

The Development of a Succession Planning Strategy for a Family-owned Business

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ABSTRAKT

V této bakalářské práci na téma Vývoj strategie nástupnictví rodinné firmy se nachází problematika rodinných podniků a to především na téma nástupnictví a generační obměna ve vedení společností. Cílem je definovat rodinné podniky, vysvětlit termíny, které jsou s nimi spjaté, upozornit na význam rodinných firem a určit jejich specifika, protože je toto téma v České republice velmi často opomíjeno. Praktická část obsahuje shromážděné informace o společnosti XY s.r.o., jako například SWOT analýzu, ale i analýzu podniku, prostřednictvím přímých dotazníků jednotlivým zaměstnancům, podílejících se na přípravě generační obměny. Hlavním cílem je navrhnout strategii nástupnictví pro vybranou rodinnou firmu.

Klíčová slova: rodinná firma, nástupnictví, problematika rodinného podniku, generační obměna, následnictví, řízení podniku, vlastníci

ABSTRACT

In this work on the Development of a succession planning strategy for a family-owned business there can be found the issue of family businesses, especially the succession planning and generational replacement in the management of companies. The goal is to define family businesses, explain the terms that are associated with them, highlight the importance of family businesses and determine the specifics, because this topic is not very frequent in the Czech Republic. The practical part contains information about the Company XY Inc. such as SWOT analysis as well as analysis of the enterprise through direct questionnaires to individual employees involved in the preparation of generational replacement. The main goal is to develop a succession planning strategy for the chosen family-owned business.

Keywords: family business, succession planning, problematic of family business, generation change, succession, management, owners

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INTRODUCTION

The field of family entrepreneurship used to have a rich tradition in the Czech Republic, especially during the First Republic. But during the forty years of the Communist era, this tradition was unfortunately disrupted, which affected mainly the private sector. This sector and also family entrepreneurs stopped being lucrative and more or less did not exist. It has been 24 years now since the coup or the Velvet Revolution but there is not paid enough attention to this issue of family businesses in the Czech Republic. We can only hope that this situation will be better in the future in order to enhance economic situation in the Czech Republic.

The aim of this thesis is the succession planning so the passing of ownership of a family-owned business from the generation of current owners to the new generation, which can be family member or someone, who does not belong in the family. In my opinion, this topic is underestimated not only in the Czech Republic but also in other countries. Only a minority of owners worldwide are thinking about who will be their successor, so the majority of owners do not have elaborated a successor plan. They do not think about that the very existence of the company can be threatened by several dangers for example case of a sudden serious illness or death of the owner.

I. THEORY

1 LITERARY RESEARCH

1.1 Entrepreneurship

Small and medium enterprises are important and significant part of every functional market economics. Of course, there are specific features of these entrepreneurships but the basic principles of functions are the same for every one of them. This term has several meanings and definitions. Entrepreneurship is defined as the capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. Besides it has the meaning connected to satisfaction of needs. Enterprise is general term for entrepreneurial activity, especially when accompanied by initiative and resourcefulness.

The meaning of enterprise is to organize and control human activities in the field of satisfying other people's need in the way to satisfy entrepreneur's needs. The target of entrepreneurship is to make the profit as high as possible and also to extend property.

According to Synek (1998), enterprises can be divided according to many criteria, the basic ones of them are:

- Ownership character
- Activity character
- Legal form
- Size of the enterprise

The last one of the criteria below is substantial for definition of small and medium enterprise. Definition of these terms is appeared in many economic books and scientific articles, but most of them are not compatible. Nevertheless, there are characteristic criteria, which are perfect for enterprise to determine, whether it is small or medium sized. The basic categories of criteria are:

- Absolut size (e.g. number of employees)
- Economic indicators (e.g. total assets, annual turnover)
- Independence

There are several definitions of small and medium enterprises in the Czech Republic. These kinds of definitions are determined by law about support of small and medium sized entrepreneurship. This law has become effective on 1st of January 2003 and its target was to unify criteria to integrate enterprise into small or medium. It has been done according to the European Union because of getting program support in European Union (Synek 1998). In this law, the definition was set as a recommendation of European Commission: Commission Regulation (EC) No 70/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises (Commission Recommendation No. 96/280/EC Coll., 1996, p. 4).

Small and medium-sized enterprises are defined as enterprises which:

- have fewer than 250 employees, and
- have either,
- an annual turnover not exceeding EUR 50 million, or
- an annual balance-sheet total not exceeding EUR 27 million,
- conform to the criterion of independence.

Where it is necessary to distinguish between small and medium-sized enterprises, the small enterprise is defined as an enterprise which:

- has fewer than 50 employees and
- has either,
- an annual turnover not exceeding EUR 7 million, or
- an annual balance-sheet total not exceeding EUR 5 million,
- conforms to the criterion of independence as defined in paragraph 3.

Where it is necessary to distinguish microenterprises from other SMEs, these are defined as enterprises having fewer than 10 employees.

Where, at the final balance sheet date, an enterprise exceeds or falls below the employee thresholds or financial ceilings, this is to result in its acquiring or losing the status of 'SME', 'medium-sized enterprise', 'small enterprise' or 'microenterprise' only if the phenomenon is repeated over two consecutive financial years.

It is also possible to find other definitions of small enterprises, which are based not only on the count of the workers or results but with those which are based on markets (regional, local, domestic, foreign) or based on a field of operation (industry, agriculture). There are various opinions and very important roles to distinguish, whether the enterprise is small or medium-sized, have traditions and national customs (Commission Recommendation No. 96/280/EC Coll., 1996, p. 4).

1.2 Family-owned business

Firstly, there are many business subjects everywhere around us, but it is not clear which is family-owned and which is non-family. The main goal of every entrepreneurship is to create profit. This goal is the same for family-owned entrepreneurship and business but the other very important goal is passing business to other generations and making sure it will be profitable. It is common that this kind of business is passed from one generation to another for example S. C. Johnson & Son, Inc., which has worked for five generations now.

Definition of the family-owned business can be diverse. Moores (2003) defines it according to size, ownership or leading structure. Family business is business, where is ownership in hands of at least one member of a company. Managing is usually fully within the competence of one or more family members. Business can consist of even more than one generation. Hesková (2006) says, that owner of a family business can be one family or more families.

Defining family-owned business is also very difficult because of size of entrepreneurships, their diversity or kinds of an ownership. It is one of the differences when comparing family and non-family businesses. However, one of the very good definitions of family-owned business is the one that explains that this kind of business is connected with marriage and family (Strážovská 2002). It cannot be defined according to its size or number of employees and that is why there are special criteria to determine what family-owned business is. In the 1997 was done a research about family businesses in the United States by Massachusetts Mutual Life Company. The result of this research was defining following criteria:

1. Owner considers his or her own business as family,
2. Owner intends to pass family business to a family member,
3. There are other family members, who are participants of business processes in the company,
4. Most of the capital of the company is owned by one family.

