36% in the world. Importantly, the majority of Polish enterprises operate on the market a little over 20-25 years, and thus they are often managed by the first generation, for whom the succession process will be the first in history"⁷.

Key questions in the succession process are the following:

- What to transfer?
- Who to give it to?
- At what time to forward?
- How to transfer?

⁴ Narodziny firmy rodzinnej. Jak mądrze zaplanować sukcesję i przekazać biznes następcom. Red.: A. Lewandowska, P. Andrzejczak, M. Stradomski. Instytut Biznesu Rodzinnego, Poznań 2017, p. 35.

⁵ Narodziny firmy ..., op. cit., p. 39.

⁶ Lewandowska A., Tylczyński Ł., Kluczowe wyzwania sukcesyjne w polskich firmach rodzinnych na podstawie: Global University Entrepreneurial Spirit Students' Survey oraz Diagnozy sytuacji sukcesyjnej w przedsiębiorstwach rodzinnych w Polsce. W: Firmy Rodzinne - doświadczenia i perspektywy zarządzania Część I (Redakcja: Andrzej Marjański, Marcela Rebeca Contreras Loera), Wydawnictwo Społecznej Akademii Nauk, Łódź 2015; Przedsiębiorczość i Zarządzanie, Tom XVI, Zeszyt 7, Część I; <http://piz.san.edu.pl/docs/e-XVI-7-1.pdf> (28.11.2017).

⁷ Badanie Firm Rodzinnych 2015 Polska na tle Europy Środkowo- Wschodniej i świata; s. 12; http://www.ibrpolska.pl/wp-content/uploads/2015/03/Firmy_Rodzinne_2015_IBR_PwC.pdf (23.11.2017).



The process of succession requires systematic management, and due to its complexity, specificity and variability of the existing conditions, it is difficult to describe with a single scenario of conduct, however, one can indicate the basic needs, barriers and challenges. Succession management, considered from the point of view of the cycle of organized activities, consists of the following stages⁸: planning (selection of a successor, setting goals, determining the time of succession, determining support, determining risks), organizing (assigning responsibility, establishing communication rules, resolving conflicts, securing property of existing owners preparation of the success factors, legal transfer of ownership and / or power), motivating (providing the successor, existing owners, other family members and employees the opportunity to express their opinions, taking into account the needs of all involved in the process, delegating tasks and ensuring independence for the successor), control (monitoring the progress of the work of the successor, his will and predisposition, monitoring the support of other family members and employees, monitoring the relationship between the successor and clients of the company).

Potential problems to be solved in the succession process can be considered from the following three perspectives⁹:

- participants' perspective: differences in attitudes towards succession; differences in personal interests, lack of motivation to hand over the company, lack of motivation to take over the company; differences in the vision of the development of the family business, conflicts in the family, unhealthy competition between siblings, bad communication in the family and the company;
- property perspective: unregulated property situation of the company, unregulated property situation of the family; no property allocation plan;
- company perspective: lack of succession planning; lack of a communicated and accepted development strategy, low level of strategic planning; low level of organizational development, deficiencies in the information system; poor economic condition of the company, no tools to monitor the financial situation; low competences of the successor, weak staff; improper organizational and legal form, lack of regulation of power transfer mechanisms and property.

It is useful to use expertises on the business succession¹⁰, which indicate needs / challenges in this area:

- to invest in education (current and future owners / owners must have specific competences);
- the successor should gain professional experience outside the family business (a successful careers career plan should be developed covering outside work);
- the successor should want to get involved (the role of senior nestors in creating the will of successors to take an active role in business - by building appropriate attitudes and desires of the young generation in the whole educational process),
- to build the authority of a successor among key associates (the introduction of a successor to the management of the company must be associated with the real transfer of power and tools to its implementation, potential successors must have the practical possibility to build their own authority),
- to let the successor realize some of his visions in the company (the ability to implement his own ideas allows you to test yourself in new roles, learning, gaining experience and building a greater emotional connection between the successor and the company),
- to start as early as possible (in order to avoid disputes in the family, it is recommended that the property rights be gradually transferred during the life of the nestors),
- to communicate and consult (decisions must be taken in the process of consultation and discussion, i.e. without the arbitrary imposition of the vision of a senior without taking into account the dreams of individual successors),
- to do a homework (based on learning the legal and tax consequences of succession plans and expenditure optimization),
- to explain what the retiring generation will take care of (in order to avoid misunderstandings and temptations of interfering in the company's affairs),

⁸ Stefańska J., Zarządzanie procesem sukcesji firmy rodzinnej. W: Firmy rodzinne - współczesne wyzwania przedsiębiorczości rodzinnej. Kierunki i strategię rozwoju. Redakcja Ł. Sułkowski. Społeczna Akademia Nauk, Łódź 2012, s. 27-42; Przedsiębiorczość i zarządzanie, t. XIII, zeszyt 7; <http://piz.san.edu.pl/docs/e-XIII-7.pdf> (30.11.2017).

