

University of Economics, Prague

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Title of the Master's Thesis:

Family Businesses in the succession process

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Declaration of Authenticity

I hereby declare that the Master's Thesis presented herein is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree programme.

Prague, May 15th, 2019

Signature

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Abstract:

The aim of this thesis is to identify and analyze the biggest challenges for family businesses encounter when dealing with the succession and governance process. The findings are based on academic literature review, interviews with future successors and a survey with potential future successors. The Interviews were held with family members who were either the future successor or involved in the succession and governance process. Three German and one Czech family business were analyzed. The survey was conducted anonymously by 30 young, potential successors in collaboration with the University St. Gallen. The results of the interview and the survey were that most challenges occurred because the succession process is often not planned or structured and family shareholders are not sufficiently involved in the decision-making process. Furthermore, the identification with the family business decreases with increasing size and age and thus makes it more difficult to find a suitable successor within the family.

Key words:

Family business, Succession, Governance, Sibling Partnership, Cousin Consortium

Table of Contents

2) Introduction	8
2.1) The Succession Process and Research Question	9
2.2) The Succession Approach.....	11
3) Methodology.....	12
3.1.) Thesis Structure	12
3.2) Interview Preparation.....	12
3.3) Hypothesis.....	13
3.4) Limitations and Challenges	14
3.5) Definition of Family Business	14
4.) Introduction of Czech and German Family Businesses.....	16
4.1) Introduction of Czech family Businesses	16
4.2. Introduction of German Family Businesses.....	18
5.) Tools and Models to analyze Family Businesses	21
5.1) The three Circle Model	21
5.2) The Three Axis Model	23
5.3) The Three Dimensions Model.....	24
5.4) The Genogram Model	25
5.5) The Phases in a Transition – Model	26
6) The Interview Questions.....	26
7) The Selection of the Family Businesses	27
7.1) Introduction of the selected companies.....	27
7.2) Characteristics and Challenges in the Ownership Structure	28
7.3) SWOT Analysis of a Potential Successor	30
8) The Family Business ComAp a.S.	32
8.1) Background of ComAp a.S.....	32
8.2) Development of ComAp a.S.	33
8.3) Succession and Governance of ComAp a.S.	35
8.4) Analyses of the Succession of ComAp a.S.	38
8.4.1) The 3 Circle Model of ComAp a.S. until 2016	38
8.4.2) The 3 Circle Model of ComAp a.S. from 2018.....	39
8.4.3) Transition Phases of ComAp a.S.	40

8.4.4) SWOT Analysis of the Succession Regulation at ComAp a.S.	42
9) The Family Business Lappmann AG	43
9.1) History and Development of Lappmann AG	43
9.2) Succession and Governance of Lappmann AG	44
9.3) Analyses of the Succession of Lappmann AG	47
9.3.1) The 3 Circle Model of Lappmann AG	47
9.3.2) Interpretation of the Genogram	48
9.3.3) SWOT Analysis of the Succession Regulations of the Lappmann AG.....	48
10) The Family Business C.E. Noerpel GmbH	49
10.1) History of the Family Business C.E. Noerpel GmbH.....	49
10.2) Development of the Family Business C.E. Noerpel GmbH.....	50
10.3) Succession and Governance of the Family Business C.E. Noerpel GmbH.....	50
10.4) The Three-Circle Model of the Family Business C.E. Noerpel GmbH	51
10.5) The Transition Phase of Noerpel	52
10.6) SWOT Analysis of the Succession Regulation of C.E. Noerpel GmbH.....	53
11) The Family Business Berg-Gruppe.....	54
11.1) History of the Family Business Berg-Gruppe.....	54
11.2) Succession and Governance of the Family Business Berg-Gruppe.....	55
11.3) The Three Circle Model of the family business Berg-Gruppe	56
11.4) Genogram of the Family Business Berg-Gruppe	57
11.5) SWOT Analysis of the Succession Regulations of the Berg-Gruppe	57
12) The survey of potential successors of Family Businesses	58
12.1) Introduction of the survey of potential successors of Family Businesses	58
12.2) Findings of the Survey of Potential Successors of Family Businesses.....	59
12.3) Conclusions and Results of the Survey	62
13) Recommended Action to solve Succession and Governance issues	63
14.) Conclusion.....	68
Bibliography	69

Table of Contents

Table 1: The illustration of the succession & ownership inside and outside of the family	9
Table 2: Distribution of Family Business within the Individual Categories in the Czech Republic. sizes Micro-enterprises up to 10 employees	16
Table 3: Actual Situation in Business Succession of the Biggest Czech Family Firms in 2015	17
Table 4: TOP 10 Czech Family Firms in 2015.....	17
Table 5: Number and Foundation of German Family Businesses	19
Table 6: Comparison between Employers at TOP 500 German Family Businesses and the DAX-27	19
Table 7: Top 10 German Family Firms (2018	20
Table 8: Introduction of the analyzed family businesses	28
Table 9: The Level, Characteristic and Challenges of the analyzed family businesses.....	30
Table 11: Survey Question: “(Approximately) How many family members have shares at the family business?”	61
Table 12: Survey Question:” (Approximately) How many family members are directly involved in important strategic decisions?”	61
Table 13: Potential Governance Instruments	66
Table 14: Recommended governance & succession model	67

Table of Illustrations

Illustration 2: Three-Circle Model	21
Illustration 3: The three Axis Model adapted from	23
Illustration 4: The Three Dimensions Model.....	24
Illustration 5: The Genogram	25
Illustration 6: Phases in a Transition in family owned Businesses	26
Illustration 7: Ownership Structure in the Family Business.....	28
Illustration 8: SWOT analyses of a successor of a family business.....	31
Illustration 9: The subsidiaries of ComAp a.S.....	34
Illustration 10: One of the latest Products of ComAp	35
Illustration 11: A model about the right time “to let go.....	36
Illustration 12: The 3 Circle Model of ComAp until 2016	38
Illustration 13: The 3 Circle Model of ComAp 2018	39
Illustration 14: Phases in a Transition in family owned Businesses	40
Illustration 16: The 3 Circle Model of the Lappmann AG 2019	47
Illustration 17: SWOT analyses of a successor of a family business.....	49
Illustration 18: The Three Circle Model of “C.E. Noerpel GmbH” 2019	51
Illustration 19: Phases in a Transition in family owned Businesses	52
Illustration 20: SWOT analyses of a successor of a family business.....	53
Illustration 21: The Three Circle Model of the “Berg Gruppe” 2019.....	56
Illustration 22: The Genogram of the Berg Family 2019 (Berg, 2019).....	57
Illustration 23: SWOT analyses of a successor of a family business.....	58

Table of Abbreviations

AG	Aktiengesellschaft (in English: Stock Company)
DAX	Deutscher Aktienindex (in English: German Stock Index)
CFO	Chief Financial Officer
GDP	Gross Domestic Product
EUR	Euro
GmbH	Gesellschaft mit beschränkter Haftung (in English: limited liability company)
Dipl.Kfm.	Diplom Kaufmann (in English: Diploma in Business Administration)
SME	Small-and-medium sized enterprise

2) Introduction

The relevance of family businesses is of enormous importance not only for the regional, but also for the nationwide and international economy. Family businesses represent most of all companies and at the same time no other form of enterprise employs more employees. Family run businesses are therefore the most important form of economic enterprises in Europe. (Gottschalk, 2014), (Niebler, 2015)

Among others the German Chancellor Angela Merkel cited the terminology which is widely used when the importance of family businesses is being highlighted: “Family Businesses served as the backbone of ancient civilizations and undoubtedly are the prevailing form of organizations in today’s economies – no matter whether they are advanced industrial or developing, rather rural economies”. (Bird, 2002), (Bundesregierung, 2013)

The literature and statistics state that historically seen the overwhelming majority of today’s existing companies trace their roots back to family businesses, which, in consequence, implies that the differentiation between family and non-family businesses has only arisen out of the separation of family and company structures. (Gottschalk, 2014)

Interestingly, the topic and importance of family businesses has been particularly sharpened in the past three decades. The literature has particularly confirmed that a development away from the general registration of family enterprises under the term Small Medium Enterprises (SME's) and towards an own form of enterprise. (Bird, 2002), (Zellweger T. M., 2010)

This attention was intensified in the wake of the financial crisis. Family businesses were better able to cope with this crisis than non-family businesses. (Lins, 2013) According to the quoted authors, this is due to the values that this form of enterprise largely represents: Companies that offer strong, reliable and value-based culture. Furthermore, the attributes “long-term-oriented” and “economically healthy”. (Yan, 2006)

“Family Businesses” has become more and more the focus of public attention in recent years. Extensive studies and analyses have already been carried about this topic, particularly the issues of succession and governance have received a great deal of attention. (Bird, 2002) There are reasons why so much research has already been done on the subject of Succession: The topic of Succession is particularly diverse. It can be analyzed and interpreted from different perspectives and points of view. In addition, every succession arrangement is unique. Furthermore, the succession regulation is particularly crucial for the further success and the survival of a family-led enterprise. (Bizri, 2016) German family businesses had to deal with almost 80,000 succession arrangements in the past few years. (Prügl, 2015) In the European Union (EU) every year the

question of succession has to be answered by more than 450.000 businesses employing a total of nearly 2 million people. (Niebler, 2015)

However, this generation change is often associated with difficulties which the EU describes as follows: “Due to the many difficulties associated with such transfers, an estimated 150 000 businesses are forced to close each year with the loss of some 600 000 jobs.” (Niebler, 2015)

These figures are proving once again the importance of family-owned enterprises: Depending on the survey and definition, almost three-quarters of all enterprises are family-owned and provide up to 80% of all jobs in Western and Central Europe. (Dana, 2015) However, family businesses also pose a great challenge: 30% of all family companies are bankrupt within two generations. 65 % do not "survive" the third generation and only 15 % of the family-run businesses still exist in the fourth generation. (Collins, 2016)

2.1) The Succession Process and Research Question

A succession plan is about answering two questions:

Who will be the successor?

and

How is the ownership of the company structured?