Another interesting characteristic is written in V. Koráb's book about family businesses (1998). His characteristics is based on definition from the 1991 made by Family Business Institute in Spain (Instituto de Empresas Familiares): Family businesses are companies with the biggest or most important part of capital which comes from several people or companies from one family and if they are involved in leading parts of a company and it does not depend on economic sector the company is in. The reason why author's definition is based on Spain roots is tradition and majority of this entrepreneurship subjects in this country.

1.3 Family in the family-owned business

First of all, there is necessary to distinguish family-owned business and non-family business, so it is essential to define the term family. What is a family? There are several definitions in many books, concerning this term.

It is very hard task to find the appropriate definition of a family, considering factors such as culture, religion and society. In every kind of these factors can be meant by a term family quite different thing. However, the basic definition says that family is a basic social unit consisting of parents and their children, considered as a group, whether dwelling together or not: the traditional family.

The understanding the family as such has had its own development as the whole society has. In the ancient times and also in the middle ages was meant by a family every group of people living under one roof. Nowadays the same group would be called a big household. Farm workers and other servants were count as members of family and they were under authority of a house owner. In the middle ages there was used the other meaning of a family too. Family is group of blood-related people, who weren't supposed to live in one house for example royal dynasties.

In the age of the Enlightenment, family was defined as the most natural and the oldest community of all in the nature and that this community is the basic for national society, since a nation is built from many families.

Modern definition is based on an assumption that family consists of a couple and their children. But nowadays it can't be the only option that a couple is formed of male and female, because of law about registered partnership, which says that parents can be two people of the same sex (Možný 1990).

1.4 Specifics of family-owned businesses

There are many specific features of family member's leading or working in management of the company. The company is always owned from the major part by family members whether it is small business or stock company. In this case it is Drucker's (1998) opinion the best because he says in his book that if we talk about management, family business requires its own and different rules, which have to be followed in order to keep the business running. In this context, were established three basic rules, supported by the practical examples.

First rule says that family member we want to employ has to be as competent as is everybody of other employers of the company. Second rule is about presence of the non-family member in the management of the company. This person usually is chief financial officer or the head of research. Very important thing for this person is to keep his or her distance from the family but also have good relationships with members of the family. Ducker (1998) does not recommend this person to visit celebrations and other events, connected with private lives of business owners. In short, the person should have a respect for the family, but does not belong in it and he or she does not mix work issues with a family ones. It is clear that the person with those attributes shall have very important and undistorted view when deciding underlying questions concerning present problems and the future ones too. In practice, this rule is broken very often. The last rule is about succession planning management. It is very important to have some external person, who does not belong in the family and does not work in the company. This is the only way to avoid conflicts of interest, because the members of a family usually want something, which is not the best for their business, for example hiring another member instead of promoting highly educated and experienced people.

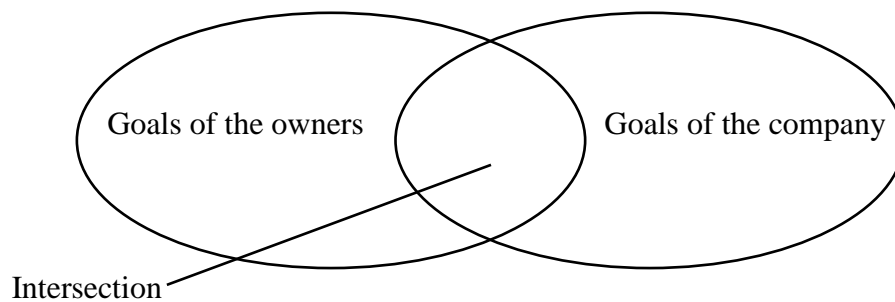


Figure n. 1 – Goals of businesses (Source: own elaboration)

Next specific feature of a family-owned business is complexity of goals, which the interesting groups want to achieve. There are only two groups in the non-family business in the picture number 1 and the intersection which shows the common goals of these two groups of goals. First of them are goals of the owners and the second are goals of the company, which are set when building strategies. These two goals are usually mingled. An example of goals of the company can be an efficiency of production processes, in order to lower costs. This step could lead to gaining a competitive advantage of the company. Every good manager wants to be competitive too, that is why these two goals are mingled and we can talk about complexity of the goals.

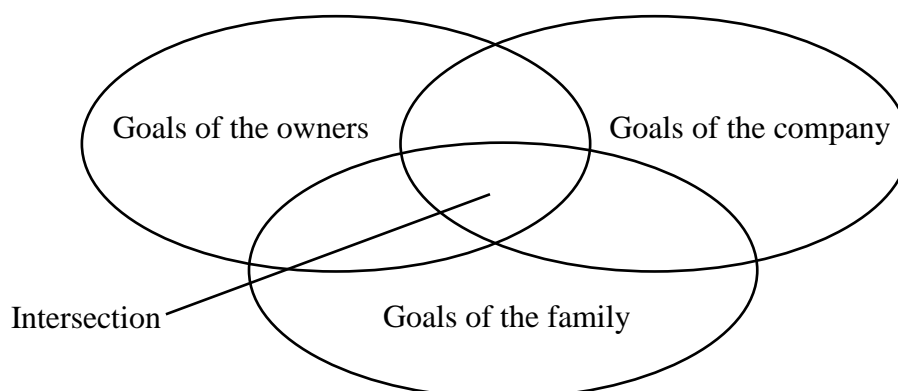


Figure n. 2 – Goals of family businesses (Source: own elaboration)

As you can see in the picture above, situation is more complicated when describing goals of a family business. There are goals of the family, beside these two other goals. That

is to say, these goals are determined by the family and depend on its vision and relationships of all family members inside a company. Comparing these two pictures, and make just a simple counting, it can be seen, that in family-owned subjects of entrepreneurship is the reconciliation of the targets of all groups much harder than it is in the non-family ones. The more goals of the groups means that it will be harder to find their intersection, which is marked in the picture figure n. 2.

Following specifics of a professional family are listed in the Profit magazine's article named Profesionální rodina s. r. o. by T. Stingl (2004), who works for the magazine as an editor:

- Strictly separated family and corporate finances.
- Members of a family may not occupy some functions in the company.
- Company is usually owned by two families, which form a counterbalance to each other.
- Young member of a family must not work directly in the company- he or she has to have practical training in different company.
- There is continuously created a code of ethics of a company. It is an obligation for family members and management and guarantee for employees.
- The corporate and family governance are simultaneously involved in the leading of a company. There are different people in both of them.
- Major part of a profit is invested back to the company.

