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Training modules on business succession for family businesses, descendants and young entrepreneurs

TRAINING MODULES - CONTENT

1. Awareness raising and call to action of business owners and potential successors
2. Awareness raising and call to action of public authorities
3. Family businesses in transition: managing the change
4. Identification and selection of a suitable successor
5. Effective knowledge and power transfer



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- Awareness raising and call to action of business owners and potential successors

AWARENESS RAISING AND CALL TO ACTION OF BUSINESS OWNERS AND POTENTIAL SUCCESSORS

- Business transfer is one of the most important areas that every entrepreneur should pay maximum attention. This is especially important in family businesses when the business is transferred from one generation to the next.
- A transfer is more difficult for smaller businesses and for businesses where the incumbent owner plays a dominant role.
- Business transfers are standard in the business life cycle as well as in the entrepreneur's life cycle



AWARENESS RAISING AND CALL TO ACTION OF BUSINESS OWNERS AND POTENTIAL SUCCESSORS

- Business transfers are still very often triggered by the entrepreneur's retirement. However, retirement is only one reason for business transfers.
- Causes for earlier transfers are personal decisions (early retirement, change of profession, etc.), changing competitive environment, or incidents (divorce, illness, death, etc.) which also play an important role.



AWARENESS RAISING AND CALL TO ACTION OF BUSINESS OWNERS AND POTENTIAL SUCCESSORS

- Many entrepreneurs, especially those who have created and built up their own businesses over a number of years, are very reluctant to let go and to prepare the transfer of their business.
- The transfer of know-how and skills takes place very late, if at all.
- The result is that the transfer is often insufficiently prepared.
- The lack of planning and openness can have quite dramatic, serious effects for the continuity of the business in unexpected situations.



AWARENESS RAISING AND CALL TO ACTION OF BUSINESS OWNERS AND POTENTIAL SUCCESSORS

- It can take 2 to 5 years to transfer a business, sometimes more. That's why it is crucial to have a sound plan in place with clear, realistic timetables so you don't lose sight of your goal.
- The beginning of the transfer process can be likened to taking a snapshot of your personal, economic, family and social situation.
- Examining each of these aspects will help you determine how prepared you are for this monumental undertaking and help you take the right action.



- To take stock of your current situation, you need to ask yourself the right questions and answer them truthfully.
- **For example:**
 - *Have I discussed my business transfer plans openly and honestly with my family and associates?*
 - *Do I know what role I want to play until I leave? Have I decided when I will leave?*
 - *Do I know what my business needs to live on?*
 - *Do I feel surrounded by the right people? Do I know who can help me start transferring my business?*
- These questions will help you determine how comfortable you are with the business transfer process and help you identify your main concerns. You can then decide what action to take to address these concerns and take the first steps toward transferring your business.



AWARENESS RAISING AND CALL TO ACTION OF BUSINESS OWNERS AND POTENTIAL SUCCESSORS

- The next thing you should do is to write out and execute your transfer plan. Base your plan on discussions with your family.
- Here are some things that your plan needs to have: *strategic plan, transfer of power plan, succession training plan, communication framework.*
- **Strategic plan**- it should include values, mission, strategies and business vision you want your company to continue.
- **Transfer of power plan**- Power is one of the most difficult things to give up for the owner. The intimate knowledge you have of your business is another form of power. As an owner, you need to set aside time to talk with your successor to impart your strategic knowledge of the business.



AWARENESS RAISING AND CALL TO ACTION OF BUSINESS OWNERS AND POTENTIAL SUCCESSORS

- **Succession training plan-** help your successor acquire all the personal, technical, administrative and management skills they need to fully assume management duties and run the business.
- **Communication framework-** you need to set up a kind of steering committee or a family council to discuss how the transfer is going. This can serve as a decision making body as well.
- Remember that good planning is the key to a successful transfer. But before you can make a good plan, you must first surround yourself with the right people.



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- Awareness raising and call to action of public authorities

Raising awareness of the need to extend knowledge and competences on the topic related to *succession in family businesses* is a must.

