D.T2.4.3

Report on the testing of selection process of the potential successorson stakeholder involvement

1st Version

11 2018

1. Content

Content

2. Objectives

2.1. General objective of the document

Objective of this document is to give feedback of stakeholders on the progression of Business succession model and on practical testing at the regional perspective the developed selection and assessment criteria intended for the identification, shortlisting and selection of the best-matching prospective successors.

To achieve this feedback and results two stakeholder meetings of Slovak project partners of CE1158 ENTER-transfer project. These stakeholder meetings were organised as main part of activity A.T2.4 Pilot testing of the business succession model in Prešov region.

3. About stakeholder meetings

In the Prešov region two stakeholder meetings took place as the pilot action meetings:

- On the 12th of November 2018, 16:30 in Prešov
- On the 13th of November 2018, 16:30 in Prešov

The stakeholder meetings for the pilot action were organized in cooperation with stakeholder meeting of another Interreg CE project, CE 339 Restaura, that is aimed at identifying, testing, evaluating and promoting good practice on the use of Public-Private Partnerships (PPP) for the revitalisation of historical cities and buildings. The reason for this merge of stakeholder meetings, and at the same time aim, was to achieve higher attendance of stakeholders and be able to prepare more interesting program for them, while effectively working with time available.

The stakeholders were invited to the events by direct invitations, both personal/verbal and digital. The first stakeholder meeting was attended by 17 persons, the second stakeholder meeting was attended by 25 persons. Among the guests were representatives of various public and private institutions, representing public bodies and SME's, which were represented by both senior generation and perspective successors.

This report primarily focuses on the ENTER-transfer project part of the pilot stakeholder meetings.

Details on attendance and other managerial aspects of the meeting can be found ion deliverable file D.T2.4.2 "Report from the meetings with Stakeholders"

4. Pilot testing: 1st pilot meeting with stakeholders, 12th of November 2018

On November 12th 2018, Innovation Partnership Centre (PP2) with the help of the Lead Partner, University of Economics in Bratislava organized a stakeholder meeting aimed at the Pilot testing of the Business succession model that is being developed in cooperation with other project partners. The project partners' meeting took place in the form of moderated round table debates, attended by 17 experts from both the private and the public spheres, representatives of local authorities, private companies and educational institutions.

At the round tables, stakeholders were put into groups of young and senior generation and asked to simulate the situation where the senior generation presents their requirements on successors of the company. We feel that it is needed to emphasize here, that in the end it was not as much a simulation, as senior stakeholders expressed their actual requirements for their own companies. The potential successors then answered if they feel that they fulfil these requirements and if not, in what ways they could achieve the required traits (such as dedication, ability to predict outcomes of decisions, management risk, etc.). To our surprise, in some cases the young generation expressed that they do not want, or don't consider traits mentioned by the seniors as important or as traits they want to acquire. A good example of this is approach to business in terms of work/free time. Some young potential future business owners consider it important to have enough free personal time out of company, what seemed impossible to the senior generation, who really felt the need of having control over the whole business almost at all times. We remind that we are talking about small family businesses with just one level of management over the common employees or companies where top management is involved in the actual work process daily, not just as a manager or administrator.

After this we have "turned the tables", mixed stakeholders up and asked the young generation, who already gained some insight from their previous talks with seniors to try to "sell" themselves as potential successors of business owners at the new table. It was up to them if they are going to be honest or if they will upscale their skillset just to be more attractive in their eyes (under these conditions it would be hard to track for us and secure that the attendees are saying the truth anyways). The young generation was then asked if they were honest or actually did present themselves better than they actually were, to what some of the younger stakeholders admitted that they indeed did slightly lie about their skills and competences to be more attractive, but only a small bit and mostly about skills that they felt they will eb able to grasp quickly, should they get into the company.

The activity was moderated by our staff, who moved from table to table with new topic starts to keep communication flow going everywhere and motivate stakeholders to open up to others.

4.1. Feedback of stakeholders on the progression of business succession model

As the second activity the newest modifications on the business succession model were presented to our stakeholders. Since the last stakeholder meetings two huge modifications occurred:

1. We have merged the succession paths "successor among employees" and "successor among management" into a single path (coloured red in visualization). This was done due to the fact, that these two paths had nearly identical sets of questions for the business. We also consider this merging to be a logical result, as each company manager has automatically status of an employee.