In my opinion, doc. Koráb (1998) has very interesting view of this topic. He works at a Faculty of Business and Management, Brno University of Technology and understands family-owned business as a complex unit. Furthermore, he points that vision of the owner is concerning not only leading but also family. Intentions of the owner affect the family, but are influenced by the family. Intentions he share along with his family affect the organizational culture and these intentions also take part in what degree he has leadership commitment to organizational culture.

1.5 History of family-owned business

Family entrepreneurship has quite short tradition in the Czech Republic. The development of private enterprise in general and, by extension, the family business began

after the Velvet Revolution, which marked the fall of the former totalitarian regime, consistently suppressing activities of this type. But already in the era of the First Republic a family business was developed mainly in the area of small businesses that were handed down from father to son (at the time, this transmission of family craft was completely normal).

According to Lukeš and Nový (2005), family business is a company, in which is the major share owned by one family or several families and which are also managing the given company. Family traditions, prevailing attitudes and values that family members have, create the spirit of the company and help to strengthen the identification with the company. Speaking about smaller companies, there is atmosphere so good that even the non-family members feel like part of the family, even though they are not.

Family-owned business is undoubtedly the oldest kind of a business in the whole history of modern civilization. The oldest family business, which is still working and is owned by the same family, is one and a half thousand years old. It is a Japanese company called Kongo-Gumi. The origins of this company fall within the year 593 and nowadays this company is led by Masakazu Kongo, who is a member of the fortieth generation of this family-owned business more than 1400 years old.

One of other characteristics of family-owned business is that businessman considers his or her own business as family. For instance gaining the business back thanks to restitution so he or she could continue in entrepreneurship, which was used to own by the ancestors (Koubová 2005). Šindelka (2007) says it is typical that owner of a company assumes passing the family business to one of close relatives, who are in most cases the owner's children. However, this practice presents considerable difficulties which arise between siblings, who are interested in acquiring the company. On the other hand Hesková (2006) states that there are companies with no other possible successors in business.

Family-owned businesses usually do business under a trade license or are established as a business companies (for example joint stock company and Liability Company). Except the owner, there is another member of a family working in the company or the whole family. Of course, that is not the reason why they should not employ people who are not in a relationship with the family (Hesková 2006). According to Brychta (2005) is a family business leadership in the hands of the family and other activities are carried out by employees.

In the Czech law there cannot be found single definition of a family business or entrepreneur, but it should be because of quite big development in recent years. It is not only to be part of a family tradition but of course optimizing the incomes of a family and lowering taxes for the whole family. Every company has to follow legal standards and laws, which concern it. Basic rule for family law is according to Hesková (2006) the Constitution of the Czech Republic and family law. Characteristic specific is also for example personal attitude of family members, which represents entrepreneurship abilities and set targets for the future generations. Family-owned businesses are called subjects for future generations. Common cooperation of all members of the family can be for a company on one hand advantage but on the other hand disadvantage because of negative relationships.

1.6 Advantages and disadvantages of family-owned business

There are many advantages and also disadvantages in family-owned businesses that affect their entrepreneurial activity. The company's success is dependent not only from the profits, but also from education, skills and relationships of family members, who can affect the amount of the profits and cause losses. Family businesses are often characterized as businesses oriented to prosperity of the company in long period. With this statement is related an advantage of this kind of business and that is continuity and higher flexibility of management. Tradition of family businesses sets some value as fixed. If the company is owned by a family and the family depends on it, management of this subject looks back on the quality of their services or products and the related quality of its suppliers. The reputation of the company is much more appreciated. Another one of characters of well-structured family-owned businesses is their expertise, which is a great advantage for family companies. Humanity of the company is certainly attractive to most consumers too. As a positive aspect can be mentioned an effort of all members of the family-owned company to build a family tradition in their business. For them is business much greater motivation that goes beyond the border of the team work's motivation. It is caused by this idea that family business is their property and also future and the mere thought of their loss keeps the family together and helps to overcome some difficult period. Another advantage consists of the possibilities of family members to apply their skills and abilities. From time to time are seen family workers, who are constantly dedicated to the success of the work, often in

highly unfavorable conditions. Family businesses have a greater social responsibility, which is reflected mainly in the care of employees, increase of employment, regional development and in being environmental friendly. Strong relationship of family members to the company causes the larger the level of commitment and willingness to make sacrifices. Next positive feature can be that family members are willing to spend on the functioning of many of their free time and financial resources. If the business is owned by a family it is easier to adapt to sudden changes through better communication and simplicity of the organizational structure. Family is also better identified with the product or service that the company provides, so these businesses often pay close attention to the development of technology and emphasizing the quality of its products. It cannot be forget to mention customer service because family businesses are much more focused on their customers and access to them kindly. Important advantage is that family has a great consistency in achieving a common goal too. In conclusion, if someone or a family owns a business it is logical that they put as much effort as they can to make the best profit so the members of this kind of family are more motivated (Lukeš 2005).

On the other hand there are several disadvantages in the family-owned business. For example existence of two possessions of the family, private and business that are usually mixed together and collide. Blending of work and family life, where family members deal with their work affairs event at home, can be considered as negative aspect too. Some family members are unable to deal with the hierarchy of the family, and therefore the organizational structure is copied by them, which has an impact on the company management. Among the negative aspects of the family business belongs the issue of employees, when the job vacancy is occupied by some member of the family. Unfortunately, this family worker may not have the necessary qualifications and the company thus loses the benefits it could be brought by better employee. Working with these people does not have positive effect on work performance of for other people. Tasks of incompetent family members then take over other employees who feel like they are working for someone else, which creates an unfavorable business climate. This favoritism can be so strong that even the long-term employees leave the company and the firm certainly loses important and especially skilled manpower. Working in the family business sometimes becomes quite problematic, because not only businessman, but also other family members give example for other employees because of their behavioral. If the family members do not give the company what they should, unnecessary money is paid for their

salaries by the company and this leads to demotivation of other employees. Other specific issues are related to family involvement in management. The most common causes of problems include sibling rivalry, preference of family members over other employees or for instance projection of family disputes into a relationship with employees and management. Passing the company to the next generation is often accompanied by many risks and many family-owned businesses are dealing with difficult access to finance. Deciding on major issues is often concentrated on only one person, which is also disadvantage because of too big responsibility (Koráb, Hanzelková, Mihalisko 2008).