⁹ Przewodnik po sukcesji w firmach rodzinnych. Kompendium wiedzy. PM Doradztwo Gospodarcze sp. z o.o., p. 21; https://issuu.com/pmdg8/docs/przewodnik_bez_spad_w (23.11.2017).

¹⁰ Badanie firm rodzinnych 2016. Firmy rodzinne w obliczu zmian. PwC, IBR, s. 14-15; <https://www.pwc.pl/pl/pdf/firmy-rodzinne-raport-pwc-2016.pdf> (30.11.2017).



- to diversify assets (preparing for departure, collecting assets outside the company, building the sense of full financial independence of the senior after succession).

The features of successful succession are the following¹¹: intergenerational relations are at the current good level or even improve: the parties concerned are provided with means of subsistence: all those interested have a sense that the process has been carried out fairly; tax optimization has been achieved; the successor has set goals and is able to implement them, has the freedom to act, and also knows how to use them; the legal solution best suited to the given situation was developed; there is a total openness between the parties in the exchange of key information; clients accept changes in the management; key employees accept change, stay in the company and create a positive culture of cooperation, a common vision for company development has been developed. From a financial point of view, it is necessary to analyze the property and financial situation of the company and family, and to select the most advantageous variant of asset succession (taking into account tax burdens). Due to the occurrence of so-called unwanted companies, it is necessary to assess the company's success potential, and then it is required to take measures to overcome barriers related to succession and create an effective company development strategy.

Planning succession aims at ensuring the continuity of the family business in the long-term perspective, in the multigenerational dimension. One should think about the way of succession much earlier, because the process of succession is long and multistage. Although the succession procedure should be adapted to the specifics of the company, but the practice indicates seven phases:

- 1) pre-business phase - carried out when the possible successors are children, many years before being introduced to the enterprise; the potential successor is exposed to occasional contacts with the enterprise, more randomly, as the likely company successor;
- 2) introductory phase in business - the future successor receives information about the company, about employees and is aware of his / her connection with business and family;
- 3) functional introductory phase - means directional education, temporary work in a family enterprise and other enterprises;
- 4) functional phase - proper work in a family enterprise, but still in a non-managerial position. Gaining experience;
- 5) functional advanced phase - performing major managerial functions, final preparation for succession;
- 6) phase of early succession - the successor actually begins to exercise power but is under the supervision of the previous manager or supervisory board, the family council;
- 7) phase of mature succession - the successor obtains full power. Skills allow him to take responsibility for running a business”¹².

This seven-phase succession model was formulated with emphasis on the preparation of a potential successor. Children, who are brought up as potential successors managing family businesses, should acquire basic competences necessary in business operations, which include¹³: creativity, the ability to cooperate in a group, entrepreneurship, communicativeness and using modern IT tools. Before the seniors, the challenge is how to successfully carry out the process of succession, which is a multi-stage process: from introducing children to the functioning of a family company, through developing competences, to the complete transfer of power and ownership. The course of the company's transfer depends on many conditions that are present both on the side of the nestor (the founder of the family business) and the successor. The most important conditions characterizing the nestor include: the degree of trust for the younger generation taking over the company, willingness (need / necessity) to move away from the role of the sole owner and manager of the family business, fear of losing control over the family business, conviction about own infallibility in making key decisions, the possibility of reaching a compromise between the generations of the senior and the successor in matters concerning the family business, exhaustion of creativity and lack of involvement in the affairs of companies. The successor is characterized, among others, by the desire to take over a family business, the degree of

¹¹ Przewodnik po sukcesji ..., op. cit., p. 35.