2. We have abandoned elaboration of company liquidation path, when there is no successor and business cease to exist in the end. The aim of our project is to keep businesses alive, therefore we would like to present the liquidation as the least desirable option and do not support businesses in choosing this path by providing them with help with closing down their company. The option is still present in the model, as we do not want to lose contact with reality and "close our eyes" from the fact that liquidation can occur, but we purposely used black colour (empathizing "negativity" or "death") in the model and made the liquidation option symbol smaller, with an "X" to once again symbolize that this is the path we don't want businesses to take.

The improved model was presented to the partners at the beginning of the rout and then we let them to discuss it among themselves, while our project representatives accompanied them and explained the details behind each path. The model and its new improvements were accepted well in general by the stakeholders, who supported our decisions and ideas behind the modification.
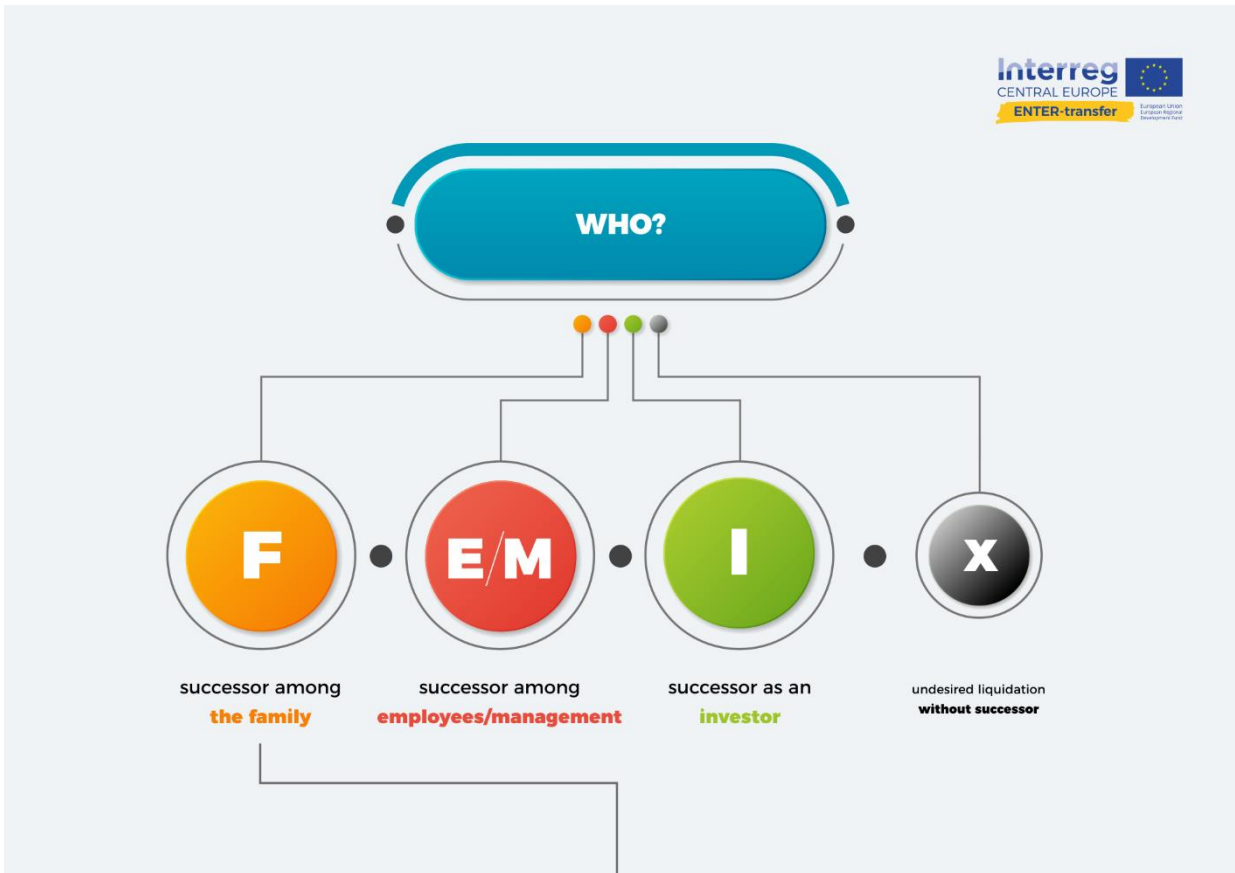
Suggestions

The common suggestion we have received on the model was to simplify the name of the merged paths to a single letter description. This is a cosmetic issue, that we expect to be solved after finalizing the processes behind this succession path, when we will discuss it with other project partners.