Individual group worth mentioning are family relationships because they can be considered as advantages and also disadvantages. Employees who work in a company for a long time for example ten years feel like members of the family thanks to those long-term relationships they have with the family. In most cases are considered as family friends, who help to solve not only working but also family issues. Employees who are in companies involved like this are often more loyal than they would be in another company. But on the other hand it is not rare that relationships of the family have negative effect on the company in cases of family affairs. When the family does not work well at home and its members are not able to let these problems go in the workplace, it is serious situation which can lead to breakdown of the company. Bringing family issues to the work can lead to the situation that family members try to pull employees into their family problems and thus they are exposed to much greater stress. Variety of opinions of family members leads to more conflicts in a workplace and to reduce the company's performance. Even though they are several negatives in family-owned business, such companies are doing well in entrepreneurship (Koráb, Hanzelková, Mihalisko 2008).

1.7 Position of family businesses in the Czech Republic

It is still very difficult to determine the position of family businesses position in the economy of the Czech Republic. One of the reasons is the absence of any legal framework dealing with these specific subjects. In the world, family business is the subject of much attention, because the family businesses are an essential for the economy, especially in economically developed States. The situation in the post-communist countries is more complex. In these states it is not paid enough attention to family business. This is due to historical developments after World War II and in the Czech Republic, especially after

1948. Hesková and Vojtko (2008) describe the current situation. Before The World War I the Czech Republic was highly economically developed state with a strong private sector, trading with Europe economically strong countries like Germany, Austria, France and Great Britain, but after The World War II, and especially after the occupation of the Czech Republic by Soviet forces there was a radical change in the economic situation of our country. Almost all private businesses were nationalized and a market economy was replaced by a centrally planned economy, which was based on central plans drawn up for five years. These plans have been accurately determined- who, when and what products will be made in what quality, and also what businesses will produce what products. Export was turned to the east, trading was almost exclusively focused on the States of communist bloc.

Hesková and Vojtko (2008) also describe the further development of private enterprise in the Czech Republic after the year 1989 after the Velvet Revolution, when there was a fall of the communist regime and the arrival of democracy. After this revolution, there was a gradual return of some private business owners or their heirs. In the new democratic system there was re-opened the possibility of private enterprise. Unfortunately, the situation was not optimal. The returned property from confiscated private companies during the years of occupation was in many cases, degraded and devastated and the generation of heirs. These people spent their life in the era of communist oppression in which everything belonged to everyone so they failed with this newly acquired property because they did not know how to manage business properly. This generation was not learned how markets work, besides only a few of them knew how to correctly manage capital and financial resources of the company. But even the political and economic situation was not good at all because of transformation of the whole regime in the period immediately after the coup.

According to Hesková and Vojtko (2008), problems of the transforming economy could be divided into three categories:

1. Macroeconomic problems.

This was mainly inflation, trade deficit and foreign debt due to high imports and low exports, increase in unemployment due to bankruptcy of state-owned enterprises and the abolition of jobs created by the state.

2. Micro-economic problems.

These problems were most of all the crime associated with inadequate legal system and ineffective law enforcement. The authors also indicate problematic capital allocation, bureaucracy in government and unfavorable tax environment for small and medium enterprises.

3. Specific problems.

Problems were linked with the history of individual firms, the conditions in the sector, size of a company, low work ethic of employees which used to work in the era of communism where there were over-employment conditions. There was also outdated technology, equipment and so on.

Nowadays, 24 years after the Velvet Revolution, comes another difficult period in the field of family business. As stated by Koráb, Hanzelková and Mihalisko (2008), many of the family business, which now accounts for approximately 30% of all businesses in the Czech Republic is found in a stage of transition. It means that there are engaged more family members and especially the following generation, which should replace the founding generation in the future. Opening of borders in our country helped immigrants from other states to settle and start businesses and most of them were primarily Vietnamese traders. They started working here in market places and street markets, but then often took stores from Czech entrepreneurs and now some of them they have become the owners of industrial companies, real estate companies or wholesale companies.

1.8 Succession planning

1.8.1 Definition

Family business success is measured not only by the current economic results, but also by the ability to survive the first generation of promoters and thus be able to operate in other generations. The process of intergenerational transmission is but one of the most critical situations in the life of the family business, since the person who is passing the company to, has different values, life experiences and personality. Difficulty of the process of passing a family company is also very often underestimated.

According to Panczáková and Vojáček (2010), only a third of owners of a Czech company have developed a succession plan for the takeover and management in case of illness or sudden death. However, most respondents believe in a long-term perspective of

the company. 35% of owners of family business in the Czech Republic intend to pass their own business to a family member.

Global study Pricewaterhouse Coopers (2012) claims that more than a quarter of family-owned businesses want to change the owner within the next five years and most of them expect that the company will remain in the family. However, almost half of the respondent family companies have no succession plan at all and only half of those have defined a specific person for the takeover. This deficiency can be seen only in small and medium-sized family businesses. In large multinational companies, succession planning is an essential part of management labor and personnel policies. Succession planning strategy is a very important determinant of survival of a family business in the next generation. For this reason, the focus of this work is succession planning strategy.

1.8.2 Succession planning in the Czech Republic

A. Succession planning

By this term is meant transfer of a family business from one generation to another in the family. Koráb, Hanzelková and Mihalisko (2008) describe phases of the process of transfer of the family-owned business.

	Current owner	Successor
Phase 1	Initial reluctance to pass the company	Aversion to the takeover because of relationship with the current owner
Phase 2	Awareness of the need to pass the company to the next generation	Overcoming the aversion to the current owner
Phase 3	Passing of the company	Takeover of the company
Phase 4	Separation from the family business	Management of the family business

Figure n. 3 – Description of phases from the view of owner and successor (Source: Koráb, Hanzelková and Mihalisko (2008))

Firstly, the owner of a business has to determine who will become the successor / successors and consider all risks resulting from this decision. Decision is between leaving business as a family or passing it into the hands of professional managers. If he or she decides to leave the business in the family, the most appropriate successor must be chosen. At this point, the owner of a business temporarily has to act as an entrepreneur without preferring the family ties and there has to be made a decision, which depends only on maintaining of the company. The authors in their publication also define the ideal profile of a successor. The ideal successor should have:

- psychological competence and a positive relationship to the company,
- leading and managerial competencies,
- business and strategic competencies,
- communication and social skills,
- cognitive skills, i.e. education, intelligence, talent and experience.

Koráb, Hanzelková and Mihalisko (2008) also outline the appropriate steps to help facilitate the transfer of business from one generation to another:

- It is necessary to capture the right moment when to start planning. Generally, the sooner the better.
- Business owner must prepare a plan for the succession planning. All family members have to cooperate in the development of this plan.
- The owner of a business should ensure a process of learning and gaining experience for those children who want to participate in the management of the family business.
- It is necessary to clarify and regulate relations between family and business.
- The role of a manager must be assigned only by a candidate able to professionally work in this entrusted function.
- Current owner of the business should have financial assurance and should have a clear perspective for the future.