The representatives of the authorities are satisfied with the relatively high and stable GDP growth in the country, and therefore they do not pay attention to the problems of the SME sector.

Therefore, it is important to draw attention of *local and regional authorities and the business environment* to the aspect of business succession. They should become aware that the *support of family companies* in this field will bring measurable *benefits for the region*.

To raise awareness in the issue, the following activities should be undertaken:



USING A DEDICATED INTERNET PORTAL

- A *dedicated Internet portal* would be divided into several sections directed to specified target groups, such as '*business owners*', '*successor*', '*business environment*', '*administration*'.
- Information included in the Internet portal would contain: *good practices* (illustrating the benefits for business owners and successors); information on the *succession process* (database of documents and legal acts); a section describing the *benefits for the local economy* resulting from the development of the SME sector; contact to possible *external consultants*, who would support the parties at every stage of the process.
- Internet portal users would be able to read the news in an easy way through relevant links.



AWARENESS RAISING AND CALL TO ACTION OF PUBLIC AUTHORITIES

SOCIAL MEDIA

- Social media such as *Facebook*, *Twitter* and *LinkedIn* are constantly gaining in importance.
- It would be worth using a Facebook profile, where anyone interested in the topic could get basic information about the *succession process* and make *contacts with experts* in this field, or with business owners, who successfully passed this process.
- The profile on social media would play the role of "news" for the Internet portal.



PARTICIPATION IN NETWORKING MEETINGS

- The invited experts would present the main theme of the meeting in the form of a ***short presentation***. It does not have to be the succession itself in family businesses.
- The participants of the meeting have enough time to ***discuss and exchange opinions*** during an unofficial part.
- It would be important that at least several business owners, who have successfully completed the process of succession, would participate in the meeting. Their ***experiences*** would inspire other participants.



AWARENESS RAISING AND CALL TO ACTION OF PUBLIC AUTHORITIES

PARTICIPATION IN DEDICATED WORKSHOPS

- During the workshops, experts would present the succession topic and possible solutions indicated, among other, by ENTER-transfer project partners.
- This would be an excellent opportunity for the decision-makers to become acquainted with the good practices of foreign partners.
- At the end of the workshop, their participants would make a study visit to the company, which, thanks to succession, continues its activities and has achieved success on the market.



AWARENESS RAISING AND CALL TO ACTION OF PUBLIC AUTHORITIES

ADVISORY GROUP

- The creation of an advisory group (at least two in the region) would allow for streamlining the process of succession in family businesses.
- Advisors would be appointed by business support institutions or local governments from among their employees. They would go through training on legal regulations regarding the succession process and business customer service.
- Their task would be to find and service family businesses from the region where a problem with succession is observed.
- Each advisor would have to visit a certain number of companies.



