

D.T2.3.3

Report on testing
approach towards
engagement of young
family members to
take over family
business

1st Version
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2. Introduction

2.1. Description of the document

- The objective of this document is to summarize conclusions of pilot action in the South-Bohemian region according to the description of the current deliverable in the project application:
 - D.T2.3.3: “Report on pilot testing of how to change behavior, safeguard interest, stronger involvement and finally commitment of young descendants to take over the family business instead of opting for an external job which offering financial stability.”



3. Report on pilot testing

3.1. Motivation

Many family-run businesses or small and medium-sized businesses annually cease their activity because of the inability to find successors to take over management. Despite the current succession schemes in some countries, there is still limited knowledge, experience and awareness of ownership transfer. Succession is now a major issue not only in Central European countries. One of the problems in business succession is a discrepancy in motivation of business owners and their potential successors.

The main reason why PP3 opted for piloting actions in this form (i.e. visiting companies rather than organizing round tables) is that it allows us to interview both successors and predecessors separately and gather more open and honest opinions and attitudes. Such knowledge would not be outspoken on an open forum as the company representatives don't want to share their internal/personal information with others (either other companies or - in some cases - even with their family members). Moreover, such survey design allowed for more detailed feedback about each company/family member.

3.2. Research sample

- Family businesses in Southern Bohemia.
- The questionnaire survey aimed to determine the importance of 12 factors from the owner's and successor's point of view.
- We have collected questionnaires from 5 companies of the South Bohemian region.
- Four companies had two respondents (1 owner and 1 successor) => 8 respondents.
- One company had five respondents (3 owners and 2 successors) => 5 respondents.

The main conclusions can be found in the following summary.

3.3. Summary

- Generally, the owners of a family business attach more importance to all factors than the successors: except for question 11 concerning financial security; and question 4 on the existence of a family council where successors attach the family council higher importance than owners.
- The most important factor for owners and successors is to build a sense of trust in the successor that the owner believes the successor can manage the company (1). Both sides declare that it is extremely important to involve a successor in the management of the company at least several years before the start of the company transfer process.
- Both the owners and the successors further classify the internal conviction of the owner that he wants to transfer the business, and this will to be communicated and formally recorded as a very important factor. Only one of the selected businesses (the owner and the successor agree) attributes little importance to this factor. In this case, this is a small business where the conviction is "obvious" and does not need to be externally communicated and formally recorded. Other respondents also stressed that internal conviction is essential. It is important to communicate with the successor, but in family businesses, they do not consider it necessary to record such beliefs formally.



- "The promise of the owner to assist the successor during min. one year after transfer" (10) ranked third by importance. However, most respondents rated the factor by a maximum of points. Only in one company the owner and the successor agreed that there is no importance for this in their business and did not assign any point. Other respondents considered this to be self-evident, and the contradiction within the firm is minimal in this respect.
- Another important factor for both the owner and the successor is the build-up of a sense of trust in the successor - that the owner believes the successor will be successful (7) and his ability to cope with emotions (manage own emotions and emotions within the company - so-called "social-emotional empathy" (8)). For these factors, there was no significant inconsistency between the owner and the successor within the firms. However, the group of owners declare these factors more important than the group of successors. Respondents who rated the factors with the minimum number of points belong to one firm, and their position is the same - but the answers show that there was a conflict in the transfer and, as the employees say, because of the different opinions, the transfer was "neutral" - without emotions, without communication, and without building a sense of trust in the successor.
- The existence of a family council is of little importance, and it is not their main priority. For the successors, this is the second most important factor. However, from the perspective of owners, this is one of the least important factors: tenth (out of 12) in the order of importance. This is a factor with a great contradiction between the successor and the owner within the firms.
- The use of external expert services for business activities and management (e.g. coaching, legal counselling (5)) ranks 8th (out of 12). It was found that the owners attach more importance to them than successors. This is a factor with a great contradiction between the owner and the successor within the companies. Surprisingly, in some companies using outsourced services in the past, the successors evaluated the factor lower than in firms where these services were not used.
- Defining what a successor can expect from a company and what a company expects from it (6) is found as the non-important factor. Although opinions differ across firms, the successor and the owner within the firm have an almost identical attitude to the matter. In this respect, the most obvious difference between firms is that each chooses their strategy: either the company should continue in the same direction after the transfer or leave space for new ideas and the successor's management style - according to which the transfer either has or does not have this expectation.
- A slight discrepancy between the transferors and the owners inside the company has triggered a financial affair (11). Owners declare little importance that the company being transferred will continue to provide financial security to the owner (11/12). However, for the successors, this factor is very important (4th out of 12). Successors consider it very important for the transferred company to financially secure it and his family. This explains the different valuation of the given factor: the owner does not rely on financial security after transfer (for example, he receives a pension or no longer wants to participate in the company). For the successor, financial security is a key value and therefore adds more importance to this factor.
- According to this study, it is not very important to gain experience in an external environment (e.g. a traineeship or a long-term work experience of a successor in another company (9)). The successors rated this factor as the 11th and the owners as the 9th most important (out of 12th) factor. There is disagreement between both groups (owners/successors) in general and between the owner and the successor within the firms. The owner admits that this could be a beneficial experience. Successors consider that the work experience in the transferred company before transferring is more valuable.



- As the least important factor on average, the owners and successors selected the existence of a family constitution that declares the main principles of the company management (3). This factor was evaluated as the least important by both the group of successors and the group of owners. However, this factor has the biggest inconsistency between the owner and the successor within the firms. In all cases, there are completely different opinions within the company. In some businesses, the successor considers the existence of the family constitution as important, and the owner does not add any importance to it. In other companies, the opposite is true, where the owner emphasises a constitution, and the successor does not consider it necessary.
- Only one successor and one owner (from different businesses) have identified almost all factors as important or very important (8 to 10 b). Other (by both successors and owners) suggested factors and situations were, where there are more owners in the family business; there are more successors in the family. Another suggested significant factor is in the case of preparation for the transfer - the length and depth of the successor's involvement in the running of the family business before the start of the transfer process.

In general, most of the surveyed respondents perceived the pilot actions as beneficial and expressed further interests in our project and/or model and are open to participate on subsequent surveys, round tables, meetings or other project activities.