<i>Succession & Ownership Structure</i>			
<i>Succession Models</i>	Inside the family	Outside the family	Further solutions
	↓	↓	↓
	Children	Investors	Transition Mgmt.
	Relatives	MBO	IPO
		MBI	
	↓	↓	↓
	Succession within the family	Succession outside the family	Mixture

Table 1: The illustration of the succession & ownership inside and outside of the family

Table 1 shows the internal and external succession and ownership process and possible further solutions. This illustration indicates the importance of passing on the business to the next generation. A wrong decision or an unregulated handover can cause high financial losses and jobs. The external support of consultants during the succession process has so far been used more secondarily. (Levinson, 2009) This topic is still regulated within the family, so that holistic support of counsellors in this area is rather the exception. This Master Thesis examines four Family firms on the process of succession planning. Four different types of family businesses with the aim of determining success or failure factors that are decisive, whether a potential, family-internal successor joins the company, or an external manager takes over the management of the firm.

Furthermore, it particularly focuses on the question of how processes, strategies and decisions are being handled within a family owned company. Especially the finding of a suitable successor in one's own family and the associated opportunities but also risks for the family, for the employees and the entire company are challenges they must face on a regular base.

It has been noticed that numerous authors have dealt with the significance and development of family businesses on a regional and international level. However, the current literature and research areas provide a very general overview, which gives an overall impression, but the special challenges that a single family-run company must overcome quickly fade into the background or are not described in detail. There are numerous texts and comparisons about the development and challenges of family-businesses in Western Europe with an increased focus on the region Germany, Austria and Switzerland. The focus of this thesis is on the analysis of four families from Germany and the Czech Republic. The company from the Czech Republic is a peculiarity, because for historical reasons owner-managed companies were not allowed to exist in communism until 1990, so that the chosen company can look back on a somewhat more recent past. There are significant differences between the companies in terms of size and turnover figures, but the challenges are similar. A highlighted focus is on the governance and succession of the companies and the extent to which the size and age of the companies influence the decision-making.

The aim of this master's thesis is to get a clear insight into four very different family businesses with the focus on succession and governance, to bundle these findings and to arrive at a guideline or a recommendation for action. In addition, a survey was carried out that was answered by 30 potential successors to put the analyzed companies and their challenges into a broader context.

2.2) The Succession Approach

The importance of family businesses has already been hinted at in the previous chapter. The existing literature, analyses and teachings about family businesses have the overriding goal to analyze these companies, to recognize weaknesses and to reduce them by experiences and models.

The quoted article suggests the approach in six steps (McGoldrick, 2008):

- Define the broad ownership
- Organize a succession task group
- Set criteria for selection of the successor
- Develop a successor
- Time the event
- Reorient the retired incumbent and other contenders

It should be noted that the succession problem is not only an individual challenge but affects the company as a whole. Furthermore, it is a very complex issue and this procedure is intended to give a first impression.

There has been a particular change over the past 30 years (Zellweger T. M., 2010): Numerous studies came to the conclusion that the succession process in the past was often clarified from the outset: the eldest son was obligated, often even forced to continue the fortunes of the family business. (Dumas, 1989) It was usually left out of consideration whether the eldest son had the necessary qualifications to take up the position of the managing director. The literature states that this approach often did not turn out to be the ideal choice. (Morris, 1997) and only a small percentage of family businesses 'survive' the third generation of succession. (Morris, 1997)

In recent years it has been more and more emphasized that family's internal successors meet the company's high requirements and only if they meet those conditions they will be considered as potential successors. (Venter, 2005)

However, these requirements do not solve the biggest and recurring problem of family businesses: The identification of a suitable successor. The pressure to find a fitting successor within the family is even greater than to find the right one from external applicants. (Sardeshmukh, 2011) There are considerable differences between the search for a successor of a publicly traded company and a family business. A managing director of a publicly traded company has the task of increasing shareholder value. A successor in the family succession process has also to consider the question of ownership and control, the family's structure, cultures and life cycles of the company. (Sharma, 1997)

3) Methodology

3.1.) Thesis Structure

The Master thesis structure is divided into different sections. At the beginning the topic Family Business is introduced in general. Subsequently, the common analysis models are presented, and the 4 family businesses are analyzed, explained and classified according to the models. The future successors will be assessed based on a SWOT analysis whether they satisfy the requirements of the managing director. Once the analysis of the four companies has been completed, a survey of 30 potential successors is conducted to evaluate succession and governance. The results of the literature research, interviews, analysis of the companies and the survey are then put into context and used as a recommendation for action.

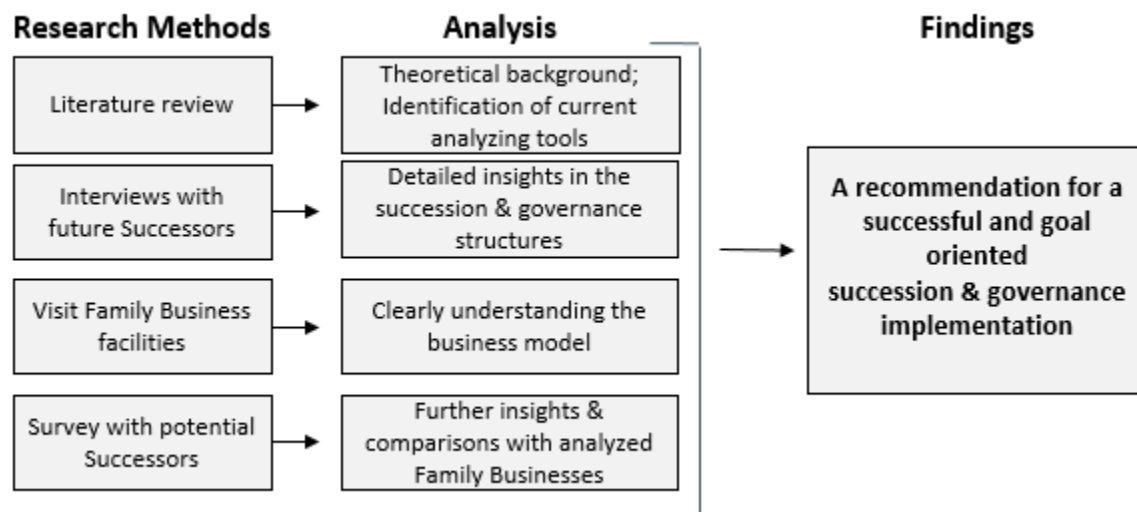


Illustration 1: Methodology Overview

3.2) Interview Preparation

The interviews conducted with the potential successors are one of the most important sources of information for a comprehensive analysis of a family business. A clear question structure and expectation of the information to be obtained from the interview must be defined beforehand. Especially for sensitive topics like family businesses it is important to try to build up a comfortable atmosphere for the interviewee. (Knill, 2019) It is also important to put the current position of

the interviewee into context. The position of the interviewee influences the possible insights considerably, as the knowledge and authority to provide information are closely linked to the position.

The overriding focus during the interviews was on:

- To get an overall picture of the company
- Understanding the family structures within the company
- How the succession plan and governance are handled
- How disputes are handled

3.3) Hypothesis

Beforehand the author of the master thesis proposed three hypothesis why numerous family businesses struggle especially with their succession and governance processes.

Hypothesis I: The right timing

The founders of a company often see themselves as omniscient and are very reluctant to pass on trust to the next generation. The permanent improvement and talking into decisions could discourage the next generation from taking over at all. Furthermore, it is conceivable that the founders will have to wait too long for the succession plan, and that it will then have to be made hastily due to external circumstances. And the final question is whether the next generation is willing to take over the company or whether they would like to realize their interests in another way.