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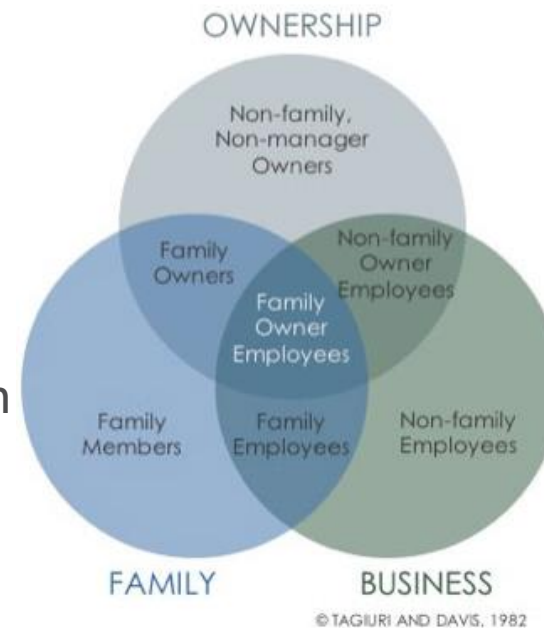
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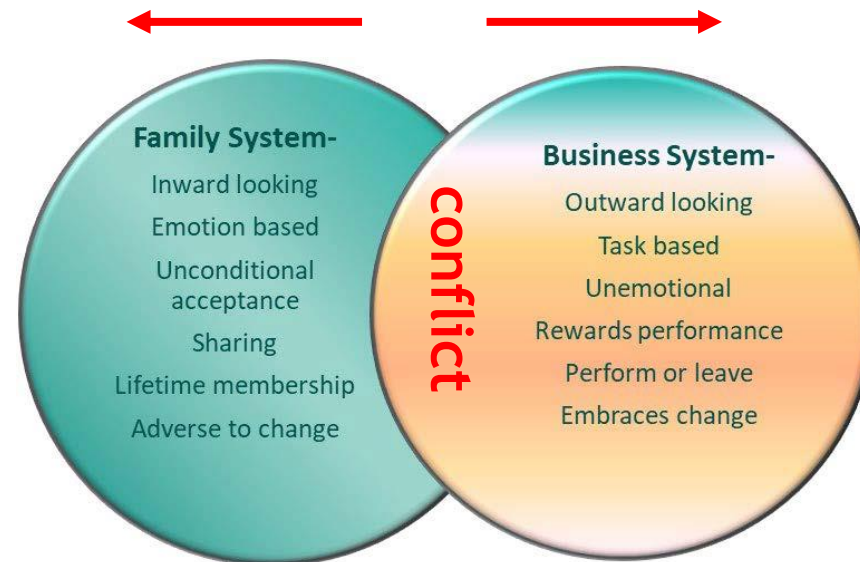
- Family businesses in transition: managing the change

- **Change management as a scientific discipline is not new**
 - Specific approaches apply in family businesses
 - External vs internal components
 - Various aspects, i.e. situational, psychological, ...
 - All components and aspect must be addressed to successfully finish the transition
 - Not all family members do/will participate in the family business
 - still, they have some roles
 - Family, Business and Owners must coordinate and collaborate
 - Clarity, transparency, communication and education



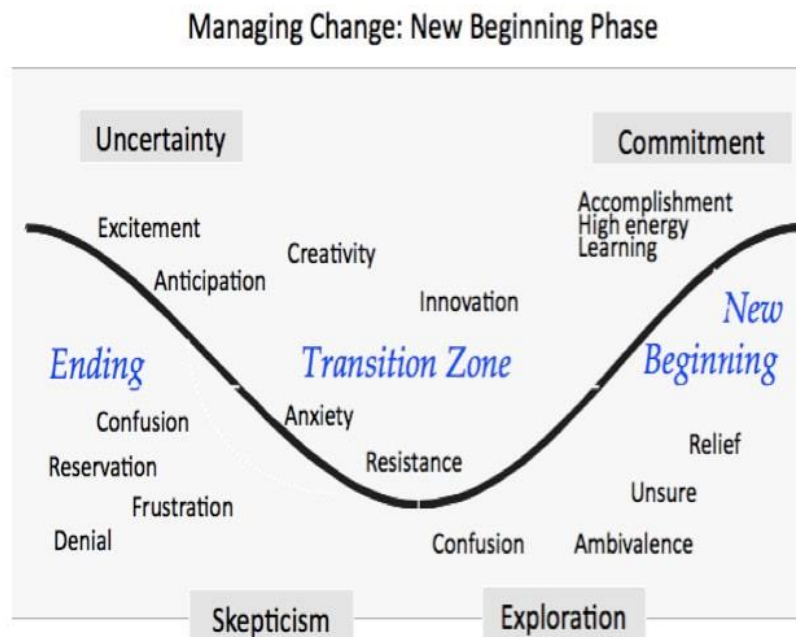
■ Main reasons for transition failures

- Lack of family mission and vision: 10%;
- Breakdown of trust and communication within the family: 60% ;
- Failure to prepare heirs for roles and responsibilities: 25%;
- Professional errors in accounting, legal or financial advisory planning: less than 5%