The plan of generations exchange published by the authors consists of two stages:

I. Preparation of succession planning

In this stage is necessary:

- to choose the legal form of the family business after its transfer to incoming generation,
- to explore the possibilities of statutory changes that would be hardly possible after replacement of generations for example issue of new shares, determination of the administrative board and so on,
- to consider the provisions of stewardship - entrusting possession to a third party in order to let him manage the company for the benefit of the successor before being able to take control of it himself,
- to consider the distribution of ownership and participation in the company (= financial compensation of those family members who are unwilling or unable to participate in the ownership and business management).

II. Ensuring the concentration of property

In this stage, it is appropriate to transfer assets to chosen successor in accordance with the current legal framework.

Preconditions for a successful process of succession planning are complemented by Panczaková and Vojáček (2010).

- Preparation of the successor shall be long term and shall include the practice outside the family business.
- Successor should be better than its predecessor, so the staff and other interesting groups could not compare him with the predecessor in the sense of significant deterioration.
- The process should ideally take place in two stages: in the first leaves owner executive function and spend some time working on strategy. In a second stage is completely gone out of the company.

Morris and McCann (2011) encourage the current generation to understand that new generation can bring a new concept of family business connected to rapid technological development. For the current generation in order to understand and fully accept this fact they need to change their thinking in the following areas:

- Innovation.

That is connected to globalization and new technologies.

- Competition.

When the market is changing it has an effect to the distribution system so the competitive enterprise environment has to be changed too.

- Training of a new generation.

The new generation has always been engine that either maintains or kills business. Therefore it is necessary to concentrate on its education from an early age, give them experience, provide them with a long-term perspective and help them in maintaining trust, partnership and independence. The new generation has already been discovered and used and in the future may therefore be an inspirational source of new ideas and market development.

- Continuation of business.

It is important to realize that the company is not passed, but the capital (enterprise value, experience, professionalism, financial capital, family capital - because every family member has a different idea about how the company should work and so it can move a new direction). That is the reason why it is important to think about the business not in terms of static units, but in terms of a dynamic, evolving object.

B. Sale

As it is stated by Staňková (2007), if it is not possible to pass the company to the next generation of followers among the family, the business can be sold. Sale can be made either within the family or outside the family and to persons who are not connected to family businesses or persons who are in some way involved in the management of the company. In this case can be an example an employee. This solution is optimal when establishing generation has no descendants, who could be interested in the takeover, but has loyal employees who have the potential to maintain the culture of family companies and want the company to have further development.

II. ANALYSIS

2 GOAL OF THE THESIS, METHODOLOGY, HYPOTHESIS

2.1 Goal of the thesis

The main goal of my analysis is to develop a succession planning strategy for a selected family-owned business. To achieve this aim there are used analysis of micro-environment and macro-environment of the target family business and there is also research of the problem of succession planning in this selected company. This company was chosen because of a positive relationship which is based on previous working experience in it. I also know these people who work there in person which makes all interviews and researches much simpler because we know each other quite well.

2.2 Methodology

Firstly based on these goals following methodology was chosen. There was an understanding of the topic family-owned business and preparation of focusing on the problem of succession planning and the possible succession planning strategy that would for the selected company came into consideration. After this introduction I set out the criteria for the selection of family-owned business that would be the appropriate example for the research of this bachelor thesis. Main criterion to choose the company was the time the company has been on the Czech market and in which phase is the successor, who will one day become an owner of the company.

Data collection for instance from the brochures and web pages of this company was one of the first methods I used in order to get information was to communicate with a selected family-owned business by using the initial interview. I collected the basic information about the company, interesting family, employees of the company to analyze macro-environment and micro-environment of the company. I have also done review and research from expert sources noted in the theory and in bibliography to understand terminology and to apply sources of information to this company. The interview was made in the company in the owner's office and was not structured.

Analysis of macro-environment is based on PEST analysis. This analysis is divided into four parts: Political and legal factors, Economic factors, Social factors and Technological factors, and is based on secondary sources from media. Concerning succession planning and macroeconomic environment selected family business, there is a

focus on factors that could affect actual decision of the current owner and future owner of even the earliest development of the company.

Structured interview

I made a structured interview, with the current owner and his son, which was divided into seven basic parts: family members, corporate identity, employees, customers, competitors, source of income, and relationship to the secretary of the company- owner's brother. From this data collection there is made an overview of all these topics.

From all the data found in previous analyzes, I have established SWOT analysis, in which there are set the strengths and weaknesses of selected family business, which mean factors of internal environment of the company and the opportunities and threats, which stands for factors of external environment.

2.3 Hypothesis

For the selected family business- XY Company Ltd., is the best strategy the succession planning.

This hypothesis is based on the fact that it is a small business, in which the new generation (the son of the owner) has already been involved in the operation of a family business. Current owner has also quite the equal image of the company in the near future as the successor.

3 ANALYSIS OF SELECTED COMPANY

3.1 Situation analysis

Selected family-owned company is located in Držovice and was founded in 2007 with basic deposit 400.000, - CZK, but its history started in 1993, when it used to be public company. Nowadays, legal form of the company is limited company, which did not want to publish the name, so in this work is referred as the XY Company Ltd. Company was established by three companions, but nowadays it is managed only by one of them what makes it company owned by individuals. Subject of business is production of textile goods (except clothing, accessories and orthopedic equipment), which has remained the same since 1993, so the aim of the company is manufacturing. There are many reasons of the change of the type of the company: A legal entity is more credible and respectable, limited company builds business name and history of the company, its credit increases. Limited company can expand by increasing of deposits or the accession of new members. The main reason was that management of the company is possible pass to possible successors and the value of the company increases.

The main goal of the company is to provide textile materials and also products, made of these materials. Their production program consists of sport and travel bags, backpacks, purses, vanity cases, bum bags and various types of tailored sleeves.

Production is divided into three parts:

First part is production under our own brand name, which mainly consists of backpacks and bags for sport and leisure time activities and for needs for fishermen.

Second is custom production under the brand name of the customer, which is provided in their workshops. Examples are sewing backpacks and bags for brands like WD, Vandenberg, Draps, and Vehicle.

Production of custom products for sales promotion- it is the production of goods for advertising purposes and among our regular customers for instance OMV Prague, Škoda Mladá Boleslav, ASTRID Cosmetics, Čechofracht, as well as advertising agencies of the Czech and Slovak Republic.

Legal form	Limited company
Subject of business	Production and sale of textile materials and products
Assortment	Bags, backpacks, purses, vanity cases, bum bags and tailored sleeves.
Founding	1993, Limited company from 2007
Number of employees	25, 2 of them are family members
Shares	50% manager of the company, 50% his younger brother

Figure n. 4 – Situation analysis of XY Company Ltd. (Source: own elaboration)

Since 1993, company has always been in the same building, in which there are available offices for its eventual expansion. In this family-owned company are working twenty-five employees- ten of them in administrative field and fifteen in manufactory. The owner of the company wants to leave it in a few years. He has prepared very good succession plan because his adult son, who is now studying at university, should become his successor. His field of studying is economics and management, so he should have very good skills in managing the company.

