

# SUCCESSION AND GENERATIONAL CHANGE IN FAMILY BUSINESS

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## **Abstract**

Establishing and conducting business activity in form of family business is an essential part of SME entrepreneurship. Family forms of business ownership are typical especially for smaller businesses that belong to the group of small and micro enterprises. Essential management tasks involve ensuring the human capital, which is necessary to run the business. In contrary to non-family enterprises, family businesses face specific human resources issues as an integral part of the company management. These specific features stem from the issue of business ownership and the need to ensure the business continuity in form of succession. In terms of corporate management, this is an important moment in existence of the business, since it will determine the continuity of business activity or even disappearance from the market. Succession and generational change have become critical issues in existence and functioning of the family enterprise. The foreign scientific literature states that this is the most common reason for the demise of family businesses due to failure to resolve succession resp. generational change in business management. The subject of this paper is to provide a brief outline of the issue and present partial results of targeted research oriented at family enterprises.

**Key words:** succession, generational change, family enterprises, micro and small businesses

**JEL Code:** L25, L26, J12

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## **Introduction**

Family-owned businesses do not have a long tradition in Slovakia, especially if we want to compare them with family-owned businesses located in developed countries in Europe. The reasons are to be found in the different political and economic conditions, different economic systems, different stages of economic development and ownership relations. The vast majority of businesses characterized with features being a family business belong to the SME sector. Several foreign family businesses have developed themselves to successful companies over their long period of their existence. Although family-owned companies are present in the Slovak

business sector, no adequate attention is addressed to their activity and no real measures are being introduced to eliminate barriers they encounter in their everyday practice.

The general public, but also the experts consider family-owned enterprises operating as micro-businesses with strong local character. It is not always the appropriate approach to perceive them. It is important to bear in mind that family-owned businesses are primarily concerned with securing a job for family members. Closely related to this function of the company is the need to secure financial income for the family, and as the third motivation it is necessary to mention the possibility for self-realization. The role of family businesses is indispensable especially in regions, where investors and establishment of medium-sized or large companies cannot be expected. The operation of family-owned enterprises is closely connected to development of individual regions.

These are the reasons why the author of this article addressed his attention to research of small and medium-sized businesses in family ownership. The author is the leader of an international project addressing the issue of innovative small and medium-sized enterprises, start-ups, which are often in family ownership. Due to limited space for the presentation of research results, the author in this article is focusing on presentation of a sub-problem – succession and generation exchange in family-owned enterprises.

## **1 Theoretical background**

Entrepreneurship in the form of family businesses already represents an already established form of entrepreneurial activity in Slovak conditions, but in comparison with the advanced market-oriented economies a less utilized form of entrepreneurship. Although large proportion of businesses in family-ownership can be perceived as a small-sized business, these businesses show a high degree of innovation, pro-customer orientation and high degree of personal involvement of the family members.

If we check the sectoral focus of these family enterprises, we find that most of these business are operating in the service sector and trade (Ajaz et al., 2019). A more pronounced sectoral focus in the business activities of family-owned business is determined by the possibility of self-realization, the necessary experience and income conditions. The owner of the business naturally compares the income he would have from his dependent activity with the income that his business brings him. These measures are different in different sectors (Pauhofová et al., 2018). Decision is made between being employed and entrepreneurship at one's own expense and risk with a questionable income effect (Nosková a Peráček, 2019). In

addition to sectoral focus, it is interesting to observe the regional distribution of these forms of small and medium-sized enterprises, which, according to Lazíková et al. (2018) are directly related to regional disparities. These forms of business units can contribute to local and regional development.

According to the above-cited authors, it is clear that small businesses are often forced for cooperation by market conditions. Network or cluster initiatives are also common in the SME sector (Srovnalíková et al., 2018). Similarly, to other types of business units, the priority of family businesses is building competitiveness, which is closely related to high level of productivity, quality and innovation (Volek and Novotná, 2016). Wach (2020) has also devoted his attention to the growth of small enterprises. Unlike other authors, Wach can see potential for the growth of small businesses in their involvement in international processes.

The problems of family business can be divided into two major areas: general problems of the SME sector and specific problems experienced only by family-owned businesses. It is necessary to list at least some of the specific problems, although the length of the study does not allow to name and identify in details these individual characteristics. It is necessary to conclude that in the case of family-owned enterprises, the priority is to satisfy the need of an employee, self-realization and achieving a higher than average income. In other types of businesses, achieving higher income is a priority.