■ Resistance is natural to any transition process

- Transition includes three stages: an ending, a neutral zone, and a new beginning
- Most people focus on ending and new beginning, the neutral zone is often source of concern and confusion, leading naturally to resistance



Adapted from *Managing Transitions*, William Bridges



■ Tactics and mechanisms to address the transition

- Involvement - get family members involved, active listening, engage in understanding what is going to happen; not only family members must be involved (i.e. management, employees), sometimes even supply chain & business partners
- Education - think in advance, formal and informal education of prospective successors (in the core field of family business but also in business & management), change as motivation for skills development; harness the competence of those who are passionate about the change
- Task force/pilot group - establish working group with all stakeholders to lead the change
- Parallel planning - planning for both business and the family to understand how change affect both



- **Tactics and mechanisms to address the transition**
 - Consultant - ask for assistance to help formulating, communicating and implementing the change
 - Create opportunities - allow the owner and non/participating family members a graceful exit option; when the current generation is jammed in unresolved conflicts - skip the generation to bypass the deadlock



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- Identification and selection of a suitable successor

IDENTIFICATION AND SELECTION OF A SUITABLE SUCCESSOR - INTRODUCTION

Employers need to find candidates who:

- Meet the minimum requirements
- Have the potential to learn the rest
- Have desire to take on the position

The personal qualification of family internal leaders is usually not considered. Very often, the inter-family role makes the involved family members “blind” what competences are needed and who can fulfil the future tasks best.

In former times this problem was even more critical than today. In the last centuries the oldest son (primogenitor concept) had to take over the business. Nowadays this concept is not applied anymore and a stronger awareness of the personal competences of a business leader occurs.



IDENTIFICATION AND SELECTION OF A SUITABLE SUCCESSOR

The personal competences strongly define a successful power transfer. However, needed competences in a SME are not easy to analyse.

Big companies have scientifically analysis for employees and leaders. In smaller companies this is not possible. Also, because the tasks of a business leader vary greatly between the successors.

A business leader of a technical company must have specific technical/engineering knowledge and not only be a good sales man. However, only good technical experience is also not enough.



IDENTIFICATION AND SELECTION OF A SUITABLE SUCCESSOR

To identify potential successors, these key factors should be considered in a candidate:

- Strong track record of performance
- Demonstrates initiative, drive and persistence to reach higher
- Understands the people side of the business and demonstrates strong interpersonal and communication skills
- Learning agility with strong desire to grow and develop
- Understand organisation dynamics (up-down-across) with the ability to communicate with and influence key stakeholders
- Readily seeks out and accepts feedback for self-development
- Improvement focus/mentality (self, team, business) with the ever willingness to change behaviour and embrace changes
- Gravitas and leadership presence with strong communication skills
- Strong work ethic and the willingness to go above and beyond
- Strong drive to succeed and continuous improvement



IDENTIFICATION AND SELECTION OF A SUITABLE SUCCESSOR

Should our search in the ranks of family fail, we can start looking for the possible successor in the ranks of our employees of the company.

The following are some documented sources on employees that could be used as tools to identify potential candidates:

- Performance ratings and reviews
- Specific accomplishments
- Feedback from supervisors and managers
- Skills assessments
- Technical and professional designations
- Past work experience
- Short-term trial projects

Other options of succession:

- Look for a potential successor outside of the company
- Sale of the company - external buy-out



IDENTIFICATION AND SELECTION OF A SUITABLE SUCCESSOR - SUMMARY

- To find a prospective successor, based on mentioned traits and factors, we therefore need to look at the person as a whole.

What you do	Competencies Skills and behaviors required for success that can be observed For example: decision quality, strategic mindset, global perspective, and business insight	Experiences Assignments or roles that prepare a person for future roles For example: functional experiences, international assignments, turnarounds, and fix-its
Who you are	Traits Inclinations and natural tendencies a person leans toward, including personality traits For example: assertiveness, risk taking, and confidence	Drivers Values and interests that influence a person's career path, motivation, and engagement For example; power, status, autonomy, and challenge



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Effective knowledge and power transfer

KNOWLEDGE AND POWER TRANSFER - INTRODUCTION

Humans have passed on their names, heritage and possessions from the dawn of time. This old tradition is filled with emotions and plays a crucial role for processes as a transfer of a company.