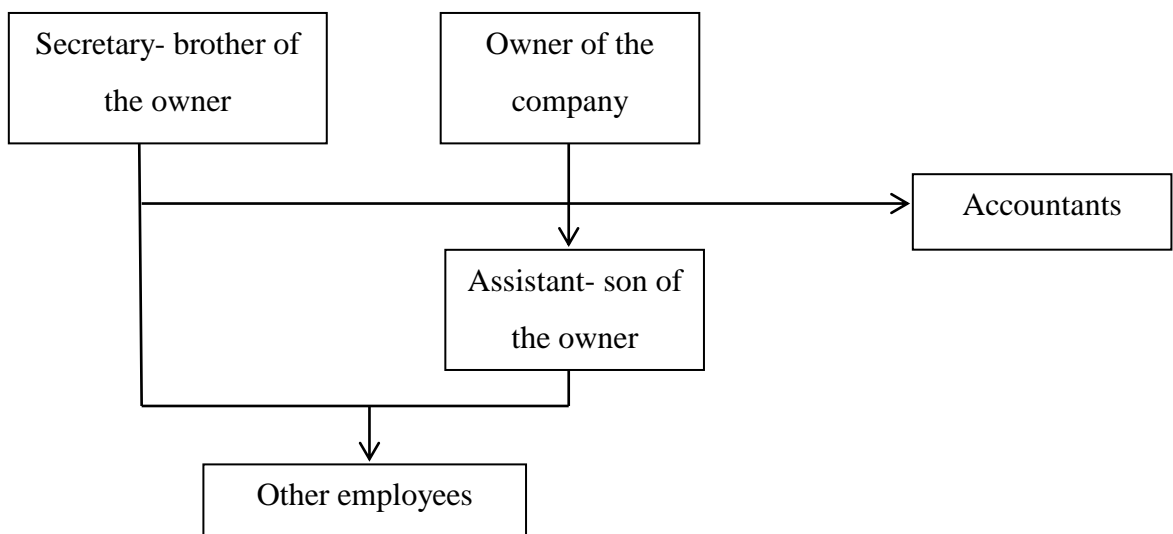


Figure n. 5 – Scheme of management of XY Company Ltd. (Source: own elaboration)

3.2 Unstructured interview

The first interview was made with the current owner of the company and its purpose was to collect basic data about selected family-owned company. The topic of the interview was focused on and divided into seven basic parts: family members, corporate identity, employees, customers, competitors, source of income, and relationship to the secretary of the company- owner's brother.

1) Family members

The owner has one son, who is from childhood interested in his father's company and after graduation he has worked in a company as an assistant for a part-time job. He is 24 years old and is studying economics and management at university in Olomouc. He has worked in the company for 2 years now in this position and gained much of practical experience in the entire spectrum of services they provide and also in trading. The son used to work there only in summer in the manufactory as a storekeeper so we can see a little progress in his career. Nowadays his main job is to process quotations, invoicing and foreign trade, because he has very good language skills. In recent years he also represents the father, when he cannot be in the company. Unfortunately, the founder of the company and the father of the current owners passed away two years ago.

2) Corporate identity

There is no name of a founder of this company in the title, so for maintaining corporate identity is not necessary to keep the family name of the owner. On the other hand, the company has built permanent customers based on quality of products and more customers look for goods provided by this company XY Company Ltd. Because of positive references from satisfied existing customers. Most of them are retail regular customers, who always buy products from the given company as well as wholesale customers, so it is appropriate to keep the management to a person, who knows this customers in order to keep good relationships.

3) Employees

Currently, there are 25 people employed in this company. Home offices, warehouses and manufacturing workshops are located in Držovice. Another part of our production capacity is located around 20 km from Držovice in Protivanov where they have branch office and second workshop. Associates are not considering the recruitment of additional employees

because company production is covered by existing staff and there are also external workers, who can be hired, if necessary.

4) Customers

People, who buy products from this company, are either retail regular customers or wholesale customers. Retail customers are interested in buying sport and travel bags, backpacks, purses, vanity cases, bum bags and many other products they can buy on the e-shop of the company. Most of wholesale customers are owners of smaller business which manufactures textile products made of materials provided by the company XY Company Ltd. Other customers can be for example owners of laser printers because the company also started selling toners.

5) Competitors

There are only 2 – 3 companies, which can be viewed as competitors in Prostějov region. Gala Prostějov is one of the biggest because there is provided almost the same assortment of goods, but are focused on different target groups of employees for example school bags for children. Another company which should be mentioned is certainly Grand Corporation. This company sells textile materials to wholesale customers but they do not have as big assortment as XY Company Ltd. In conclusion, the given company does not have many competitors, but on the other hand globalization occurs in this area too and to this region are coming companies from other regions.

6) Source of income

The main source of income is for the family from the company, because the owner and his son work in it. Other source is the wife of the owner, who works in real estate and many rents. The owner of the company also owns many properties and lands in Prostějov in very good strategic places. The rents they are paid to him are quite high so in the future he is not planning to sell those properties and lands, because it is more lucrative to get such money from rents than it is from selling.

7) Relationship to the secretary

The second owner of this company is brother of the manager. The company was founded by these two brothers and their father who unfortunately passed away, so there remained only two owners. After the death the younger brother did not work in this business anymore because of a lot of fights so he left, but the position of a secretary has not changed. Their relationship is good now and they agree on most of the things considering

the company. The current manager wants to pass this business to his only son, who has worked there for two years.

3.3 PEST analysis

Influences are according to these following factors:

1. Political and legal factors

For the successful passing of the company is necessary to plan, whether the owner wants to pass the company to the successor fully with all shares or whether he keeps ownership and temporarily pass only executive power.

There are Commercial Code relations between members and their rights and obligations of the limited liability company in the Commercial code No. 513/1991 Coll:

- The company is liable for breaches of its obligations (commitments) with its entire property.
- Its members are jointly and severally liable (as sureties) for their company's obligations up to the unpaid portions of their investment contributions according to the entry in the Commercial Register.
- On entry of full payment of all investment contributions in the Commercial Register, the members' liability for the company's obligations (commitments, debts) lapses.
- Any payment made by a member to a creditor of the limited liability company shall not lapse or reduce the extent of his liability.
- Any payment made by a member on behalf of the limited liability company on the grounds of his liability (as surety) shall be credited as part of such member's investment contribution, and, if this is not possible, the member may claim reimbursement of such payment from the company.
- If he cannot obtain such reimbursement from the company, he may claim it from a member who has not paid up his contribution, or else from each of the other members to the extent of his participation in the registered capital (Law No. 513/1991 of Coll., the Commercial Code).