A specific problem directly linked to family-owned businesses is securing the continuity of the business and taking over the business by the representatives of the new generation. The research in this field has shown that generation change is the weak point in ensuring the continuity and survival of the business. The issue has been examined closer by Peracek et al. (2020). Women are also successful in the sector of family businesses (Godany, 2018). They are often crucial representatives of these small businesses (Lesakova, 2015). Men in these businesses usually help with technical, supply or logistic tasks. A proper division of tasks and activities is a precondition for efficient functioning of family business. Imbalance can be caused by different factors. Kubicek and Machek (2020) warned the attention for internal conflicts present in family businesses. These conflicts usually appear as a result of generation gap and due to different attitude on operation, management of the business as well as completing different tasks. The family relations are important factor of success in these types of businesses, as well as significantly influence the performance of managerial tasks. In his contribution, Peracek (2019) recommended to pay attention on relationship of family members. Rozsa et al. (2019) added that survival of family business depends on family relations - the relations of family members involved in business and are from different generation group. It is the

generational differences in business practice that are reflected in different views of representatives of different generations on business operation, management, introduction of innovation, making strategic decisions and further practical aspects of family business management. Parada et al. (2020) recommend paying increased attention to communication with representatives of different generation groups in the business and provide opportunity for them to express their opinion that might be helpful in taking over the management of the business. This form of cooperation is vital to avoid bankruptcy or disappearance of business from the market as a result of unsuccessful generation change. The absence of preparation for takeover of the business is currently a serious problem of the business practice in firms owned by family.

## 2 Aims, material and methods

Like any other scientific contribution, this submission must also clarify some basic methodological outputs. The main goal of this paper is to point out the selected problems related to the succession, generational change in the family-owned enterprises in Slovakia. Partial goals include emphasizing the importance of family businesses and the need for systematic strategic management of businesses with elimination of threat of bankruptcy or withdrawal from the market due to unsuccessful generation change.

**Table 1: Distribution of business entities in the sample of family businesses**

<b>Region</b>	<b>Absolut abundance</b>	<b>Relative abundance</b>
Bratislava Region	10	7,7 %
Trnava Region	16	12,3 %
Nitra Region	15	11,5 %
Trenčín Region	17	13,1 %
Žilina Region	22	16,9 %
Banská Bystrica Region	24	18,5 %
Prešov Region	19	14,6 %
Košice Region	7	5,4 %
<b>TOTAL</b>	<b>130</b>	<b>100 %</b>

Source: primary research, own processing

The theoretical background processed in the article is based on secondary literary sources, represented by scientific articles in the renowned scientific databases of Web of