Especially owners of family business want to see their companies thrive from one generation to the other. The old owner has either worked hard to build up the company or took over from a previous generation and doesn't want to be known as the one who ruined the company (same applies for the successors). However, many business owners built their lives around the company and passing it to the next generation is often described as if you were to sign your own death certificate.

The mix of rational facts and personal circumstances/relationships/emotions turns power transfer to a complex topic and plays a critical role for business successions.



KNOWLEDGE AND POWER TRANSFER - PROCESS

To establish a power transfer leading to success the following steps should be considered:

- **Invest time:** A succession process in family businesses should be an extended process
- **Redefine roles and responsibilities** of the predecessor and successor. They will have to vary and change before, during, and after the succession
- **Knowledge Transfer:** Before the succession takes place, the transferor mentors their chosen successor and gives them all the knowledge about the business.
- **Build trust** between successor, predecessor and employees. During the succession the predecessor should begin to delegate increasing levels of responsibility, particularly decision-making power, to their successor.
- **Trust:** At the end of the process, the transferor should retire and leave the business completely in the hands of the successor.



KNOWLEDGE AND POWER TRANSFER - SIX STYLES

Literature, differentiates between six styles when a CEO leaves a company:

1. The monarch
2. The general
3. The ambassador
4. The Governor
5. The Inventor
6. The Transitional Czar



SIX TYPES OF TRANSFERORS

Literature, differentiates between six styles when a CEO leaves a company:

1. The monarch

- o No corporate succession plan
- o consider themselves indispensable to the company
- o role in company= role in life
- o Dislodge the progression of aging - Monarchs operate with the assumption that they will die with their crowns on
- o Years after their retirements, they show up daily at work to read the mail, make calls, and... to reverse decisions they disagree with which were made in the past 24 hours



SIX TYPES OF TRANSFERORS

2. The general

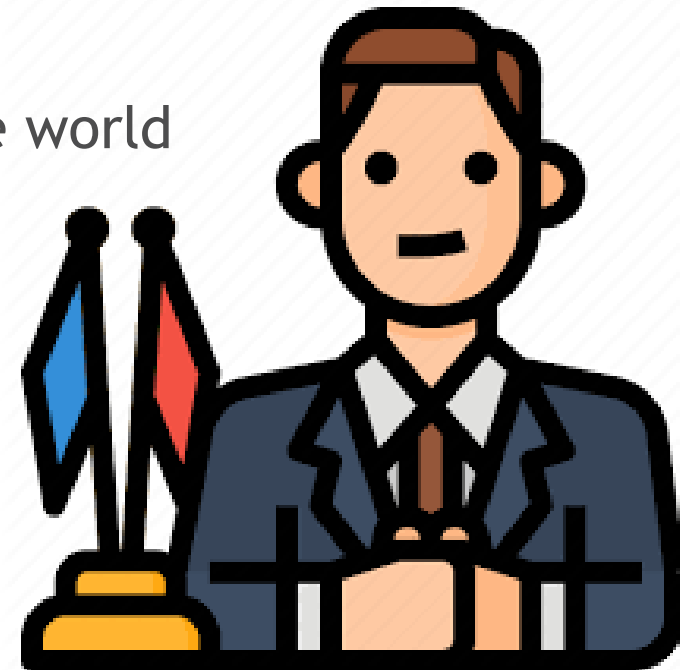
- o Retreats from the company due to their strong self-discipline but plans a secret return
- o Does not let go of the company
- o Resistant to any consultation
- o After the succession process, the "power" of the general still echoes long after



SIX TYPES OF TRANSFERORS

3. The ambassador

- o Leadership personality and good networker
- o Very strongly connected with the company on the outside but rather distanced on the inside
- o Employees have a lot of freedom in the company and are expected to help build up the company
- o Long-term planning is not their strength
- o No conflicts may be carried to the outside world



4. The Governor

- o Careful planning and implementation of succession
- o Creates detailed schedule
- o Communicates the transfer of power outside of the company
- o Leaves the company completely



5. The Inventor

- o Careful planning of the handover
- o Will gladly continue to give creative impulses to the company after the handover
- o The reasons for a handover are often of economic/administrative nature
- o After the handover, they like to set up a new company that competes with the company of the successor.