Another legal factor that can affect the transmission company is taxation. Following definitions are according to Act No. 357/1992 Coll., on Inheritance Tax, Gift Tax and Real Estate Transfer Tax:

- Inheritance Tax

The taxpayer is the heir who acquires an inheritance or its part on the basis of a testament or by the operation of law, or on both such legal grounds, in accordance with a final decision of the court concluding the inheritance proceedings.

- Gift tax

The taxpayer is generally the acquirer (the transferor is a guarantor). However, should the acquirer not have its permanent residence or seat in the Czech Republic (while the transferor yes), the transferor itself is the taxpayer. The tax base is the value of the property.

For purpose of calculation of the gift tax, persons are divided into three categories depending on relationship of the transferor and the acquirer. There are three categories- in the first category are direct relatives and spouses, in the second category are other relatives in the collateral line and in the third category belong other individuals and legal entities not falling into the first or second category.

In the case of a transfer to the successor company, who is a family member, it is not crucial in in terms of taxation. It is not decisive whether the company will be donated to or inherited. Decisive but may be other factors, such as:

- When the company is a gift is not necessary to pay for expert opinion, but it is in the terms of heritage because of setting the price of property acquired by inheritance. There are notarial fees for handling heritage.
- When donating the company, the donor is decided during his life who he wants to donate his company to. In the case of inheritance, this information may be in the will but it can be challenged so the result does not exactly match the wishes of the testator.
- The acquisition of a property through inheritance happens after the death of the testator and proceedings can be done in the long term, especially if the business property is part of the heritage. This can cause significant problems in the operation of the business, because it cannot be act in the name of the company.

Based on these facts, it is better for everyone if the company is donated than to keep it as a heritage object.

2. Economic factors

Due to the ongoing global economic crisis and the crisis of Eurozone, which came after the global crisis, the company should consider the risk of lower income or worse economic situation caused by these crises. The global economic crisis started in 2007 and was caused because of American banks, which gave very disadvantageous mortgages and loans to lower-class people and then the banks sold it in packages to Europe. This crisis hit in the autumn of 2008 and swept away many of the world's leading banks and stock markets. As a result of these events, the global economy is facing the biggest decline since the Great Depression, which was in the 30's of the 20th century. Nowadays for further economic development in the Czech Republic, it is important how the Eurozone deal with the consequences of the crisis, which can be these examples:

- Inflation, devaluation of money, tax increases

Status of European banks may be weakened by the debt relief bankrupting Eurozone countries and the providing loans from International Monetary Fund. Lack of money may politicians solve by raising taxes or printing money by the European Central Bank, which would mean the high inflation of the euro.

According to Czech statistical office (2013) inflation rate as an increase in average annual consumer price index (CPI) indicates percentage change in last 12-month average over preceding 12-month average. The rate of annual inflation in the Czech Republic was in from 2006 to 2007 around 2%. In 2008, the inflation rate jumped to 6%, when the highest percentage was in august (6,6%) in this year. Since 2009, the inflation rate declined, reaching the lowest value in the beginning of the year 2010, when the lowest value was in April (0,6%). In the 2011 was the rate of inflation around 2%, but there was a slight increase. In the year after the average year-on-year inflation rate reached 3.3% in 2012 which showed slight increase compared to 2011. CZSO (2013) shows that in the 2013 is the inflation rate 2,7% and in the long term it should be increasing again.

The system of taxation of the Czech Republic resembles the systems of taxation of other European countries. Generally, taxes can be divided into direct taxes, related to the level of income of the subject, and indirect taxes, related to consumption, or the purchase

of goods and services. The system of taxation of the Czech Republic consists of the following tax categories: value added tax (VAT), income tax, real estate tax, road tax, estate tax, gift and inheritance tax, excise duty, a real estate transfer tax and environmental tax. Each type of tax is defined in a specific piece of legislation. The administration and collection of the individual taxes falls under the Ministry of Finance of the Czech Republic and its subordinated administrative bodies, above all the local tax authorities (CZSO 2013). From the January 1st, Czech tax rates have been changed. Basic tax rate of value added tax (VAT) was increased by 1 % to the new rate of 21 %. The reduced tax rate which refers to food, books, health care and so on was also increased by 1 % to 15 %.

- Unemployment

Lower purchasing power of the population of the Eurozone because of inflation causes lower demand in our export-oriented country. Enterprise's production or number of services will be reduced, so the number of employees too. This factor may affect the employees of the selected XY Company Ltd.; due to a general growing uncertainty in the labor market. The family-owned company must focus on reassurance of employees and to increase their loyalty, because the company made long-term investments to them such as giving them appropriate training and education, handed them their know-how and culture of the company.

- Situation in Europe

Economy in The Czech Republic can be very hard affected by long-term economic stagnation in Europe. Czech economy is export-oriented and therefore very sensitive to developments in the global and especially in European economy. When choosing the most appropriate strategy there has to be considered the fact that the Company's financial results may be reduced and check whether the chosen successors wanted to take over the company even if it is temporarily in the loss.

3. Social factors

From this point of view, the decision about the transmission of a company can be for instance affected by as education, which relates to the successor of the company and its employees. Mobility of population because of everyday travelling of employees of the company at the workplace is also one of the social factors. Society also started to take more care about environmental protection so the company should consider improving better

technologies of recycling, the use of alternative energy sources and sorting and processing of wastes.

4. Technological factors

From the perspective of the selected XY Company Ltd., there has to be taken into account the rapid development especially in the field of information technologies that can be improved by the new generations in order to make a better benefit for the company.