¹² Według L. Sułkowskiego i A. Mariańskiego; cyt. za: Badura D., Wybrane problemy sukcesji w firmach rodzinnych; Zarządzanie i Finanse, 2013, nr 1, cz. 3, s. 27-39; http://zif.wzr.pl/pim/2013_1_3_2.pdf (23.11.2017).

¹³ Narodziny firmy ..., op. cit., p. 63.



interest in business affairs, knowledge and skills, work experience and business management acquired in the pre-accession period, the desire to learn and deepen knowledge, the number of successors and opportunities to communicate between them in situations conflicts, the power of motivation to take up the challenge of taking over a family business and running it, an idea for further company development and personal development (along with a sense of responsibility and satisfaction in running a family business)¹⁴.

3.4. Assessment of the succession

In order to assess the preparation for succession, it is possible to use the accounts of the senior and the successor, including answers to the following questions¹⁵:

- assessment of the nestor - Did you create a succession plan? Has the succession plan been included in the company's strategy and family strategy? Has the succession plan solved the issue of inheritance of the company's assets? Have you considered the legal aspects of succession? Have organizational solutions been developed as a result of succession? Will the adopted solutions in the field of inheritance of the company's assets provide stability to the economic operator? Are the solutions adopted for the inheritance of company assets fair? Does the plan provide for a person who is a successor of power? Is this an acceptable person as a successor to other family members? Do the variants of succession planning take into account the option of prosecuting the enterprise to people other than the planned successor?
- assessment of the successor - Is he interested in taking over business? Does he have managerial skills? Does he have sufficient work experience? Does he have adequate professional knowledge? Will he try to develop a family business in the future? Will the takeover of the successor be positively received by the rest of the family? Will it be accepted by employees and co-owners? Is he hard-working? Is she mature? Does it have an appropriate ethical attitude?

3.5. Challenges and barriers in business succession

In the development strategies of family businesses, the business dimension and the family dimension remain interdependent. The key component of the development strategy of a family enterprise is the strategy of succession, in which the following issues should be resolved¹⁶: a new location of the role of each generation in the enterprise development plan; prevention of conflicts related to ownership and management, rivalry between siblings and property repayments; determining the stages and time of generational change; evolutionary transfer of management over the company and preparation of a plan to transfer assets. The most important decision of the family in the matter of succession is to work out a succession model, on which the construction of the plan of succession depends. You can choose one of six options (combining the behaviour or loss of family nature of the company)¹⁷:

- company from generation to generation,
- joint ownership of the family with the management of one family member,
- co-ownership of the family with non-family management,
- co-ownership of the family with the management of many family members,
- professionalization of a family business owned by one person,
- loss of family character (i.e. strategy of selling the majority of shares in the family business).

Many types of tools are used in planning succession. For selected tools from the perspective of a family company - according to which you can achieve - you can count¹⁸:

- preparation of family and non-family employees for succession change - personnel strategy, recruitment and selection system, communication strategy in the company, employee evaluation system, competence profile of the successor, employee development plan, plan of alternative

¹⁴ Perz P., Kaszuba-Perz A., Wybrane czynniki wpływające na przebieg procesu sukcesji w firmach rodzinnych, *Humanities and Social Sciences* 2016, vol. XXI, pp. 123-130; <http://doi.prz.edu.pl/pl/pdf/einh/257> (23.11.2017).

¹⁵ Przewodnik po sukcesji ..., op. cit., pp. 56-57.

¹⁶ Marjański A., Uwarunkowania strategii rozwoju przedsiębiorstw rodzinnych. *Przedsiębiorczość i Zarządzanie*, Wydawnictwo SAN, Tom XVI, Zeszyt 7, Część I, s. 153-164; <http://piz.san.edu.pl/docs/e-XVI-7-1.pdf> (30.11.2017).

¹⁷ Przewodnik po sukcesji ..., op. cit., pp. 51-52.

¹⁸ Przewodnik po sukcesji ..., op. cit., p. 56.



- activities of the senior woman outside the family company, rules of cooperation between the senior and successor, conflict resolution rules;
- preparation of a business-friendly development path for a family business accepted by the owner's family - business management models based on strategy, analysis of the company's strategic potential, analysis of the business environment, mission and strategic goals, strategic scorecard,
 - achieving the company's organizational maturity, facilitating the entity's management successor - organizational structure, organizational regulations, map of business and auxiliary processes, information system,
 - preparing the legal status of the company for the smooth transfer of power and ownership, securing the company from the legal side in the event of death or permanent incapacity of the owner or manager - legal audit and executive schedule, contingency plan, organizational and legal form of the family business (adapted to the needs of succession), contract companies (introduction of relevant provisions in the company's agreement), sales contract, donation agreement,
 - preparation of options for financing the succession change - valuation of the enterprise value, assessment of the economic and financial situation, financial plan of succession, tax optimization.