6. The Transitional Czar

- o Plans the handover very precisely because they see the handover only under their leadership as goal-oriented
- o Accepts advice
- o Letting go of the company is a relief
- o Successive separation between them and the company



The PERFECT type of transferor...

... does NOT exist.

The transfer of power needs to be **UNIQUELY** designed for each family and business in such a way, that family leadership, ownership control and company management are part of it.



KNOWLEDGE AND POWER TRANSFER - EXAMPLES

-Family business 1:

Family Business in 3rd generation. Succession from father to daughter.

Sawmill company. Father (transferor) retired but still as „silent“ advisor in the company active.

- Family business 2:

Family Business in 6th generation. Succession from father to son.

Toolmaker company. Transferor still in company present.

- Family business 3:

Family Business in 4th generation. Succession from father to daughter/son in law .

Butchery. Transferor (unofficially) still in company present.

→ Three completely **different traditional family businesses** where the father/former company owner is still present, however, **power transfer is dealt with in three different ways.**



KNOWLEDGE AND POWER TRANSFER - EXAMPLES

-Family business 1:

Family Business in 6th generation. Succession from father to daughter.

Sawmill company. Father (transferor) retired but still as „silent“ advisor in the company active.

Succession process: The succession was never communicated- neither within the family, nor within the company.

Knowledge and Power transfer process: The transfer was very spontaneous- from one day to the next. The successor, the daughter of the company owner, had no time to prepare for the new role. It was especially for the employees a big “shock” .

Successor: „Of course, the follow-up process would have been easier for everyone if my father had planned the process together with me. For me it was especially difficult to get the necessary respect as a woman in a man's world. I would have liked to get support from my father but afterwards I understand why he didn't do it.“



KNOWLEDGE AND POWER TRANSFER - EXAMPLES

-Family business 2:

Family Business in 6th generation. Succession from father to son.

Toolmaker company. Transferor still in company present.

Succession process: Since the birth of his two sons, the transferor was preparing him and his son(s) for the transfer. At a very early stage it was already clear which son will takeover the business. Both sons experienced the best education- this was the highest priority for the business owner.

Knowledge and Power transfer process: Well planned on the long term; A very clear and “strict” plan was introduced about the responsibilities within the company.

Successor: „The succession process and the time afterwards was perfect. I was well prepared and was looking forward for it. The clear responsibilities of tasks and decisions to make between my brother and my father is one of the key factors for the successful transfer.“



KNOWLEDGE AND POWER TRANSFER - EXAMPLES

-Family business 3:

Family Business in 4th generation. Succession from father to daughter/son in law .
Butchery. Transferor (unofficially) still in company present.

Succession process: The business owner had only one daughter. She decided very early that she would like to study veterinary. She married an economist and both were successful in their job. It was clear for everybody, that one day they will takeover the company.

Knowledge and Power transfer process: After the transfer, the business owner retired but still supported the business as both, his daughter and his son in law, did not work in the company before. Now, four years after the succession, the former business owner and his wife still support wherever they can.

Successor: „It was always clear for me that one day I will take over my father’s butchery. In the beginning, I was very grateful that my father supported wherever he could. Sometimes we argue when he reverses my and my husband’s decisions. Of course we respect his knowledge but we want to become a modern butchery.“



What can we learn from these experiences?

A good power knowledge and power transfer:

-) Timing: Start the transfer process early
-) Clear assignment of tasks and responsibilities needed
-) Advice from the transferor can help a lot - but should only be offered when asked for it

However, each power transfer is strongly influenced from personal and social background. Ideally, the transfer of power within family businesses should already start at the birth of children to build up their understanding of the company values.



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