Other question arose for situations where the potential successor could belong to two groups of the defined succession paths. i.e. being both family member and an employee, but this question was quickly explained that it is never possible in real life to fully fit things into boxes that would perfectly apply to each case, and that we also believe that the senior manager or owner will know based on his experience which succession path to choose in his specific case.

Our stakeholders expressed interest in the future final version of the model.

Graphical representation of the model by PP3

4.2. Feedback of stakeholders on improving the matchmaking formula by setting and developing for identification, shortlisting and selection of the best-matching prospective successors

During the discussion panel we have asked our stakeholders about their ideas how to improve the tools of identification, shortlisting and selection of the best matching successors for the business. To simplify this, our aim was to ask the stakeholders, how do they think the best person to take over the company should be found, and how to choose the best one.

The discussion was, to our satisfaction, very active and progressive. The stakeholders started off well with naming out the most decisive factor to be the situation of the company, more exactly, which path of our succession model that we presented would the company choose.

If it would be the succession among family members, the range of succession candidates is usually limited to a few family members, out of which the most crucial factor was chosen to be the interest of the person in taking over the company. On the other hand, the person also has to have at least basic skillset to be able to take over and keep the business running. After some discussion among the group, it has been settled that interest or initiative to take over the company is of higher value, as skills can be gained through training courses and close mentoring of the current company leader, while if the person has no interest in leading the company (has different set of own activities or goals in his/her life), there is no way to force the succession and expect positive results.

If the succession would be among employees or managers, the company can either do an official statement or "callout" for candidates for the to-be-opened top position with official interviews with candidates, or cherry-pick the best employees based on their performance and work results in silence and offer the best candidate a promotion. Company size is a huge factor here. Also, ownership of the company has to be settled, whether the new head manager/director also becomes the new owner through some buy-out or if the company remains in ownership of the current owner.

In case of succession as an investor, the process is probably with the least amount of questions asked, as the most important factor is how big the investment in the company is, and how much power is given to the investor in relation to the value of investment.

In the debate we have also mentioned one of the future planned activities of the project that would be the matchmaking tool/matchmaking portal and asked our partners if they see such mechanism as viable and what should be its parameters so that they would be willing to use it. A small brainstorming session was held in regard to this, with rather positive outcomes, yet with requests for more information about this to be able to take a clear stand on this idea, which we promised to partners in some of the future stakeholder meetings when we will be finished with the model and will start working on the upcoming thematic package.

5. Pilot testing: 2nd pilot meeting with stakeholders, 13th of November 2018

On November 13th 2018, Innovation Partnership Centre (PP2) with the help of the Lead Partner, University of Economics in Bratislava organized second stakeholder meeting aimed at the Pilot testing of the Business succession model that is being developed in cooperation with other project partners. A total of 25 participants were present in panel discussions, representing self-governing regions, business associations and private companies, sharing their valuable experiences and know-how to support the development of the idea of business succession and ownership transfer in Central Europe.

5.1. Feedback of stakeholders on the preliminary business succession model

The main program of the 2nd pilot action stakeholder meeting were two discussion blocks. Just as on the first pilot meeting, the one of the activities of the meeting was the presentation of the newest modifications on the business succession model. Since the last stakeholder meetings two huge modifications occurred:

1. We have merged the succession paths "successor among employees" and "successor among management" into a single path (coloured red in visualization). This was done due to the fact, that these two paths had nearly identical sets of questions for the business. We also consider this merging to be a logical result, as each company manager has automatically status of an employee.

2. We have abandoned elaboration of company liquidation path, when there is no successor and business cease to exist in the end. The aim of our project is to keep businesses alive, therefore we would like to present the liquidation as the least desirable option and do not support businesses in choosing this path by providing them with help with closing down their company. The option is still present in the model, as we do not want to lose contact with reality and "close our eyes" from the fact that liquidation can occur, but we purposely used black colour (empathizing "negativity" or "death") in the model and made the liquidation option symbol smaller, with an "X" to once again symbolize that this is the path we don't want businesses to take.

The updated model was presented to the partners at the beginning of the first discussion block and then the moderated discussion was opened. Just as on the first pilot action stakeholder meeting the model and its new improvements were accepted well in general by the stakeholders, who supported our decisions and ideas behind the modification.

Suggestions

To our surprise, the second wave of stakeholders supported the suggestion to change the name of the merged paths to a single letter description. Stakeholders were informed that we have already received this feedback from the first group as well and that we are indeed planning to solve this by a single letter marking.

The continuous discussion and questions were mostly in the area of concerns, whether the succession process based on our model will not be too complicated for even small companies to use, as there are 4 different phases in the whole process. These concerns were removed after further explaining of the model, that the scope of the model is aimed exactly primarily on small family businesses and that the model and its phases are elaborated in form of sets of simple questions, that have to be answered.