The most popular legal form of family enterprises is the economic activity of natural persons, and in the present circumstances the entrepreneur's death becomes at the same time the end of running a business. The basic problems appearing in such circumstances, in particular, include: limited possibility of using the company (name) of the entrepreneur; the need for all heirs to agree on the going concern (shortly after the entrepreneur's death); expiration along with the death of the entrepreneur (necessary to conduct a given type of business activity) contracts of employment, power of attorney, some civil law contracts, as well as administrative decisions (e.g. concessions, licenses, permits); no possibility to continue tax settlements; problem with access to a bank account for business purposes; arising (as a rule after the entrepreneur's death) the need to repay public aid received on the basis of contracts that are being carried out. At the moment of entrepreneur's death, there are many threats to the company's assets, employees and business (including creditors). Many months of procedures connected with the finding of acquisition of an estate and its department (especially in the case of disagreements between heirs) may undermine the chances of resuming the enterprise.

In order to facilitate the continued operation of the natural person's enterprise after its death (in the period between the opening of the estate and its department), the Ministry of Development and Finance presented a bill on the management of the successive private enterprise (of 14 July 2017). The justification for the project (dated July 14, 2017) states: "The primary purpose of the regulation is to provide entrepreneurs who are natural persons with conditions to maintain business continuity after their death, taking into account that the company should be perceived as a legal asset, aimed at not only property and economic value, but also social value. The indirect goal of the regulation is to strengthen the protection of third parties' rights related to running an enterprise, including primarily employees, contractors and entities cooperating with the entrepreneur"¹⁹.

In the application stemming from the review of legal forms²⁰ in which family businesses operate in Poland, it was noted that not all of them guarantee the succession safety to a varying degree (in particular in the event of death).

For this reason, it is worthwhile to think about a justified transformation of the current legal form of the family business. However, it should be remembered in particular about differences in registration costs, form and costs of bookkeeping or income tax system (e.g. the problem of double taxation); hence, tax optimization is another challenge.

Succession is one of the biggest changes that nestors encounter. Every change in the company meets with some resistance. From the part of the nestors, conversations about succession can be perceived as the greed of successors, and thus succession becomes a taboo subject. Potential successors want to set their career paths early and may be distrustful (or do not believe) that in the future they

¹⁹ Projekt ustawy o zarządzie sukcesyjnym przedsiębiorstwem osoby fizycznej; <https://legislacja.rcl.gov.pl/projekt/12300657/katalog/12447328#12447328> (01.12.2017). W uzasadnieniu do projektu podano m. in., że obecnie w Centralnej Ewidencji i Informacji o Działalności Gospodarczej jest wpisanych ponad blisko 200 tysięcy osób, które ukończyły 65 rok życia (podeszły wiek zwiększa statystyczne prawdopodobieństwo śmierci bądź poważnych chorób). Ogółem w CEIDG wpisanych jest ok. 2,4 mln przedsiębiorców (aktywnych i tych, którzy zawiesili wykonywanie działalności gospodarczej).

²⁰ Narodziny firmy ..., pp. 83-123.



will receive full power and responsibility for running a family business. That is why they expect concrete and unchangeable declarations of their parents. There is a situation in which the nestlings do not want to lose control over business and therefore do not prepare children to run a business. For many nestors, the fear of the negative effects of intergenerational transfer, including the collapse of business, becomes typical.

The questions asked the most often by the nestors are²¹:

- Will the youngsters manage? Will they be able to develop the company further?
- Will the young people want to use our experiences?
- Will they make prudent decisions?
- Will children be able to raise this success?
- Will they behave responsibly and work reliably?

Excessive involvement and attachment of the psychological nature to the business run by the nestors, conviction about the impossibility of replacing by others with good results for business and family, and attempts to avoid the inevitability of the passing of generations become a clear barrier. There are fears about financial security, family safety, company security, psychological nestor (sense of being put aside). There is also no guarantee that the future successors will not be proverbial prodigal sons or they will not give up the company after a few years of management. Nestors can also observe disturbing, characterizing potential successors, premises or motivations to take over family enterprises, for example, the morbid need for power, competition with siblings, fears of not checking in a new role.