3.4 SWOT analysis

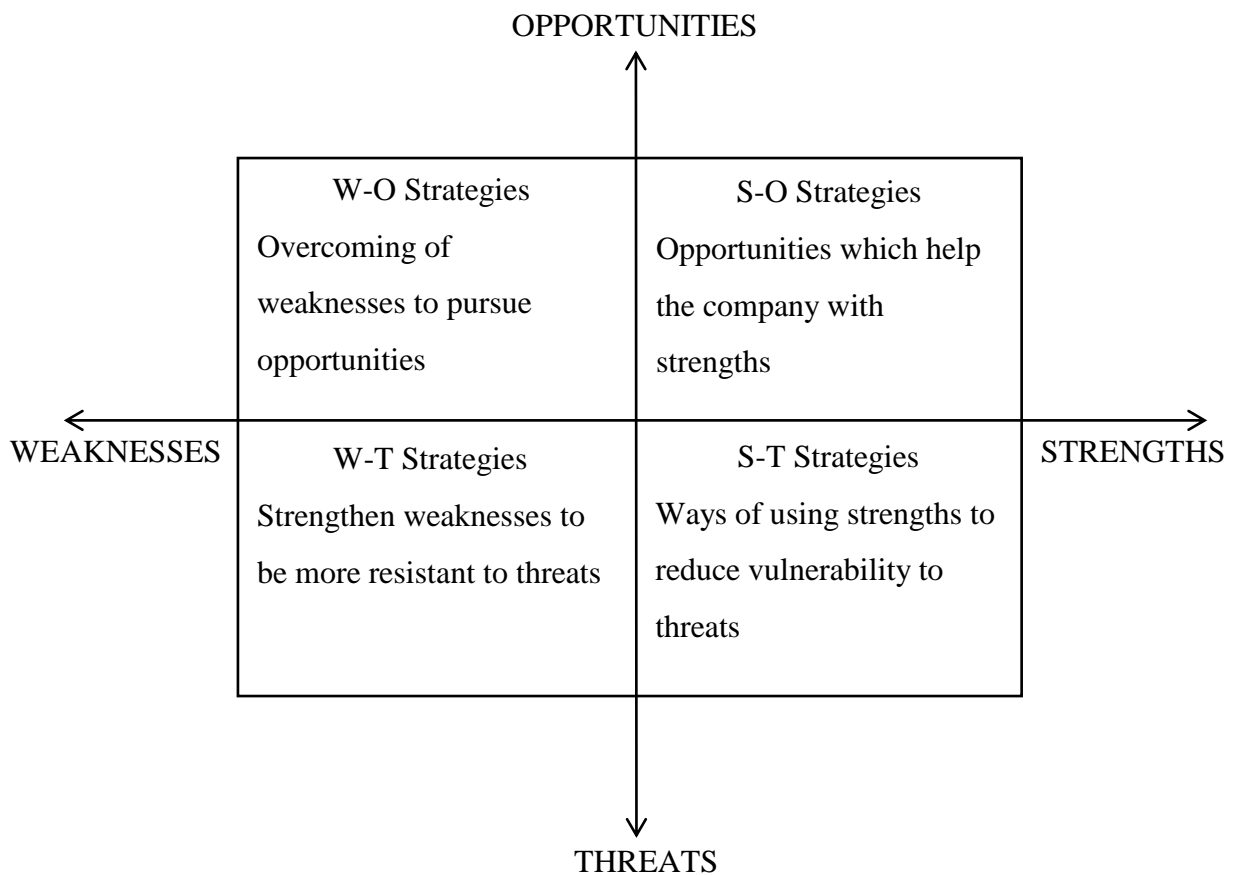


Figure n. 6 – SWOT matrix. (Source: own elaboration)

STRENGTHS= internal and helpful attributes of the company

- 20 year tradition on the Czech market- established company. It has strong position in its field of business in the local market and know-how.

- Has created stable group of regular customers- retail and wholesale. These customers are located all over the Czech Republic.
- Successor is already working in the company- he has working experience and is implemented in the management. He knows how to manage this business because of relationship with his father and has positive relationships with other employees.
- Successor is studying economics and management- very important and lucrative fields for the company, where he can enforce his knowledge.
- Owner has developed his own succession plan according his conviction what will be the best for the company.
- Owner and his successor have the full support of their entrepreneurships by their families, in this of the owner's brother and wife.
- Trading with foreign countries- owner speaks fluent Russian and his son speaks fluent English and also study Russian language in order to keep trading with companies from Russia.
- Location of the company- company is located close to the highway, which leads from Brno to Olomouc. Good location between the larger towns in the Czech Republic leads to better trading location.

WEAKNESSES= internal and harmful attributes of the company

- Change of the leader in a few years of the company can influence stability running of the company but only if he will not be prepared to work at this position.
- Possibility of lack of respect to the new leader, because of his age. This situation can be seen when communicating with older and more experienced employees.
- Communication between managers and workers is not optimal- sometimes they do not know about bigger changes in the company.
- Motivation of employees is only on intermediate level- workers have only financial and there is no other type of motivation in the workplace.
- There is no company store, which can cause lack of the potential customers in Prostějov.

OPPORTUNITIES= external and helpful attributes of the environment of the region

- Possibility of extension of a company to more foreign countries, which is quite probable because of skills of English language of the owner's son.
- Successor can bring many new strategies into the company- better management and presentation of the company, new technologies, modernization of webpages and e-shop.
- Extension of a company- buildings, stores. The company has already owned a few building but there is a possibility to transform part of production to Prostějov and build a company store there.
- Better marketing strategies- usage of advertisement for example on the internet. This opportunity is connected to mainly modernization of webpages in order to improve advertising.
- Modernization of equipment such as machines to produce more goods in a shorter time period.

THREATS= external and harmful attributes of the environment of the region

- Competitors could start producing similar products for better prizes. This can be done by the biggest competitor Gala Prostějov, which can start providing this kind of production.
- Company is dependent on regular customers. Mainly the wholesale customers, which are also dependent on this company because of providing materials from Thailand and China.
- Economic crisis which ended in 2008 and continuing crisis in the Eurozone- both of them may cause loss of the profit of the company and it can happen before passing the company and even afterwards.
- Lack of demand in Olomouc region from the side of regular customers.

CONCLUSION

This bachelor thesis is focused on the development of a succession planning strategy for a chosen family-owned business including its goals and responsibilities. In the first part of the work, there is a literary research of Czech and foreign literature based on the topic of family business. There is also described a background of this kind of entrepreneurs in the Czech Republic and possibilities of successful transitions of the business.

There can be found a hypothesis which should be confirmed in the analysis in the second part of the work. The very next thing is description the chosen company, which is very good example for this topic because there are many criteria to describe concerning it. The XY Company Ltd. is on the Czech market for twenty years now and in the owner wants to pass the company in following years to his son. In the next part, I made a STEP analysis based on collection of primary data and an interview to help me get the overview of the company. These researches helped me to make a SWOT analysis, which means to analyze the strengths and weaknesses of the company and to analyze the opportunities and threats of the company's environment.

Based on the research, which was done about the selected family-owned business, validity of the hypothesis should be confirmed in the future: the succession planning should be the best strategy for this business to keep working. The owner of this company is familiar with this strategy and it has been also chosen by him as the best in the time when his son studied at high school and that is why the owner has employed him. Because of this, the future successor is very well familiar with the management of the company and should have all assumptions for a successful takeover.

In conclusion, it can be stated that all the objectives of this work were met. Theoretical knowledge from studying the professional literature related to the selected topic and also the analysis of the given company were very useful and can be used later in practice.

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