Our stakeholders expressed interest in the future final version of the model.

Graphical representation of the model by PP3

5.2. Feedback of stakeholders on improving the matchmaking formula by setting and developing for identification, shortlisting and selection of the best-matching prospective successors

After networking break the second moderated panel discussion block has been launched on the topic of the pilot action, identification, shortlisting and selection of the best matching successors for the business. Based on good experience from the previous day, we have also turned this discussion into a brainstorming session, looking for good opinion and ideas for model improvements and future project activities as well. Stakeholders were therefore asked on their opinion how do they think the best person to take over the company should be found, what are their desirable skills and qualities and so on. As this was the pilot action meeting, this time we have let the stakeholders take initiative and for change present us with their expectations of a business succession model or process for their company, aiming at traits what kind of person would be best suitable to take over in future.

Once again, we have received active feedback from stakeholders, who began naming the desirable attributes of successors, what also lead to active debate between older and younger generation of stakeholders. It has been shown that younger generation has more of an adventurous nature, where they feel that the best thing they can do is to come up with a new idea and try to reach success through it. To put this into a different light, we got the impression, that the young generation actually feels that they are **supposed to** come up with a revolutionary idea, that will change everything for better. We believe that this is a result of the current trend of startups and medialization of success, without providing the full information on success versus failure ratio.

On the contrary, the generation of seniors shown signs of rather cautious approach to big decisions, most probably based on experience. To further explain, they were not afraid of trying new things or starting new projects, but they wanted to have some kind of security, that their actions will be rewarded and provide some kind of profit for the company, whether financial or in form of other assets.

As moderators of the discussion we have managed to find consensus among the two groups by suggesting that a good leader has to have courage to risk, but at the same time has to be responsible for his actions and prepare himself upfront for various ways things could end up going.

Among the most notable factors of successor skillset were mentioned loyalty, responsibility, ability to make a decision, kindness and understanding of other employees as they might be also family members. Young generation also responded that they would appreciate trust from the seniors and belief in their choice or decision, should they become the leaders of the company, therefore suggesting that they would welcome guidance and consulting from the senior after the succession happens, but they would want to be the person who makes the final decisions. Otherwise they would perceive the change only as "legal" or "on the paper".

Just as at the first stakeholder meeting, we also mentioned the future planned activities of the project that would be the matchmaking tool/matchmaking portal and asked our partners if they see such mechanism as viable and what should be its parameters so that they would be willing to use it.

The younger generation obviously received this idea with much more calmness, compared to seniors. In today's technologized society, young people are much more used for IT-based answers to problems in any part of their lives. Senior generation on the other hand seemed a bit more distrustful, being afraid of information or even identity theft, asking how much information about the company they would be needed to share publicly. They also wanted to know if there would be a managing organisation of such matchmaking activity and if then yes, then who, if it would be the state, some EU based organisation as they recognised that our project is covering the Central Europe region, or a private company. Together with this they were asking about funding and pricing of such services. We have shared our opinions with them, but also stated that research of this factors is still before us in the incoming periods.

This way we also managed to raise interest of stakeholders in our future activities and encourage them to join us again in the future.

6. Questionnaire results

At the end of both pilot actions feedback was collected from stakeholders on their knowledge and understanding of the business succession and importance of preparedness of a company in this matter. English version of the questionnaire can be found at the end of the document.

From our respondents 42% were the business owners/seniors, 33% were the successors and 25% were representatives of public institutions or other authorities. By the size of the companies based on the number of employees are as follows: the most populated group were the microcompanies (33%), with up to 10 employees, followed by small businesses with 10-50 employees (25%). Third largest group were the meduium sized companies (50- 250 employees) with 17% and big companies with over 250 employees were represented by 8% of respondents.

50% of our respondents were one-man businesses, 25% respondents were from limited liability companies and 8% of respondents were in union of one-man businesses. Remaining 17% of respondents did not specify their form of business, we assume these were respondents from public authorities.

Now we will analyse answers for each question of the questionnaire. The questionnaire is attached at the end of this document; therefore, we will save space by not copying full text of the questions.

Block A was focused on awareness about the succession process.

A1: 92% percent of the respondents agreed that they recognize the importance of succession. Based on this question it is possible to highlight the importance of the researched topic and necessity of further research.

A2: 42% of respondents stated that they know long should a good succession process last, compared to 58% who feels the other way. The result is not clear and shows that it is still needed to teach public about succession process.