"In the process of succession, it is very important to combine the transmission of two separate elements: power and property. Transmission, which should happen almost simultaneously, many succession plans ended in failure due to the simultaneous transmission of these two elements. It is also important to clarify the issues related to the transfer of the company as soon as possible (first of all, issues related to taxes, among others: a tax on gifts, inheritances, etc.). The financial security of the current owner of the company, which "withdraws" from the business and defining its future role in the company, is also of great importance in the whole process. If everything is precisely planned and discussed, many misunderstandings connected with making such a large and significant change in the company can be avoided²².

The preferred (practiced) exit style of the family business by the senior, using the classification given by J. Sonnenfeld, informs about the frequency of problems related to succession²³:

- monarch (includes governments for a lifetime, does not plan to be active in retirement, because the concept of leaving the company simply does not exist for him, thinks that death or disease do not concern him, he cannot imagine his successor, he holds absolute rule),
- general (he gives hope for his quick departure, but rarely gives control, goes away and returns, goes away hoping for failure of the successor - he comes back triumphantly when it happens, saves what the successor failed to save, he is passionate about the company's life and lives in the hope of returning),
- ambassador (gives the majority of functions to the successor, but leaves the representative functions in his hands, deals with marketing, is the company's spokesperson, builds the prestige of the company, retirement is a well-thought-out and planned process,
- governor (publicly announces a clearly defined day of his departure, engages the whole team in the process of succession),
- inventor (he is happy to leave the company and start a new one, he is creative and resourceful, from the outside he helps the successor as a mentor, supports him and gives advice),
- patron (a subtle diplomat, prepares a company for succession, is a coach and consultant, takes care of good relations between family members, often uses the help of a spouse).

The research executed by the Institute of Family Business²⁴ show that in Polish conditions, styles most often chosen from the company are styles assigned to "general" (41%) and "monarch" (32%). In the case of the "general" owner, for successors, succession is extremely difficult and emotionally onerous,

²¹ Narodziny firmy ..., pp. 243.

²² Piekarski W., Rudzińska J., Znaczenie procesu sukcesji w polskich firmach rodzinnych. Logistyka, 4/2012, pp. 1200-1205; http://www.logistyka.net.pl/bank-wiedzy/e-gospodarka/item/download/78535_a726b8045c267894318eab1580c69792 (23.11.2017).

²³ Description according to: Narodziny firmy ..., pp. 254-255.

²⁴ Narodziny firmy ..., pp. 256.



whereas in the situation of the "monarch" senior, succession usually takes place after his death. The low level of knowledge about the succession process causes that Polish owners of family businesses notice the need for support by external experts, especially in the legal aspects of transferring property to family members, preparing a successor to take over the company and developing a company strategy that takes into account the process of succession²⁵.

The specific weaknesses of a family business are related to the conflicts characteristic of the organization of family conflicts, due to the close connection of the professional sphere with the family sphere (e.g. transferring private conflicts to the company, conflicts in the succession process, negative effects of nepotism on interpersonal relationships, especially family relations - staff from outside the family). The challenge faced by a family company is competent, though not easy, separation of family relationships and company relationships, and ensuring efficient communication allowing avoiding conflict situations and mitigating their effects. In some difficult situations in managing emotions, it can be a helpful form of mediation from outside²⁶.

Family enterprises are particularly sensitive to payment delays; even a single unpaid invoice may cause considerable disruptions in the company's operations, often threatening to lose liquidity. The problem is significant because some large economic entities may show a tendency to finance their own business using the capital of small family entrepreneurs.

Since 2009, the National Debt Register and the Conference of Financial Enterprises in Poland have been preparing reports on the current monitoring of receivables in Polish enterprises as well as servicing of liabilities by Polish enterprises²⁷. In the first quarter of 2017, the percentage of overdue receivables in entrepreneurs' portfolios was 22%.