Hypothesis II: The suitable successor

It must be defined which skills the future internal family manager has to provide before he could take over the management of the company. It is assumed that only a few companies have defined this for themselves internally. What happens if the next generation is not regarded as suitable? Is it the right way to involve the potential successors as early as possible, but at the same time to be able to devote themselves to their own interests? It could be particularly delicate if several children could be considered as potential successors.

Hypothesis III: Distribution of money and power

The distribution of the company shares or in short “when it comes to money”: Do children receive more company share if they are involved in the family business? What are the conflicts if the performance of the company does not turn out as desired and the dividends are lower? How do they coordinate with their siblings in the future when it comes to the question of how profits should be reinvested? Is the potential successor prepared to put the friendly relationship within the family at risk for the company?

3.4) Limitations and Challenges

Family businesses are secretive, and the challenges were to identify companies that met comparable parameters of headcount, revenue ratios and localization. Since both the “family” and “business” topics can be delicate, the information reference to the topic of “family businesses” proved to be particularly challenging. For the selection of interview partners, it is crucial to obtain information from someone who belonged to the founding family and is still active in the company or had a leading position in the past. In addition, potential discrepancies between the family members could already be foreseen, as certain questions were excluded from the outset or information were refused during the interview, because private and personal issues were unidentifiable, conversations were interrupted or ended abruptly. The reluctance of the interviews was due to the disagreements within the company and to past and future decisions, so that a “wrong” statement by the interviewee could have led to a renewed sparking of the internal family dispute. This often-limited information made it more difficult to conduct a company analysis with all participants, as important information could not be communicated.

In addition to the company, the right contact person was another challenge. During the interviews, it was noted that an interviewee only gives his subjective view of the company and the past and future decision-making processes. An analysis of the entire company was therefore more challenging. The possibility to obtain further information through an anonymous survey seemed to be reasonable.

3.5) Definition of Family Business

There is a consensus about the importance of family businesses for the economy and society. However, there is far no consensus on the exact definition of this type of enterprise: There is no

general definition when a company can be described as a "family business". Neither under which legal form and corporate structure it won't be considered as "family business" anymore. Family businesses are not bound to a certain size in terms of employees or turnover. Furthermore, as described above, they can be found in almost all branches of the economy and are not subject to the obligation to adopt a certain legal form. A company is considered to be a family business if *"a family or a business family association exerts a certain influence on what happens in the company"*. (Baitsch, 2006)

The literature states that the family has a decisive influence on the management and decision-making process of a company and is shaped both internally and externally by the family. (Schlippe von, 2009)

An all-encompassing and clearly explanatory definition was written by the author James Lea: (Astrachan, 2002)

"A business is a family business when it is an enterprise growing out of the family's needs, built on the family's abilities, worked by its hands and minds, and guided by its moral and spiritual values; when it is sustained by the family's commitment, and passed down to its sons and daughters as a legacy as precious as the family's name."

When reviewing the literature, it becomes apparent that almost every author has an independent conception and definition of a family business and a general reference to a common definition cannot be found in the literature. The different definitions make it methodically difficult to distinguish clearly between the individual studies.

In the Czech literature the following definition is one example used by different authors:

„Family business is a company owned and controlled by the family or selected members thereof on the assumption that the company will be handed over to the next generation in future." (Petlina, 2015)

A different approach was stated by the Civil Code of the Czech Republic:

"The family business is considered as an establishment, where the spouses, or at least one of them, are working together and where the other relatives up to the third degree or those related to husbands and connected via brothers-in-law up to the second stage are working, and where some of those people are the owners of such establishment." (Tagiuri, 2014)

Due to the European context between companies in Germany and the Czech Republic, the author of the master thesis decided to use the official definition of family businesses of the European Union (EU). In 2007 the EU formulated the following, general definition for family-run businesses:

Common European definition of a family business: (European Commission, 2019)

“The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child, or children's direct heirs.

2. the majority of decision-making rights are indirect or direct.

3. at least one representative of the family or kin is formally involved in the governance of the firm.

Listed companies meet the definition of a family business if the person who founded the company or acquired the share capital or their families or descendants hold 25 percent of the decision-making rights on the basis of their share in the share capital.”

This definition also includes family businesses that have not yet completed the first generational transfer. It also includes sole proprietors and self-employed persons (if there is a legal entity that can be transferred).

4.) Introduction of Czech and German Family Businesses

4.1) Introduction of Czech family Businesses

The tradition of family businesses in the Czech Republic began with the fall of communism in 1989. During the communism of 1948-1989, family businesses were almost completely ousted from the market. Today's family-owned companies are therefore mostly still in their first generation. According to current surveys, however, SMEs represent almost 99% of all companies today. (Petlina, 2015)

<i>Categories of enterprise sizes</i>	<i>Representation of family business</i>
<i>Micro-enterprises up to 10 employees</i>	70–80%
<i>Micro-enterprises from 11 to 50 employees</i>	30–40%
<i>Medium-sized enterprises 51 to 250 employees</i>	20–30 %
<i>Big enterprises >250</i>	up to 11%

Table 2. Distribution of Family Business within the Individual Categories in the Czech Republic. sizes Micro-enterprises up to 10 employees (Petlina, 2015)

A survey of the 65 Czech family companies with the highest turnover revealed that the majority of these companies are still run by their founders or descendants. (Mašek, 2015)

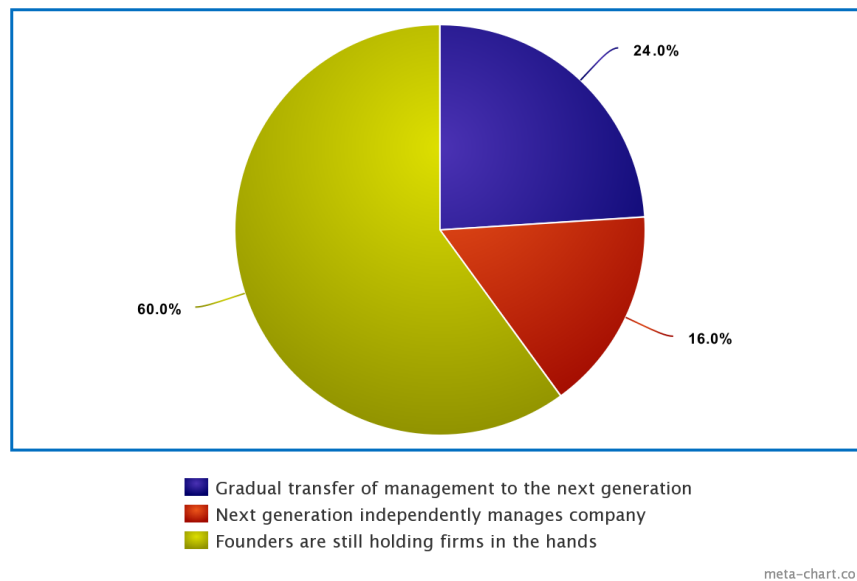


Table 3: Actual Situation in Business Succession of the Biggest Czech Family Firms in 2015 (Mašek, 2015)

Only 16% of the companies are already managed independently by the next generation and 24% are in the succession process. It is interesting to note that none of the investigated companies is run by a non-family member. This is illustrated in Table 3. It shows that also the ten largest Czech family businesses are run exclusively by family members what may be due to the relatively young age of the companies.

No.	Name of company	Family ties	Revenue in Bil. EUR	EBITA in Mil. EUR
1	Metalimex	Father+Son+Daughter	1,02	37,9
2	Synot Holding	Father+Brother+Sister+Nephew	0,48	31,4
3	Juta	Father+Son	0,24	25,5
4	Kofola	Father+Son	0,23	20,8
5	Safichem Group	Father+Son	0,22	21,1
6	DEK	Father+ Son	0,31	16,3
7	Agrostroj Pelhřimov	Father+Brother+Daughter+Son-in-law	0.21	20,5
8	Hruška	Son+other 2 families	0,31	11,5
9	Hopi	Father+Son+Son	0,38	10,8
10	Promet Czech	Father+Wife+Son+Daughter	0,18	17,1

Table 4: TOP 10 Czech Family Firms in 2015 (Mašek, 2015)

According to the current surveys, the current situation of Czech family businesses is considered to be generally positive. Half of all family businesses expect an increase in their turnover and look to the future with optimism. Only 10% of the interviewed companies expect a decrease in their sales. Two thirds plan to pass on the management of the company to the next generation and even 50% are currently involved in the succession process. (Kotlářová, 2011)

The importance of family businesses for the Czech economy is beyond doubt. However, there are currently also challenges and regulations that companies have to deal with: “Unlike some European countries, the Czech Republic at the moment makes no special provisions for family firms, and the association feels that this should be remedied urgently”, says Karel Havlíček, chairman of the Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic. (Johnstone, 2016)

As one of the first steps he supposes an “agreed definition of family firms enshrined in Czech Law”, that “would pave the way for follow up measures”. (Johnstone, 2016)

And he adds:

“In Europe as a whole, the small businesses as family businesses are generating more than 50 percent of the GDP. In the Czech Republic, they are generating only 30 percent of the GDP. We have no statistics and we really need statistics and numbers. We have to know more about the level of family businesses and we need the Czech government to support family businesses with specific structural funds, European funds, and national funds.” (Johnstone, 2016)

In summary, the development of Czech family businesses is currently positive, but now the politicians are called upon to pass reforms that will continue this trend.

