
PREPARATION OF GERMAN SMES FOR A FAMILY INTERNAL HANDING OVER- AN ANALYSIS OF A FIELD RESEARCH

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Abstract

The present paper is a result of a survey-based research aiming to describe the preparation of handing over German small and medium enterprises within family owned businesses. The purpose of this paper is a practical contribution of planning and implementing the handover of a family owned business from old to new management. The article shows that experience of the management, former owner profile, old and new management leadership style, age of entrepreneurs, reason of transfer, education of successor or internal communication of the future transfer are key elements when it comes to internal handing over within a small of medium family owned business. Consequently, the connection and influence between those factors is high and has a major effect within the organizations. The findings are based on an analysis of a field research study of about 18.196 German family owned organizations. The results of the research, based on a questionnaire were confirmed by a thoroughly literature review of recent scientific papers on handover planning within family owned businesses.

Keywords

Handover, family owned business, knowledge transfer, internal communication

JEL Classification

M5, M12

Introduction

Transfer of a family owned business can be challenging for any organization and a good succession plan is critical in order to continue the activity of the company without affecting the production or services. During the period of generational change, both old and new management have to face a lot of challenges (Schmithausen, 2012). However, this sensitive process can be conducted with a careful and detailed planning and by choosing the right successor, being compatible with the company and management style. The handover phase is one of the most critical phases in the life cycle of a company with a lot of risks linked to the activity of the company.

The causes of the succession problems are varied and the challenges are investigated in the below presented results of our questionnaire. As such, we consider that a further research is

needed in this area, including the factors that influence this transfer phase faced in German family owned businesses.

This article discusses and presents an analysis of the preparation of German small and medium enterprises for a family internal handing over.

Research context and interested issues

In the German economy, family owned businesses have a special importance. Only in the manufacturing sector, which all of us would tend to say that is controlled by multinational companies, 90.431 out of 107.094 are family owned businesses. Most of the German family owned businesses are small and medium size enterprises (SME). Also, the majority of the German enterprises are part of the SME sector, which includes all those companies with an annual turnover lower than 100 million euro. Most of those family owned businesses are managed by family members and handed over to two or three generations already (Del Giudice et al., 2011). Our questionnaire collected data also with regards to general information about the company, such as year of building, turnover, number of employees etc.

In the last period, relationships and conflicts within family owned businesses became a very popular topic (Collins & O'Regan, 2011b; Sharma 2008; Sonfield & Lussier, 2004). In the researched studies, two topics appear to be especially important when it comes to succession of a family owned business. The first one is represented by the harmony within the family (Lussier & Sonfield, 2014; Wang & Ahmed, 2004). The second critical issue is the step back of the old management and totally hand over to the new management (Eddleston et al., 2008).

Succession of a family owned business can be a tough challenge for the management and employees. The time frame and a good planning is another issue that has to be considered when it comes to such a transfer. Sometimes the handover process can be chaotic and even if this moment is in some cases postponed, this is an inevitable phase for a family owned business. In many cases the next generation is not prepared to take over and ensure a further success of the company, while the old management is not ready to step back.

Research Methodology

The basis of this research is represented by a questionnaire separated in 5 different areas. The first part of the questionnaire refers to general information about the company like contact details, year of funding etc. This section was mandatory and supported with the classification of the organizations in small and medium sized and big enterprises.

The second part of the questionnaire included questions about previous or still current managing director of the organization. During this section we asked questions about the style of leadership.

In the third part we concentrated on questions about the successor. The knowledge and background were key topics for this section. The successor's educational background and experience gained by working in other organizations were significant elements we wanted to consider in our research.

In the fourth part of our questionnaire we concentrated on the actions, strategies and planning of the hand over process. Also, the usage of internal and external support will be a topic for this section. Also, in the last part we asked for opinion about what the respondents would improve in their organizations and how they would manage the process if they would have to repeat the experience of hand over/ takeover of an organization.

The invitation link to our questionnaire has been sent by email to a total of 18.196 organizations. The received database was well structured and up to date, so that only 115 mails were not able to be delivered. Within the first 3 days, 63 persons answered the survey,

so the force to answer a web based online survey for which the invitation has been sent by mail is quite low.