A chance of multigenerational family businesses is to ensure the implementation of standards and needs of three areas: family, business and individuals. Obtaining a long-term consensus for different purposes is a big challenge. The norms of family enterprises, according to E. Więcyk-Janka²⁸ - are the following:

- family norms (relational) - creating opportunities for related people, especially children; providing the right support; perception of each family member as a unique individual, equal treatment of siblings; giving everyone the opportunity to learn; creating emotional ties and building positive strong relationships; taking care of the implementation of common goals, taking into account the aspirations of individuals;
- company (business) standards - employing qualified employees; providing remuneration adequate to the contribution of work and market conditions; the use of universal standards and procedures, a universal assessment system; creating opportunities for employee development for the company's needs; creating a universal organizational culture; achieving company goals aimed at generating profit;
- unit norms (personal) - gaining a well-paid job allowing for development and promotion; remuneration in line with expectations, allowing for the implementation of individual plans; seeing yourself as a person with individual needs; searching for your own path of development; emphasizing one's own uniqueness; implementation of own developmental goals.

Family companies face several barriers in the execution of succession process²⁹:

- goodwill (difficulties in obtaining funds, family disputes, gaps in the competencies of family employees, too high family requirements regarding finances, conflict of roles in the organizational structure, intergenerational conflict);
- family values (lack of time, weak family ties, lack of financial background, lack of love, respect, understanding from other family members, lack of common interests and common goals)

²⁵ Syntetyczny raport z badań przeprowadzonych w ramach projektu „Kody wartości - efektywna sukcesja w polskich firmach rodzinnych” (ed. A. Lewandowska), p. 23; https://depot.ceon.pl/bitstream/handle/123456789/2970/Kody_Wartosci_diagnoza_sytuacji_sukcesyjnej_w_przedsiębiorstwach_rodzinnych_w_polsce.pdf (04.12.2017).

²⁶ Konflikty w firmach rodzinnych; <http://familybusiness.ibrpolska.pl/konflikty-firmach-rodzinnych/> (04.12.2017),

²⁷ Portfel Należności Polskich Przedsiębiorstw - kwiecień 2017; <https://krd.pl/Centrum-prasowe/Raporty/2017/Portfel-Naleznosci-Polskich-Przedsiębiorstw---kwiecień-2017> (05.12.2017).

²⁸ Więcek-Janka E., Bariery w procesie sukcesji w opinii sukcesorów firm rodzinnych (wyniki badań). W: Firmy Rodzinne - doświadczenia i perspektywy ..., op. cit., pp. 39-52.

²⁹ Więcek-Janka E., Bariery ..., op. cit.



- unit values (uncertainty, fears, surrender, lack of experience, lack of harmony, burnout, lack of competence, lack of financial stability, lack of understanding, lack of mentor, too high requirements, lack of development opportunities).
- The family nature of the company may result in such barriers as: limited professionalism, nepotism in the area of personnel management, autocracy, dominance of family goals over business³⁰.

Family enterprises as a part of mainly the sector of micro-, small and medium-sized enterprises face barriers that are characteristic of this sector as a whole. These are, in particular, barriers: financial (difficulties in obtaining capital), tax (fiscal burdens), technological (lack of access to modern technologies), acquisition of highly qualified staff, and legal and administrative nature (limiting the flexibility of operation).

The main challenges facing family businesses in the next few years in the cross-section: "Poland - Central and Eastern Europe - World" are shown in Figure 1. The greatest challenge for family businesses in the world is the constant need to be innovative (64%). Succession as a challenge is perceived especially in Poland (50% of respondents).