4.2. Introduction of German Family Businesses

Family businesses have traditionally been accorded great importance in Germany. In recent years, family businesses accounted for between 86% and 91% of all companies, accounted for 46% to 57% of employment and generated 42% to 55% of the total German turnover. (Rittmann, 2018)

According to the study of the TOP 500 the average German family businesses is 101.8 years old. The number of companies founded at the time also gives an impression of the times of industrialization and politically turbulent periods. After each of the two world wars, for example, a high founding activity and a correspondingly lower one during the war years. (Prügl, 2015)

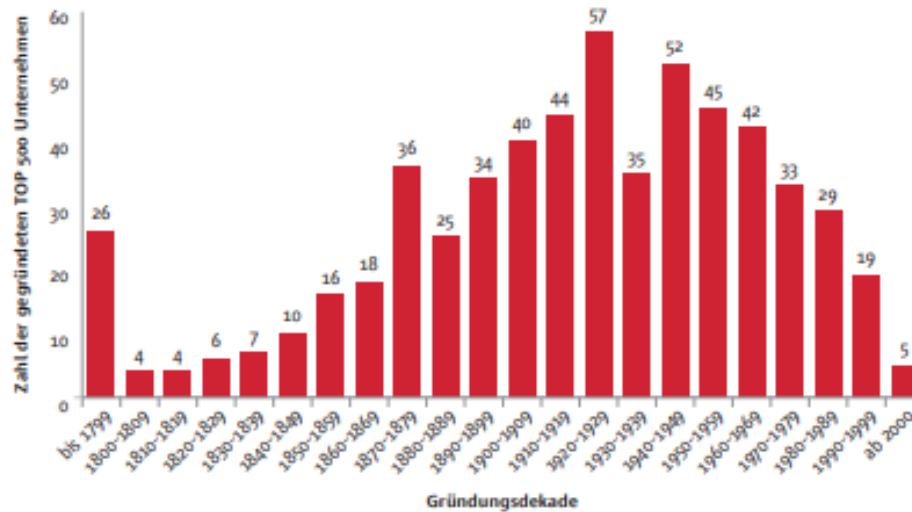


Table 5: Number and Foundation of German Family Businesses (Prügl, 2015)

The long-term study of the Foundation of German Family Businesses reveals a particularly dynamic development of employment. While the total number of employees in Germany subject to social insurance contributions increased by 14 percent between 2006 and 2014, the TOP 500 family-owned companies clearly outperformed this trend. In the same period, they succeeded in increasing their employment figures by 19 percent (to 3.17 million employees). The 27 non-family-controlled Dax companies (Dax-27) only achieved an increase of two percent in the same period. (Prügl, 2015)

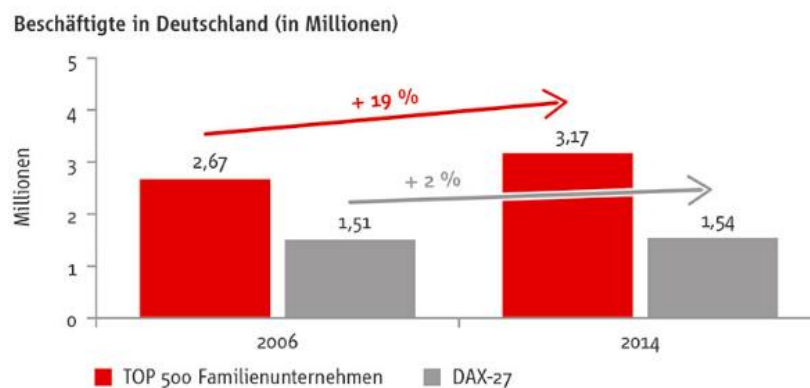


Table 6: Comparison between Employers at TOP 500 German Family Businesses and the DAX-27 (Prügl, 2015)

<i>No.</i>	<i>Name of Company</i>	<i>Family</i>	<i>Revenue 2015 in Mio. Euros</i>	<i>Employees</i>
1	Volkswagen AG	Porsche / Piech	202.800	112.561
2	BMW AG	Quandt	80.401	116.324
3	Schwarz Beteiligungs GmbH	Schwarz	74.000	335.000
4	Aldi Nord	Albrecht	65.800	64.200
5	Metro AG	Haniel/Schmidt-Ruthenbeck/Beisheim	59.219	226.895
6	Robert Bosch GmbH	Bosch	48.951	290.183
7	Continental AG	Schaeffler	34.506	189.168
8	Fresenius SE & Co. KGaA	Kroener	23.231	216.275
9	Merckle Gruppe	Merckle	23.049	26.664
10	Bertelsmann SE & Co. KGaA	Mohn	16.675	112.037

Table 7: Top 10 German Family Firms (2018) (Zellweger T. , 2018)

The exhibit 6 shows the size of the Top 10 Family businesses in Germany and gives an impression about the importance for the German economy. According to a recently published survey, (Bain, 2019)

- 119 of the 750 largest family businesses in the world are in Germany
- 72 are still owner-managed
- 47 are managed by an external manager
- 20 % are listed on the stock market.

Despite the constant positive development of family businesses in Germany, companies expect the big challenges in the coming two years, especially in the fight for talent. Family businesses threaten to run out of employees: For 84 percent of German family businesses (60 percent worldwide), the increasing shortage of skilled workers has become a huge problem (70 percent two years ago). (Rittmann, 2018)

For 91 percent (87 percent worldwide), attracting and retaining the best talents is therefore the most important goal for the next two years - even before increasing innovative strength (67 percent) and improving profitability (65 percent).

However, the best minds are urgently needed to strengthen innovation and advance digitization. Both pose major challenges for 70 percent of German family businesses, far more than worldwide (66 percent and 44 percent, respectively). The challenge of succession was named by 29 percent

(33 percent worldwide) of the companies surveyed as a challenge in the next two years. (Rittmann, 2018)

5.) Tools and Models to analyze Family Businesses

The models presented in this section help to illustrate the current and future situation of family businesses. In addition, stakeholders and governance, performance and milestones in the company's history are examined and analyzed. The aim of the models presented here is to better understand the status of the companies examined and to put possible future decisions into a context.

5.1) The three Circle Model

There are numerous approaches that try to explain family-run businesses conceptually based on models. At first glance, the combination of the two systems family and business seems to be the most obvious one, and numerous conflict possibilities arise from their combination. But for a long time, the focus of ownership was ignored. "Ownership" plays a very decisive role in family businesses and must therefore also be analyzed." (Tagiuri, 1982) Today, the Three-Circles Model is regarded as the basis and beginning of every analysis of a family business. It was developed by researchers Davis and Tagiuri in 1982. This model has nowadays gained the widest distribution and acceptance. (Tagiuri, 1982)

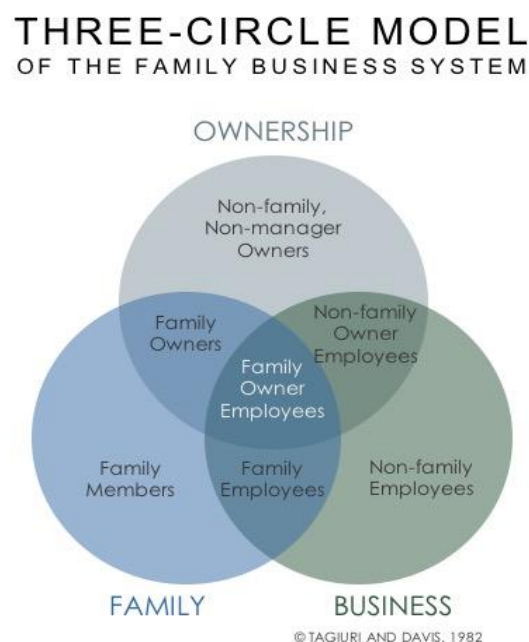


Illustration 2: Three-Circle Model (Tagiuri, 1982)

The researcher and inventor of the Three-Circle Model explains his model as follows:

“The Three-Circle Model of the Family Business System shows three interdependent and overlapping groups: family, ownership, and business.” (Davis, 2019)

“An individual in a family business system occupies one of the seven sectors that are formed by these three overlapping circles. An owner (partner or shareholder) and *only* an owner will sit within the top circle. Family members will occupy the left-hand circle, and employees of the family company the right-hand circle. If you have only one of these roles, you will be in just one circle. However, if you have two roles, you will be in an overlapping sector, sitting within two circles at one time. If you are a family member who works in the business but has no ownership stake, you’re in the bottom-center sector. If you are a family member who works in the business and is an owner, then you will sit right in the center of the three overlapping circles.” (Davis, 2019) One could also understand the model in terms of role theory, because it illustrates the different and often simultaneous roles. This means that areas of responsibility may overlap. Family members are relatives, owners and managers in one person and must integrate themselves into this field of tension. It is likely that family cohesion and harmony are more important to a family member. The owner is most likely to be interested in the highest possible return, and as a possible external managing director the emphasis is on increasing shareholder value.