Findings

The employees are the essential element for a business to function. Depending on the size of the organization and on the type of their activity, the number of employees may vary accordingly. Most of the businesses we questionnaire are owned and managed by families. Depending on their purpose, we can split the organizations in five main categories: companies with limited liabilities, one-man business, open trading companies, joint stock companies and limited partnership. Amongst these groups, the most popular type is represented by the companies were with limited liabilities, about 67% of the total family owned businesses in the German market.

Analyzing the data, we collected from the first part of our questionnaire, when it comes to management of these family owned businesses, we noticed that most them are owner and sole management companies representing approximately 57% of the entire total of family owned businesses. This is more than half of the entire total of family owned businesses.

It was visible that there is a positive correlation between the yearly turnover and the number of employees. This can lead to the assumption, that an organization with more employees has a higher turnover and a higher balance sheet total, compared to a smaller organization.

When it comes to ownership transfer over the last 5 years, the collected data shows us that most of the family owned businesses remained in the hands of their originators with almost 36% of respondents admitting a family transfer of the company has not been implements and is not planned.

However, when it comes to the organizations which already done the transfers and to the reason they did this move, 79% of the family transfer was predicated on advanced age of the manager. This is in correlation with the data that indicates that the above mentioned 36% of the respondents admitted that a family transfer of the company has not been implemented and is not planned. Another deduction from this data is that the reason behind the decision of the organizations which already done the transfer had the advanced age of the former manager. Other reasons for the transfer of the company had as background disease of the former executive director, death of the former CEO. Only 2% did not indicate the reason of the transfer of the company or family owned business.

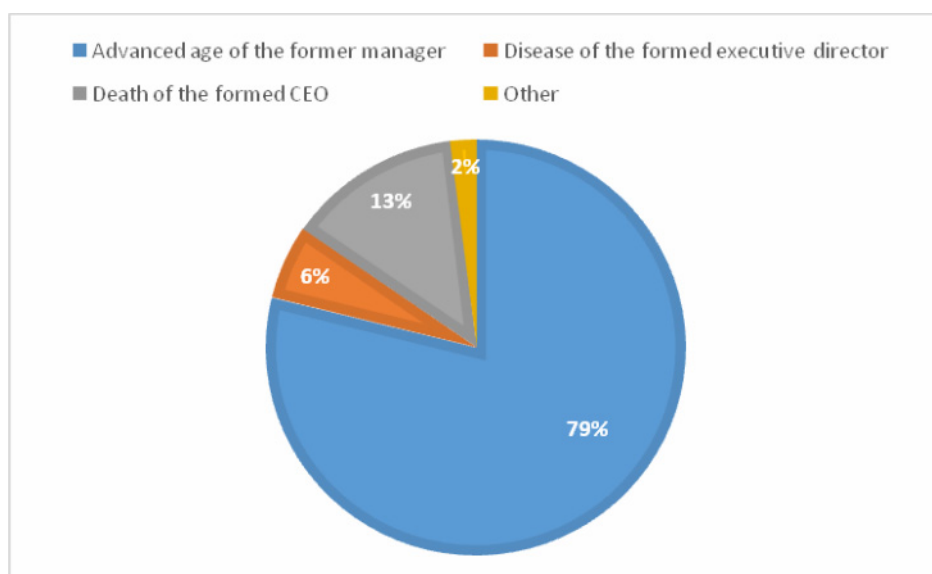


Fig. no. 1. Reason for the transfer of the company

Even if the business managers left because of advanced age, they remained within the business to support with consultancy and to guide forward the business. In this way, the new managers take part of an induction period and the traditional values are passed for generation to generation. The old manager remained within the workforce and assists in other duties, so that the business does not suffer crucial changes of losses in its activity because of the transfer.

We asked how long the old managers have been leading the company. The answers showed us that these managers have been with the companies for a long time and this has the salient experience to offer to their predecessor and as well as offer consulting services at their own free time as needed for the new management. In this way the family knowledge is maintained, and the business keeps a profitable trajectory. It is important for the organizations to offer the customers or consumers the same level of quality when it comes to products or services, independent of the changes that happen within the management transfer. It happens that within family owned businesses with complete takeover process a change of the vision and mission occurs. This is the reason why most of the employees' express fear and concerns when it comes to changes within the board. Nevertheless, we discovered three categories for the duration of the old mandate: 10-20 years, more than 20 years (with a percentage of 83%) and 1-5 years.