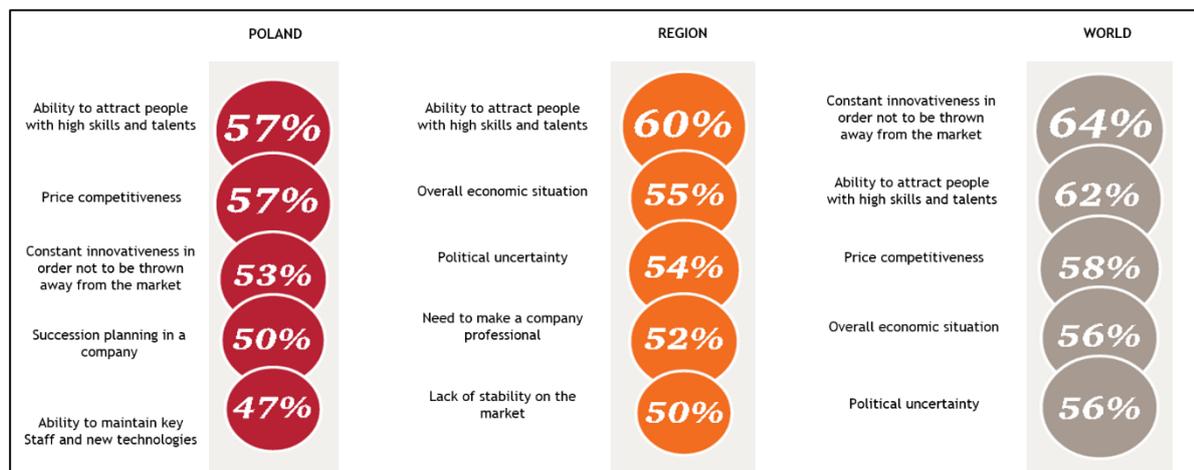


Figure 1. Challenges facing family enterprises in the perspective of nearest years, taking into consideration: Poland – Region (Central and Eastern Europe) - World

Source: Research of Family Enterprises 2015 Poland in front of Central and Eastern Europe and world; p. 9; http://www.ibrpolska.pl/wp-content/uploads/2015/03/Firmy_Rodzinne_2015_IBR_PwC.pdf (23.11.2017).

A key factor in the survival of a family business successive succession changes (and are at least in the third generation of owners) prove to be an effective implementation of ownership supervision mechanisms. "The mechanisms of ownership supervision in family businesses are nothing but a system of bodies and institutions operating inside and outside the enterprise that help the family in making decisions, managing assets and building proper relations with the environment". In this case, there is a time to build an integrated ownership strategy that is the resultant (aspects - key objectives) of corporate governance, family order and property governance, which takes the form of a document called the constitution of a family business. The integrated proprietary strategy aims to regulate successive successions in the company, so that this process is transparent in a non-conflictual manner. "Based on the values defined by the family and the principles and rules included in the constitution of the family, they contribute to harmony within the family and inside the company, which is a prerequisite for the intergenerational continuity of the family business. An effective family constitution is characterized by explaining the roles, responsibilities and responsibilities of family members towards the company; supports and promotes the unity of the family; contributes to the development of conscious shareholders and leads to the integration of family and business goals"³¹.

At the final stage of preparing the constitution, legal documents (such as company agreements, wills, intercourses, etc.) are prepared, which will regulate business and family relations in accordance with the rules adopted by the family. The sale of a whole or part of a family business can be an alternative option for a classic succession process. Then, the nestor obtained from the sale of cash transfers to successors who invest the received funds in accordance with their own preferences. Examples of the legitimacy of

³⁰ Żukowska J., Pindelski M., Szanse i ograniczenia innowacyjnej strategii rozwoju firm rodzinnych. Współczesne Zarządzanie, 2012, nr 4, pp. 129-141.

³¹ Narodziny firmy ..., p. 349.



considering the sales option are conflicts between the senior and successors or misunderstandings among successors as to the direction of running the company in the future. It is worth bearing in mind that both the tangible and intangible assets decide about the company's market value as a functioning organization.

4. Stakeholders to be involved in business succession project

4.1. Municipality Council of Radom



The Municipality of Council is involved in the issues important for the development of entrepreneurship in Radom. They organise meetings for the companies, they offer help in applying for the European funds, etc. they expressed interest in ENTER-transfer project.

4.2. Municipality Council in Grodzisk Mazowiecki



Similar, like in Radom. The Municipality of Council is involved in the issues important for the development of entrepreneurship in Grodzisk Mazowiecki, especially to invest in that region. They organise meetings for the companies, they offer help in applying for the European funds, etc. they expressed interest in ENTER-transfer project.

4.3. Polish Agency for Entrepreneurship Development



The Polish Agency for Enterprise Development (PARP) is involved in the implementation of national and international projects financed from the structural funds, state budget and multiannual programmes of the European Commission. As one of the key authorities responsible for creating the environment supporting economic operators, the PARP actively participates in the creation and effective implementation of the state policy with regard to enterprise, innovation and adaptability of staff. Pursuant to the principle "Think



Small First” - “SMEs above all”, all Agency’s activities are implemented with a particular emphasis on the needs of the SME sector.

4.4. SMEs in the region of Radom

Small and medium enterprises expressed interest in ENTER-transfer project. They are continuously informed about the progress in the project execution.