Conflicts are inevitable, as different ideas of values exist in the professional and family environment.

5.2) The Three Axis Model

The original 3 axis model for the analysis of family businesses was already developed in 1997. The model described here is an updated version of the older model. Based on the 3 Circle Model, the Axis should now represent the change over a period in a model form. The ownership axis is divided into 4 different axes and represents the relation to the founder and owner of the company: Controlling Owner, Sibling Partnership, Cousin Consortium and Distant relatives. The Business Axis comprises the areas of Start-up, Growth/Formalization, maturity and Decline/Regeneration. The "Family Axis" comprises the areas Young business Family, Entering the business, working together and Passing the baton. The aim of this model is to determine the status of the family business.

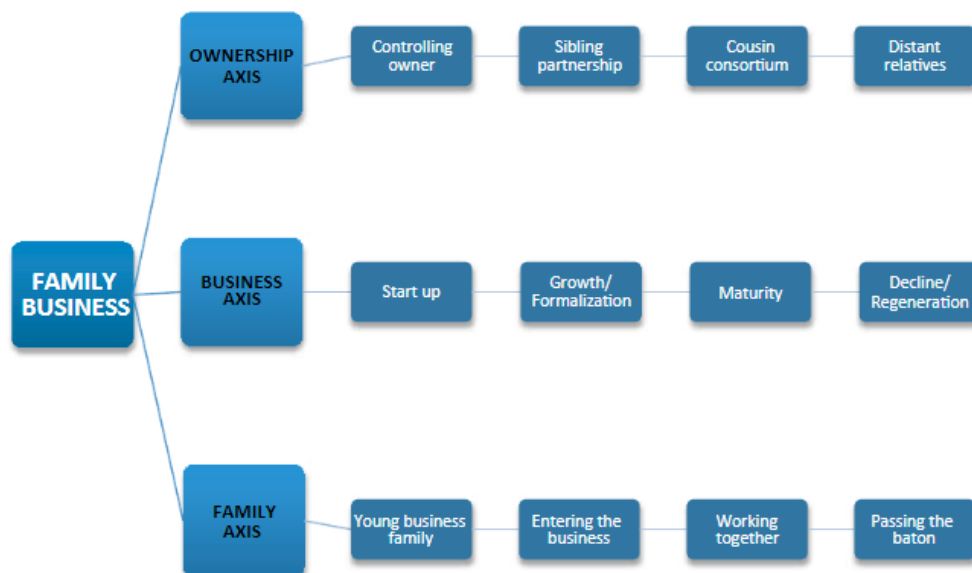


Illustration 3: The three Axis Model adapted from (Gersick, 1997)

5.3) The Three Dimensions Model

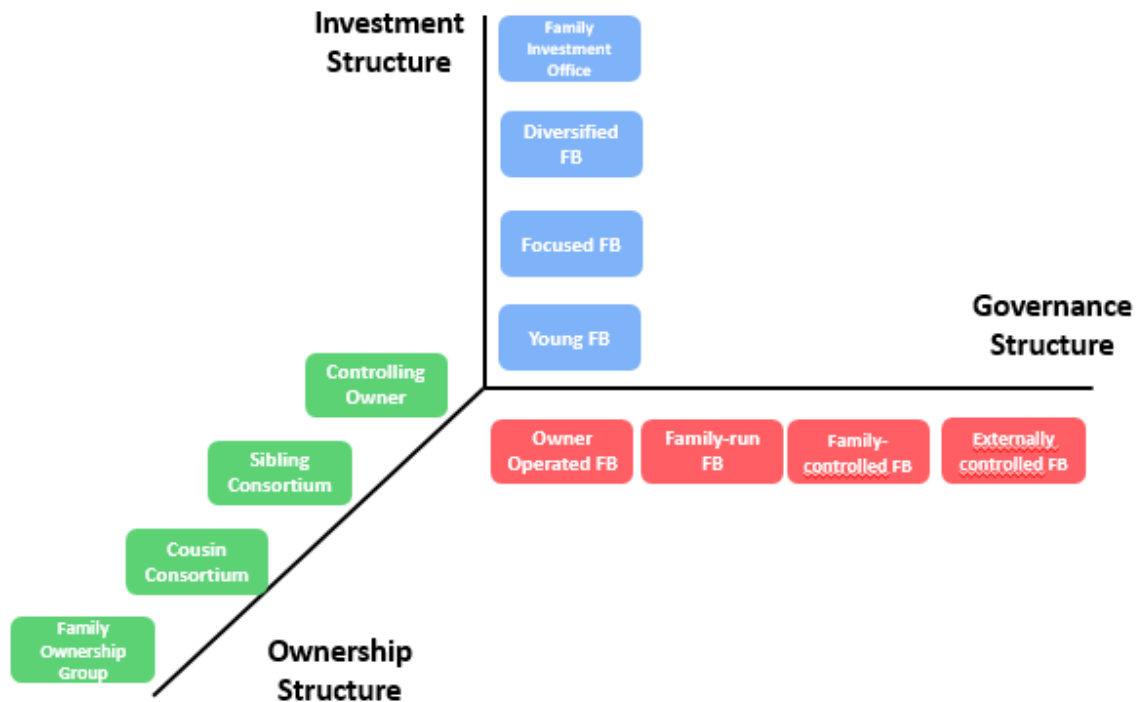


Illustration 4: The Three Dimensions Model / own illustration inspired by (Heinemann, 2015)

The “Three Dimensions Model” can be seen as an addition to the “Three Axis Model”.

The Three Dimensions Model is divided in investment, governance and ownership structures. The investment structure analyses which values and visions the family business pursues. In addition, the development status of the family business is determined. The ownership structure defines the extent to which the company is managed by family members. Each ownership structure struggles with its advantages and disadvantages, which are considered more closely in chapter 7. The governance structure indicates whether the company is still run by the family itself or whether it is divided into or managed entirely by external managers.

The Three Dimensions Model represents the development of family businesses along the dimensions of “Ownership Structure”, “Governance Structure” and “Investment Structure” and illustrates typical challenges at each stage of development.

5.4) The Genogram Model

A genogram visualizes the members of a family. Furthermore, it shows so-called entries and exits from the family, the company and the individual relationships among each other. It is particularly suitable for analyzing the influence and key players within a family business. Each row deals with one generation of a family and lists the siblings from left to right according to age. The Genogram can be supplemented by important parameters such as gender, marital status, age, relationships and other details. It is very important for external consultants as they can better understand the players and dynamics within the family.