In the second part of the questionnaire, we concentrated on issues concerning the previous or still managing director of the organization and on the leadership style. When we asked our respondents to describe the former owner, 36% of them answered that they had a patriarchal leadership style. 30% of the family owned businesses have a cooperative leadership in place, while 12% are believed of having an autocratic leadership and 16% can generally be described by a charismatic leadership style.

The third part of our research concentrated on questions about successors. When we asked to whom the company was handed over, the data collected indicated that the management of a family business was most likely to be passed on to another family member. Not less than 84% of all family businesses will be handed over to the son or daughter of the current director. It is important to mention we can correlate this to the kind of leadership which was in most of the cases cooperative or patriarchal for the family owned businesses in Germany. Our results revealed a typical norm world over in the expectation of retirement age in most jurisdictions across the globe which is around the age 50-65 years. In Germany, the retirement age has been capped at 67 years for anyone born after the year 1964 and 65 years for anyone who was born before 1947. The collected data indicated that 59% of the family owned businesses in Germany has the propensity to push retirement age beyond 65%. This large representation is then most likely to encompass businesses that have cooperative management and patriarchal leadership styles from the previous presented question.

As mentioned above, 79% of the family owned businesses are transferred only because of the old age. Further explanation for this can be the notion that the German government is generally arguing the old German populace to keep work. The experience of the old management at work may be a contributing factor but can be seen as the emotional binding and having problems with letting the organization in the hand and lead of someone else. The rest of the data indicates that family owned businesses and early retirement ages of between 40-60 years represent 5% of the total family owned businesses and early retirements of 40 years and below make up 9% of the total family owned businesses.

The choice of suitable successor in the context of professional skill, technical knowledge or the relationship with the company can be hard when it comes to the hand over process within a family owned business. For such deliveries to be successful, then the receivers or successors must have professional experience and knowledge in the same field. The successors are more likely to be representative of the 37% their apparent of the business has a specific personal relationship with the company.

It is more likely that the potential choice for an appropriate successor based on specific technical skills in a dedicated field represented criteria for 16% of the respondents. We can correlate this result with the fact that in many hand over cases, the old manager looked to completely deliver management and decisions to the successor but remained within the company for consultancy and technical expertise purposes.

Of course, choice of a new manager can vary in terms of reasons and the replacement of the old manager can be a difficult mission. It also falls under the purview of stakeholders in the business to sometimes conduct a vote in order to determine the new leadership.

Another important element which has to be considered when it comes to the handover of a family owned business is the education the successor has. Additional to the skills and experience, the future leader of the family owned businesses have to fulfil specific educational conditions, such as: Bachelor's degree, high school, technical high school, master's degree, promotion, middle school graduation or no qualification. It is the responsibility of the current manager to ensure that the family owned business has to quality leadership at the helm. 27% of businesses chose a person for the leadership position based on them holding master's degree in the relevant are of business specialization. This category was the highest, followed by the bachelor's degree as mandatory request for 17% of the asked family owned businesses. This indicates that the level of competition and complexity needed to successfully manage to take over a family owned business is very high. In comparison to the big corporate multinationals, where a global knowledge is needed, the family owned businesses request their managers to specialize on a specific professional field. Most probably this is also the reason why the old managers remain within the company after handing over for pure consulting, being experts in their profession field.

The need for specialization is high within the family owned businesses, being important to stay on the market and face competition from the corporate multinationals, whose economies of scale affords them much latitude in terms of bargaining power and costs of production.

There was also a category of business whose leadership does not request any qualifications, representing 2% of the market.

The main leadership will normally have as goal to be streetwise and smart and to get business going.

As part of the successor's profile, we asked if he worked in another company before taking over the family owned business. It is generally agreed that before an employee takes over a management position in a family owned business, they have been working as an employee for another company. Almost 60% of the respondents indicated that the successors had some form of employment experience with another company, different from the one they have been chosen to lead. This indicates that it is important to have some form of experience before taking over a managerial position. It may also indicate the favored mode of induction of people who are related to the business where heirs apparent are normally oriented on management duties for a while in a different company before having to be allowance to lead their family business. It is also noted that 24% of our respondents have been chosen for management positions, without working for another company as an employee before. This is a significant result and may indicate that the old managers trust their successors and have a good personal relationship within the family business. Only 60% confirmed that they worked before as an employee with management duties, but for another company. We can conclude on this part that the individuals had enough experience, gained from their previous jobs or had a high educational level (bachelor, master's degree etc.) in order to prove that they are the right successor who is ready to take over the family business.