A3: 58% of respondents got familiar with different forms of company and knowledge transfer.

A4: One of the key questions shown, that 64% of respondents does not have concept of succession plan prepared; only 36% has already prepared some sort of concept for succession.

A5: Exactly same values we have recorded in the field of knowledge about legal and fiscal rules related to the succession process, with 36% answering positively and 64% answering negatively.

A6: 67% of respondent feels like they know desirable character features of potential successor.

A7: A very positive result has been recorded regarding to awareness about threats and problems that could occur in the succession process, 92% of respondents stated that they aware of this, what we understand as their initiative to approach business succession topic with seriousness and responsibility.

A8: 67% of respondents does not know different succession models. In our opinion this shows that the topic is not presented widely enough to public so that they come in touch with it.

A9: Exactly same answer as in A8 has been recorded in this question, regarding differences in succession models.

A10: 75% of our respondents would not be sure about which succession model to choose for their business. Together with questions A8 and A9, we assume that even some of the respondents know only our succession model so far, they will now look for other succession models to gather further knowledge before choosing.

To summarize block A, we'd say that even though our respondents possess knowledge about the problematics of business succession, the application process is not defined enough in their businesses or is just being developed. In case of real situation where respondents would have to decide about specific steps and guidelines of business succession process, they would be most probably forced to look for help from advisors and specialists.

Block B was focused on questions regarding preparation of the company.

B1: 71% of respondents answered "yes" when asked about identification of company and family values.

B2: Only about half (52%) of respondents said that they have protected the company in the legal aspects in the case of sudden succession.

B3: 57% of respondents have developed the strategy of the company.

B4: 57% of respondents indicated new objectives and management style In the business, these respondents could be perceived as more open to innovation and change, compared to 43% of respondents who can be perceived as more conservative with possibly higher aversion towards risk.

B5: 86% of respondents feels that they know the potential of their company. This is a very positive result, showing that business owners are not willing to give up on their business easily, and will most probably try to preserve it.

B6: 58% of respondents stated, that they know how to lead the company through the succession change

B7: 80% of our respondents knows the value of their company, we assume that the remaining 20% are mostly young successors who were not able to evaluate this or did not think about this.

B8: A surprisingly positive answer has been recorded in this question, with 75% of owners saying they have designed the constitution of the family.

Block C was focused on preparation of the owner (senior) for the business succession process.

C1: 63% of respondents stated they have somebody to consult with. Even though we have hoped for a higher percentage of positive answers here, we still perceive this result positively, showing that more than a half of owners is willing to accept or at least consider opinions of other people.

C2: On the contrary, only 17% of our respondents has already written a last will.

C3: Only 33% of respondents feels that they gathered enough capital that would enable them to leave the company.

C4: When asked "I already know if I want to stay in the company, and if so, what role will be appropriate for me after the succession process" results came out polarised, with half of respondent answering "yes" and second half answering "no".

C5: Surprisingly when compared with results of C3, as much as 88% of respondents has already developed their own retirement plan. We feel as if the owners know that it is necessary for them to retire at some point, but they would like to find security in gathering as much capital as possible before doing so.

C6: Result In this question was the same as in the C4, with polarised 50/50 answers.

Block D was focused on preparation of the family for the business succession process.

D1: 83% of respondents had discussed the succession process with the family, this is in our opinion a very positive result.

D2: Out of the 83% in D1 67% of family members support the idea of succession in the company. 33% has negative or no opinion on this matter.

D3: Compared to high positive result in D1, only 56% have agreed on the company succession strategy. This, in our opinion, shows importance of raising awareness about succession to ease this process for companies together with aiding to solve their problems.

D4: 83% of respondents stated that the family members support the chosen successor as the most viable candidate.

D5: 67% of respondents have identified the moral values, which will be cared of in the company.

Block E was focused on the succession process itself

E1: 67% of respondents said that they have chosen the form of succession.

E2: 78% of respondents stated that they have chosen a successor or that they have been chosen as successor.

E3: 67% of respondents has already appointed the date of company transfer. We have expected a lower result in this answer.

E4: 56% of respondents have identified further main directions of the company development. We hope that this number will increase in time.

E5: In 56% of cases values important for managing the company has been transferred from senior to successor.

E6: 78% of respondents stated that they have informed the successor or have been informed by the owner about their decision regarding succession of the company.

E7: 67% of respondents stated, that they have introduced the successor into his / her duties, or in have been introduced into the duties if the respondent was the successor. It is important to the ENTER-transfer project that this number will increase in the future, through assistance and guides with the succession process.