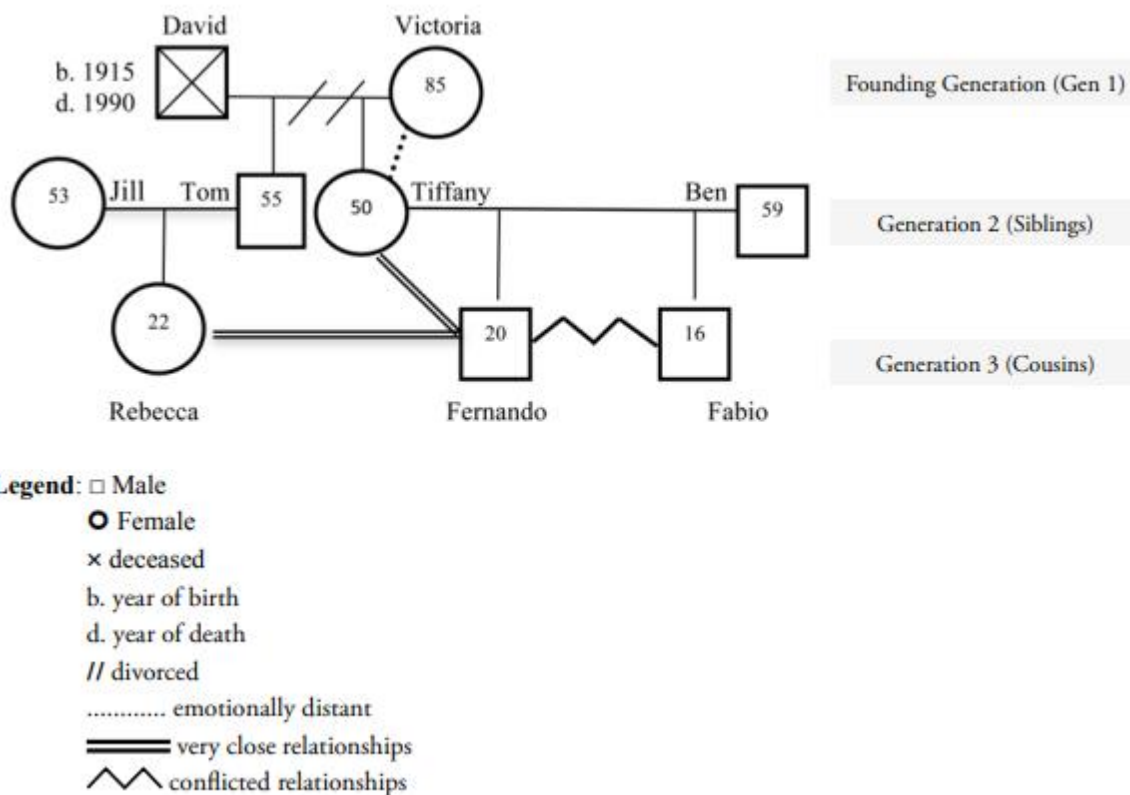


Illustration 5: The Genogram by (McGoldrick, 2008)

5.5) The Phases in a Transition – Model

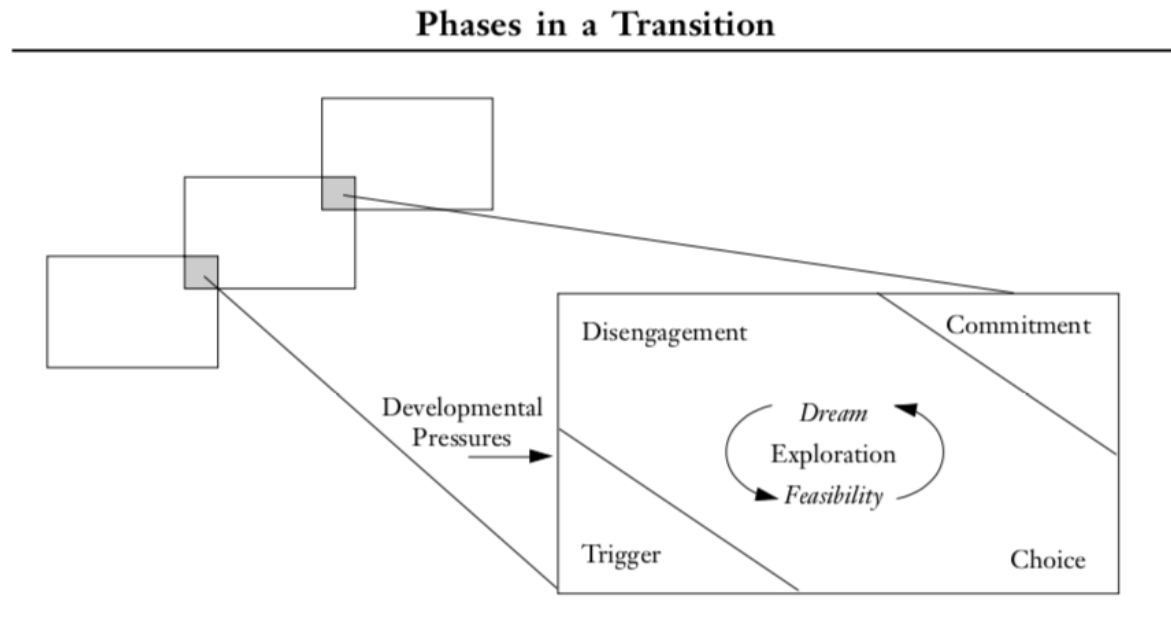


Illustration 6: Phases in a Transition in family owned Businesses (McGoldrick, 2008)

This model can be used to show what developments and changes in a family business can be exposed to. External pressure can set various processes in motion. This can result, for example, from decreasing sales figures or the entry a new competitor. The triggers are rather defined as internal developments that can lead to a reorientation of the company. Also, the question to what extent one as a founder would like to engage oneself for the company in the future plays a decisive role. The central points "Choice" and "Disengagement" show in which way the founders of the companies are willing to "let go" and which prerequisites a potential successor must satisfy to be shortlisted.

6) The Interview Questions

In the following chapters the analyzed companies are presented. The aim is not only to reproduce the interviews, but also to gain an impression of the companies, their history and products. This context is important to better understand the subsequent interviews. The following interview questions were previously formulated as so-called "focus questions" and served as guidelines during the interview.

- What was the most challenging governance issue regarding succession your company has faced?
- How is the family structure? (Ownership vs. Management)?
- To what extent are family members operationally established in day-to-day business?
- Is there a formal process to resolve family/owner disputes?
- Is there a supervisory board and if so, how is it structured? Are family members part of the supervisory board and if so, has this led to controversy in the past?
- Has it been an issue that the company is no longer run by a family member?
- What experience have you had with external consultants?
- Do you believe that the company would have become a different one if an external CEO had taken over the responsibility early on?
- Do you think it that it is an advantage that your business is still a “Family Business”?
- What are your and the companies plans for the future?
- Are you satisfied with the position and performance of the company right now?
- What kind of conflicts does usually exist in the making decision process in the company?

7) The Selection of the Family Businesses

7.1) Introduction of the selected companies

The selection of the family companies analyzed was made from a specific point of view. As can be seen in Table 7, three of the four analyzed companies have a similar size in terms of turnover, number of employees and founding date. This was done for the comparability, the succession arrangements and to highlight possible differences with a company of the first generation (ComAp a.S.).

<i>Company Name</i>	<i>Foundation Date</i>	<i>Generation</i>	<i>Revenue 2018 (in EUR)</i>	<i>Employees</i>	<i>Headquarter</i>
<i>ComAp a.S.</i>	<i>1989</i>	<i>1st</i>	<i>50 Million</i>	<i>320</i>	<i>Prague, Czech Republic</i>
<i>Lappmann AG</i>	<i>1921</i>	<i>3rd</i>	<i>600 Million</i>	<i>2700</i>	<i>Ludwigsburg, Germany</i>
<i>C.E. Noerpel GmbH</i>	<i>1881</i>	<i>4th</i>	<i>500 Million</i>	<i>2300</i>	<i>Ulm, Germany</i>
<i>Berg-Gruppe</i>	<i>1919</i>	<i>4th</i>	<i>600 Million</i>	<i>3200</i>	<i>Cologne, Germany</i>

Table 8: Introduction of the analyzed family businesses

For long-established companies that have been family-owned for more than three generations, it is to be expected that the succession and governance process will be different than for a company that has only existed for a few decades. It is also interesting to note how the companies have managed to keep the company in family ownership for over 100 years, because only 15% of the family companies manage to survive the 3rd generation. (Collins, 2016)

7.2) Characteristics and Challenges in the Ownership Structure

Family businesses can be divided into four different ownership structures: The “Controlling Ownership”, the “Sibling Partnership”, the “Cousin Consortium” and the “Family Ownership group”. (Illustration 7 & Table 9)

The analyzed companies cover three of the four different ownership structures.

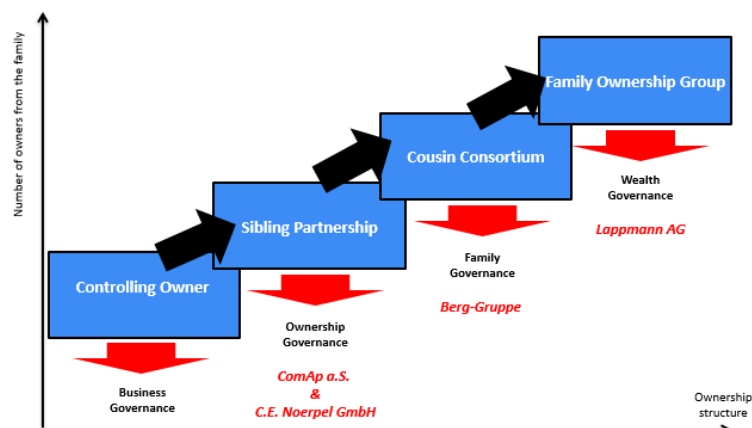


Illustration 7: Ownership Structure in the Family Business / own illustration combining ideas and concepts of the St. Galler Nachfolgemodell (Halter & Schroeder, 2011)

As can be seen in the Illustration 7 and in Table 9, the companies ComAp a.S. and C.E. Noerpel GmbH are managed as so-called "Sibling Partnerships". The sibling partnership states that the company shares, and the management of the company are handled by siblings. Special challenges are the often-unclear ownership structures and disagreements between the siblings about the management of the company. In addition, siblings who are not involved in the operational business may feel disadvantaged. The sibling partnerships also often struggle with the unclear management structure and rivalry among themselves. Those challenges can also be used as strengths, if managed correctly: The common values and goals, as well as the trusting and open interaction with each other can be very helpful in the decision-making process.