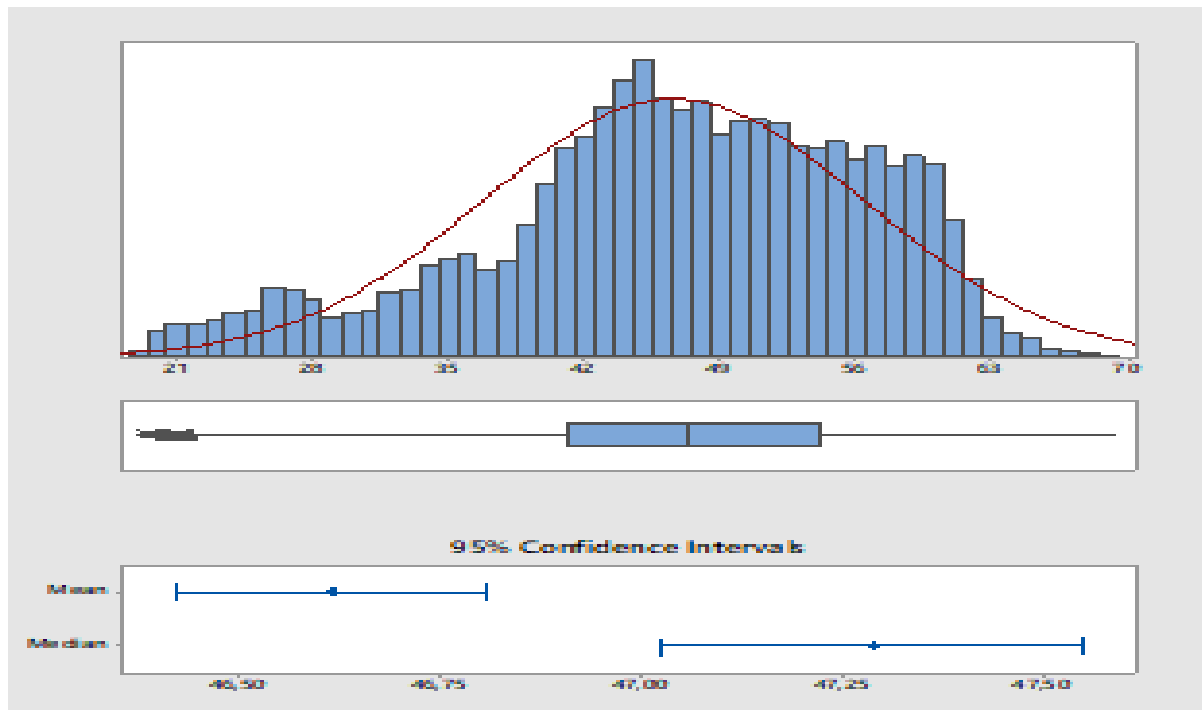
Science and Scopus. The primary sources of information and data are formed by partial results of 2 completed researches conducted on regional level. In the pilot phase of the research 400 randomly selected small and medium-sized businesses were addressed, i.e. 50 SMEs from each region. 324 SMEs showed willingness to cooperate in the research activity. Following the selective question whether the company is in a family ownership and the family is represented in the management of the company, whether it can be considered a family business, the sample was made up of 130 business units. They subsequently entered a deeper research. The distribution of enterprises is presented in Table 1.

After specifying the goals and materials of the research, the methodological approach was determined to solve the issue. Qualitative research methods are more frequently applied than quantitative methods in case of SMEs. As a quantitative method, a questionnaire survey was applied as a technique of necessary data to be collected in field research. The questionnaire survey contained both open and closed questions with orientation on several aspects of family businesses. In this particular case, the obtained data is processed with a focus on succession and generational exchange serving the basis of the pilot research. The qualitative methods applied in the survey were selection, logical approach / analysis, synthesis, induction, deduction. As a further tool of qualitative methods, the structured interview was used with the owners of family businesses. The listed steps show that we applied a mixed approach in our research, which helped us to obtain a larger scope and depth of primary data.

### **3 Results**

The empirical part of the paper presents only the selected sub-areas of the discussed problem, since we have limited space for presentation of the survey results. As a further limiting factor to be mentioned is that the survey is in progress. The current results reflect the results processed as a part of the pilot research realized on a selected sample of 130 businesses in family ownership in the representation of each self-governing region. Therefore, the partial findings cannot be considered transparent. The results include only the possible trends in relation to succession in family enterprises. In order to be able to take a qualified position and gain transparent results or generally apply to conditions of Slovakia, it is necessary to continue and deepen the research activity and conduct the research on a reasonably large sample of family businesses. In our study we also examined the age structure of the selective sample (Figure 1).