We asked our respondents to describe their successors, focusing on the leadership style they expect from them and more than 65% responded that the entire family owned business leadership exhibited cooperative management. It is interesting to company this result with

the one from one of our previous presented questions, where most of the family owned businesses had a patriarchal leadership style. This was followed by the family owned businesses with a cooperative leadership style (30%). Here we can deduct that when it comes to change hands from old to new management, the cooperative style of management is preferred, in comparison with the patriarchal style, which has been criticized to be against feminine leadership. Other leadership styles which gained a lower percentage can be described as patriarchal style, bureaucratic management and charismatic leadership style.

When it comes to knowledge transfer from old to new management, the collected data indicated that a majority of 43% had planned to transfer just a few departments to the new management. In this way, they prepared an induction process for the successors. 10% of the family owned businesses used the support of a professional consultant for the transfer. Concerning the timeframe of the transfer, most of the family businesses had to strict plan or period for the integration.

We consider the internal communication is important when it comes to the handover of a family owned business, so we asked if the company transfer plan was communicated to the other employees. This is an internal process and the focus is on the communication of the successor plan. Most of the family businesses had an internal communication process and planned the transfer internally (27%), while 15% of the respondents said that they communicated the change only once the new management took over and started. In 17% of the asked companies, the future management change plan was not communicated, but the employees thought it. However, there were also family owned businesses where not communication was done, and the employees were surprised by the new management.

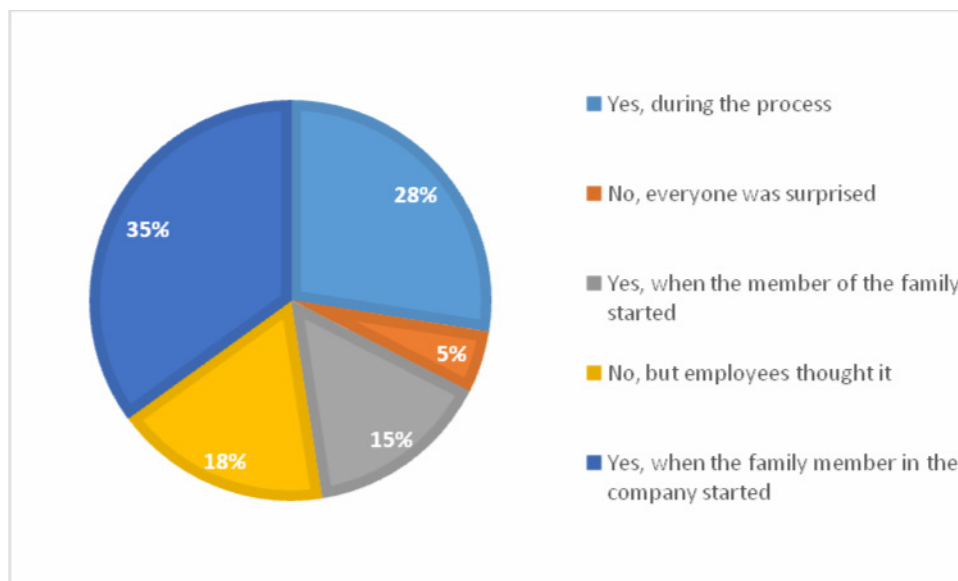


Fig. no. 2. Was the planned company transfer communicated internally?

Open communication and a good planning can have a positive impact on the operating climate. This has been demonstrated also in the answers we collected, where 53% of the respondents considered that had a more positive effect on the relationship with their employees. Only 13% considered that the internal communication had a negative effect on the operating climate and this result could be explained by the 17% of the company who chose not to inform their employees about the change and surprise them with a new management.

Conclusions

Considering the results of our small research and the studied materials, we can conclude that it is important to give the next generation the opportunity to get involved as much as possible in the handover planning and to be encouraged to take decisions before they fully take control.

To avoid the errors and prepare for the handover steps as planning, empowerment of next generation, selection of successor, communication and step back of old management are some simple and important steps to be followed.

Future research questions should focus on a more detailed analysis of the steps the family owned businesses followed during the hand over process.

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