The cousin Consortium consists of several family members who hold shares in the family business. There is a mix between active and inactive family members in the company. Particularly challenging at the Cousin Consortium is the complexity through diversity, Identification with the company and the often-fragile cohesion within the family.

The fourth and final stage is the Family Ownership Group. Family businesses managed with this type of ownership are characterized as entrepreneurial and "patient" investors. However, there are also challenges that are particularly evident in the Lappmann family business analyzed here: The identification with the family business only takes place to a small extent for many family members, since there are many with ownership shares and the management is often carried out by external persons. Furthermore, the decision-making process often turns out to be lengthy and ineffective due to the widely ramified ownership structure.

<i>Level</i>	<i>Characteristics</i>	<i>Challenges</i>	<i>Company</i>
<i>Controlling Owner</i>	Control and possession by one family member	Abuse of power Dependency / Solution from the sole owner / Lack of external view	/
<i>Sibling Partnership</i>	Two or more siblings with shares / Majority in a sibling generation	Clarification of the ownership structure and task Role of non-operational Siblings/ Retention of capital/ Rivalry among siblings	ComAp a.S. / C.E. Noerpel GmbH
<i>Cousin Consortium</i>	Several family shareholders Mix between within the company active and non-active family shareholders	Complexity through diversity/ Identification with the company/ Cohesion in the family	Berg-Gruppe
<i>Family Ownership Group</i>	Family as entrepreneurial and patient investors	Identification with the company and investor role/ Decision making in the family/ Roles and qualifications/ common identity/cohesion/ intricacy	Lappmann AG

Table 9: The Level, Characteristic and Challenges of the analyzed family businesses

7.3) SWOT Analysis of a Potential Successor

The general SWOT analysis serves to expand the strengths of a company, to minimize the weaknesses, to use potential opportunities and to identify threats. (Jackson, 2003)

The following model shows an extension of the general SWOT analysis: The model is used to evaluate which candidate would be the most suitable for a family business. The general SWOT analysis is extended to the areas of Succession Legitimation and Succession Ability.

The Succession Legitimation on the vertical axis determines whether the potential candidate is a family member or an external candidate. On the horizontal axis, the model evaluates whether the candidate has the required succession abilities and divided them into strengths and weaknesses.

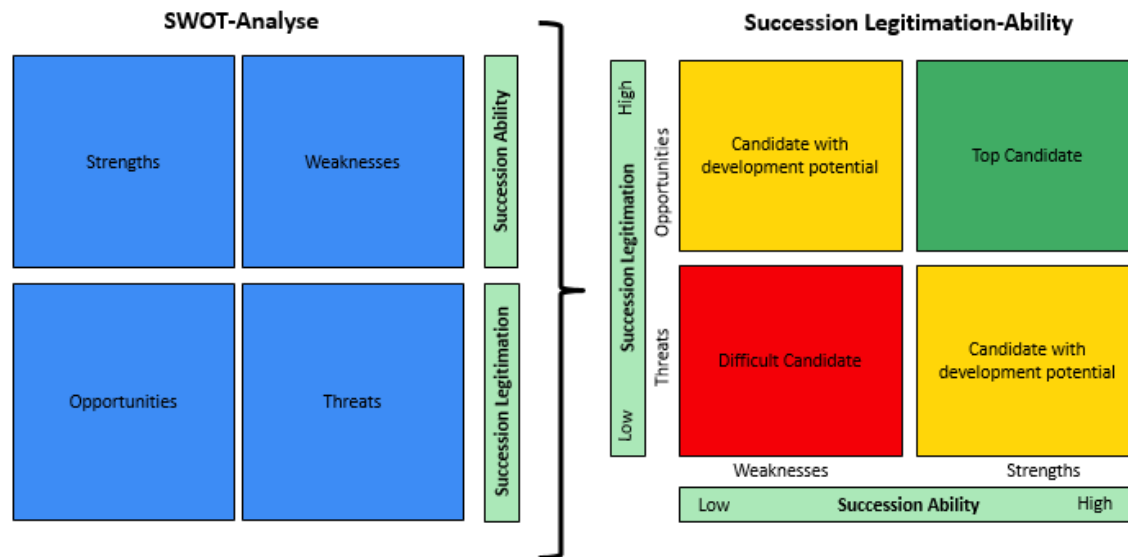


Illustration 8: SWOT analyses of a successor of a family business / own illustration combining ideas and concepts of the St. Galler Nachfolgemodell (Halter & Schroeder, 2011)

Top Candidate:

A *Top Candidate* for company succession is characterized by the fact that he fulfills both criteria's: Being a close family member and the necessary skills to run the company successfully. However, especially in family businesses it is often not clearly defined which skills a potential successor must have. A *Top Candidate* has objectively the best prerequisites to successfully run a family business but can only do so if he is assured of the support of all shareholders and family members.

Candidates with development potential

The *candidates with development potential* are marked with yellow. A candidate is classified in this category if he or she is a close family member but does not yet have all the skills to run the family business. Another possibility is if the candidate is not a family member but fulfills the successor requirements to a large extent.

This often refers to external family members who have been with the company for a long period of time and have rendered outstanding services to the family business.

Difficult Candidate

A rather unsuitable candidate for the management of a family business is someone who neither has the required succession abilities nor is a member of the family. Often, the requirements for the manager in a family business are not clearly defined, since usually a family member has filled this position. When it is decided that a family-external manager should take over the management of the company, it can lead - according to the model - quickly to an incorrect appointment and thus to a "*Difficult Candidate*".

The successors of the four family businesses are assessed based on this model to their ability to lead the company in the future.

8) The Family Business ComAp a.S.

In the following chapter the four selected Family Businesses "ComAp. A.S.", "Lappmann AG", "C.E. Noerpel GmbH" and the "Berg-Gruppe" are introduced and analyzed

8.1) Background of ComAp a.S.

The Velvet Revolution, launched in Czech Republic on November 17, 1989, overthrew the communist regime and provided an opportunity to carry out democratic reforms and restore free enterprise. Next several years were full of economic changes and reforms that led to transition to a market economy, pluralism forms of incorporations and de-monopolization of production. (VALEŠ & PETRÁŠ, 2014)

Under the influence of structural changes in the Czechoslovak industry, the transformation had also an important change in trade relations with the world: the country stopped focusing only on the markets of the former Eastern Bloc countries and began to make efforts to find partners among the developed world economies.

Many Czech companies were interested in a strong foreign partner for investment and technology support to increase their business availability. As an example, Czech automobile manufacture Škoda Auto joined as a fourth brand to the Volkswagen Group in 1991,

therethrough has created a positive image and credibility of Czech Republic as an industrially developed country with economical potential and high-quality products. (Group, 2018)

First years after the fall of the Iron Curtain were for the Czech society a period of the creation of a new state of life with a reformed value system and material culture as well. Openness to changes, freedom, willingness to take risks were spreading and shared commonly. The possibility of free enterprise and new life orientations contributed to form a new generation of entrepreneurs. (Center, 2018)

In this evolving period the three friends, Aleš, Libor and Martin, just finished their university degrees in electric engineering. In 1991 they met as colleagues at a governmental owned research institution called ČKD during a time of upheaval with a special kind of entrepreneurial atmosphere where everyone felt inspired to start their own business.

According to one of the founders the idea of founding their own company came “during a night out at a pub in Prague”. The three young friends were imagining the possibilities of starting their enterprise. Only 3 weeks later and an initial capital of only 2 Personal Computers, the three engineers started what is now the successful international company ComAp.

8.2) Development of ComAp a.S.