**Fig. 1: Age structure**



Source: primary research, own processing

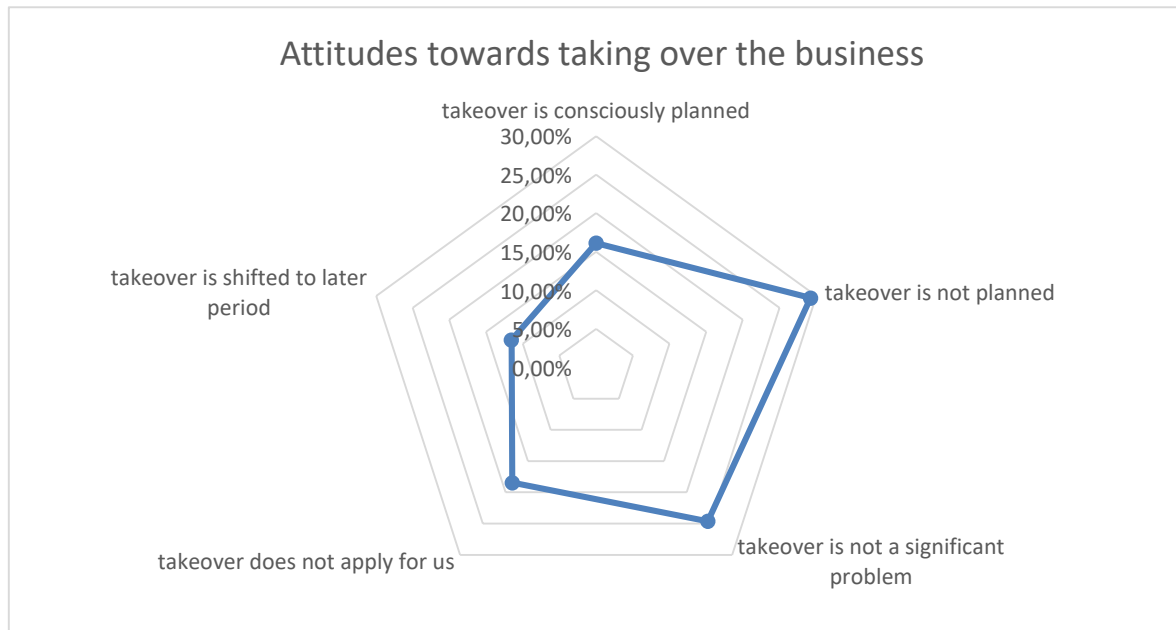
Regarding the descriptive characteristics of our sample, we can state that based on the results of the above analysis of the variable age, the data set is skewed to left (skewness  $< 0$ ) and this suggests that most of the values are concentrated to the right from the average. Based on the sample it can be assumed that the number of people older than average dominates in the research. The distribution is platykurtic (flatter than the normal distribution, see "kurtosis"  $< 0$ ). The median, i.e. the mean value of the statistical set, which divides the set into two equally large parts, is 47. The youngest participant in the research was 19, while the oldest was 69 years old. 95% is the probability that the average age of the respondents can be found in the interval of 46.42 and 46.81 years.

The distribution of respondents according to age and considering their gender is very similar. The box plot does not indicate significant changes. The average age of female respondents is slightly higher, which may be explained by the fact that the share of women in a given business segment is high, and there is a higher average age in this category as well. The difference between the first and third quartiles is smaller for female respondents, indicating that most of the female respondents in the sample are at average age.

In this sub-chapter of the article, we summarize some findings from business practice of family businesses, which are related to generational change and securing succession. The

first important question was how the family business approaches the takeover process, which ultimately means a successful succession. The results are presented in Figure 2.

**Fig. 2: Attitudes towards taking over the business**

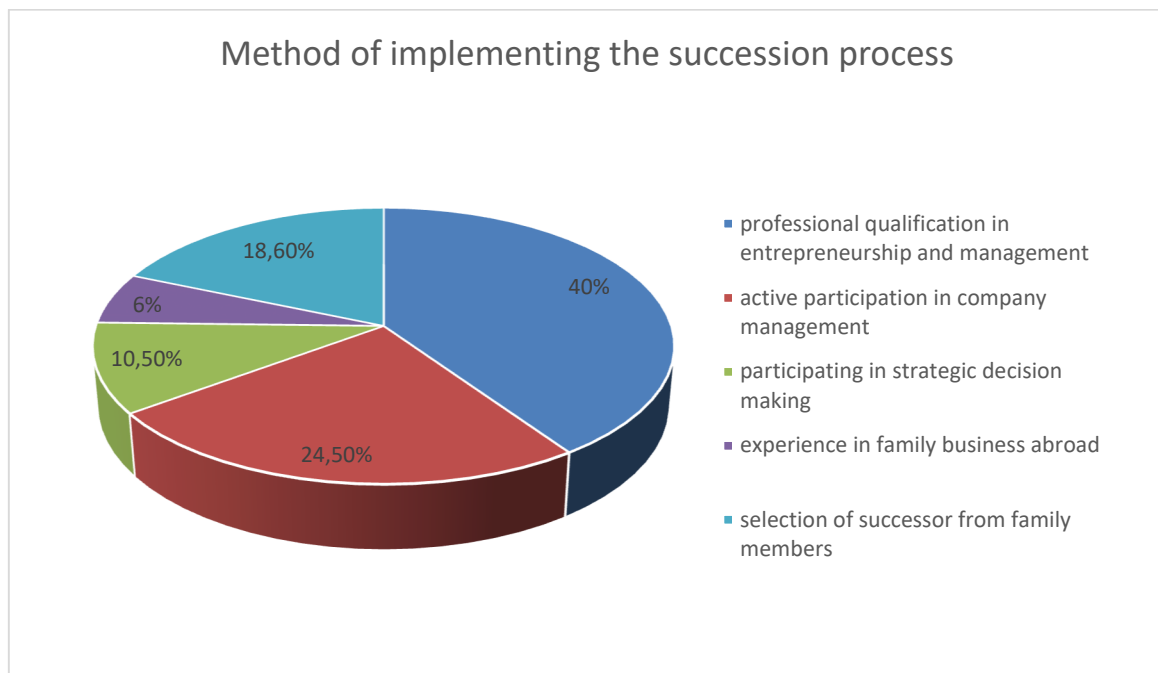


Source: primary research, own processing

Figure 2 clearly indicates that relevant part of the family businesses in the sample does not have the right attitude to the issue of taking over the business. 29,23% of the businesses do not plan the question of succession at all. A quarter of family-owned businesses said that they did not consider the succession to be a significant problem, almost the fifth of the companies said that succession is not an issue in the company, and 12% of the companies shifted the issue of succession for a later period. Only 16,5% of the companies involved in the survey declared that they plan the succession consciously. These results are rather unpleasant for the research team. We assumed that the issue of succession is not adequately solved in family businesses in Slovakia, resp. is not approached systematically. Such an approach of the top representatives to the issue of succession of these companies can be considered alarming and in sharp contrast to what the theory of management, namely the strategic management reports. In our opinion, solving the issue of succession is one of the most fundamental fields of corporate management and it is necessary to approach it systematically and with respect. When not enough attention is addressed to the issue, it is not surprising that even a successful family business finds itself on a verge of disappearance from the market.

In the case of family businesses, which planned resp. applied systematic approach (plan) in succession had asked the method they apply in solving the problem of succession. The businesses were provided a possibility to list multiple options. The results are shown in Figure 3.

**Fig. 3: Method of implementing the succession process**



Source: primary research, own processing

Figure 3 indicates that vocational training in entrepreneurship and management as a prerequisite for successful succession is implemented by 40% of family businesses involved in the research sample. As a part of the succession process, almost a quarter of companies actively involve younger family members in the day-to-day operation and management of the company. 18,6% of the businesses realize the selection of successor among the family members. A bit more than 10% of these businesses involve the younger generation in the strategic decision-making, where the succeeding generation can influence the process of strategic decision-making. 6% of the family owned enterprises reported that, as a part of the preparation process for succession they provided internship for a younger generation in companies abroad in order to gain different than Slovak experience in family entrepreneurship. It is worth to mention the importance of education to ensure the successful takeover of family business by the younger generation, but we doubt that active participation of younger generation in day-to-day operations and management of the business should be more represented.



## **Conclusion**

Entrepreneurship in form of family businesses has an extensive history worldwide and is linked to the development of market-oriented economies. Small family-owned enterprises has always been a part of the life of people also in the historical territory of current Slovakia. Following the political and economic changes after the world wars, the newly introduced economic system disabled the entrepreneurship activity, which resulted in disappearance of family entrepreneurship. Nowadays, after a thirty-year existence of the market-oriented economy, family-owned enterprises have found their place among the business in the SME sector. They differ from other types of businesses in forms of several characteristics and specific problems to be solved. One of the most important issues in terms of strategic management of the family-owned enterprise is the solution of succession and realization of generational exchange. This problem has proven to be the most significant. If a family type business does not strategically plan the issue of succession and generational exchange, might end in dangerous situation.

As a part of partial results of scientific research conducted, the author is presenting the findings related to the issue of succession and generational exchange. The research targeted the Slovak conditions, the companies with family business character in the territory of Slovakia. As a conclusion, we can introduce some findings from business practice: a high ratio of family-owned enterprises do not devote attention to the issue of succession. The results of the pilot research proved literally indifference in relation to this strategically important step to be taken by the companies. We strongly encourage the representatives of these businesses to change their attitude, since a successful business can easily turn to unprofitable company disappearing from the market. Only 16,15% of the companies involved in the survey consciously plan succession, which is against the recommendations of management theories.

The family enterprises that systematically prepare for succession, often ensure the professional training for the younger generation, involve them in day-to-day operations and management of the business shortlist from the possible successors according to individually defined criteria, while some companies allow the younger generation to participate in making strategic decisions.

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