The name “ComAp A.s.” is an acronym for “Computer Applications Company”. It is a B2B company specializing in electronic control and management solutions for the power generation industries and drive control markets. It has about 9 strategic subsidiaries, employs around 320 people worldwide and had in 2018 an annual turnover of 50 Million Euros. (ComAp, 2018)

The very first order was an announcing system for people with visual impairments in Prague’s subway. After that, small companies such as engine manufacturers and small power plants were among other first customers. They began to grow and gradually expanded to other countries, for example Poland and the United Kingdom. Successively, ComAp started building an international distribution network and subsidiaries around the world. Firstly, they founded a subsidiary in England in 1998, thereafter they opened a branch in the US. (STUHLÍK, 2018)

The foreign subsidiaries are in:

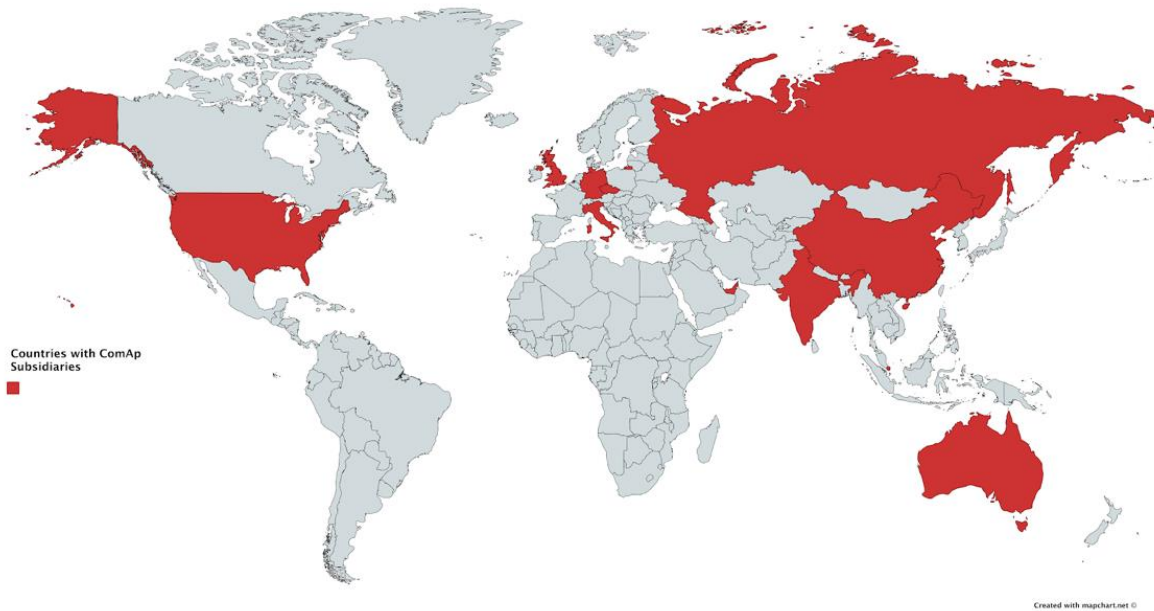


Illustration 9: The subsidiaries of ComAp a.S. (ComAp, 2018)

"In the middle of the 1990s, we thought that rather being a Czech company that does everything, we would focus only on the control of power plants and we will go global," says founder Martin Málek explaining their shift in product portfolio and international focus which soon after earned them the market leadership in its sector, owning something more than 10% of the market. (ComAp, 2018)

The main competitors of ComAp are companies from the UK, Denmark, China and US.

ComAp has always been very innovative. For example, they began to offer control units that could operate a small power plant remotely. Later they were one of the first, who introduced color displays and devices that can be configured exactly according to customer needs.



Illustration 10: One of the latest Products of ComAp (ComAp, 2018)

The current portfolio includes 238 products and accessories. (ComAp, 2018) Nowadays, ComAp control systems can be found at the Singapore Formula 1 Race and controlling the electricity at the O2-Arena in Prague or backup power for an airspace control system just to name a few.

8.3) Succession and Governance of ComAp a.S.

The Interview was held with one of the founders of ComAp a.S.: Martin Malek. The succession regulation for ComAp, as with many family businesses, appears to be difficult at first glance. Since ComAp is still a very young company, it is currently in a phase of upheaval and the final handover of control is still in process. After a tour of the headquarters in Prague and the presentation of the current products, we started our interview. (Malek, 2018)

ComAp was founded 1991 and led by the three founders Aleš Procházka, Libor Mertl and Martin Malek. It has developed successfully since its foundation in 1991. Some industries and competitors have grown faster, but sooner or later were in financial difficulties. ComAp has always been committed to solid growth and has focused on its strengths and has not entered any economic adventures. This successful way of running their company should have continued until the founders had to face an unpredictable change:

One of the founders, Aleš Procházka, died unexpectedly.

Until then, none of the founders had even thought about how the succession plan would be handled.

This tragic event led to a rethink of the transfer of control of the company and left the company with only limited decision-making power for 12 months after his death.

Libor Mertel and Martin Malek now had to deal with the question of how an orderly handover of the management of the company is feasible. Each of the three already had children who were active in the company, but the question had to be answered how future decisions would be made which they had previously made in groups of three and always in consensus.

Aleš Procházka's widow had never been involved in the operational business and had only a limited ability to assess future decisions objectively. Furthermore, the three families had grown to a size of 20 which meant that it was not only the three founders making decisions anymore, but several parties involved in the decision-making process in the future.

This event led to a reconsideration of Libor Mertel and Martin Malek and the potential ComAp's successor. Another trigger for Martin and Libor to leave the active management of ComAp was the self-developed "Alcoholic Hill Theory" inspired by the Czech folk singer Nohavica stating that a founder can only add so much value within its company before it slows the company. The illustration below was sketched by Martin Malek:

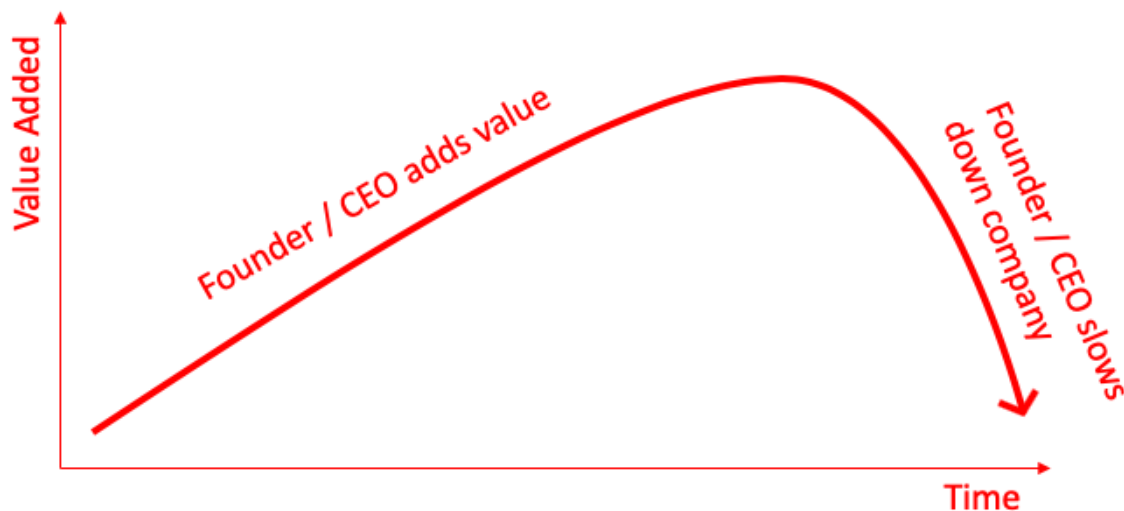


Illustration 11: A model about the right time "to let go" (Malek, 2018)

This transition was not to be sudden and unprepared, however, it was unanimously decided to have the transformation process overseen by external consultants. They first consulted with their common friend "Bill" who had previously successfully managed the succession of his family business during a sailing trip in Croatia and agreed with his guidance on the next steps to be taken.

The consultants prepared the remaining founders Libor and Martin for their future roles: In the case of Libor, that he leaves the company and enjoys his retirement, and in Martin's case, that he slowly withdraws from the operational business, but supports and familiarizes the future CEO during the transition period.

There were several options for ComAp to find a suitable new CEO: an internal or external solution or the appointment of one of the sons as CEO. As the sons were still too inexperienced at the time and had not even dared to take the management of the company, this option was discarded. Internal candidates were taken into the closer selection, however, in this case a direct guidance of the entire enterprise for the candidates came too early, so that only an external solution remained.

For the search of an external CEO a headhunter was assigned, who got enough time to find the best candidate possible due to the long-term planning where Martin and Libor were involved in the whole process.

The subsequent induction of the new CEO was carried out by Martin and Libor in only 3 months. Over this period, Libor gradually retired from the operational business whereas Martin left two years later and will only be in the office for half a day per week until the end of the year 2018.

An interesting fact about the handover of the management was that ComAp and its founders succeeded in avoiding disputes and inconsistencies from the establishment of the company until the transfer of control to the external CEO. According to Martin, all decisions were always taken jointly and unanimously without having to rely on formal rules and guidelines which were never established. The involvement of the widow and children of Aleš was also successful. ComAp organizes with external consultants' workshops for all family members on responsible ownership and meetings that give all family members the chance to inform themselves about the status of the company and to exchange information about the decision-making processes.

This open and honest interaction with each other and the exchange and cohesion of the families among each other might be one of the key elements for the successful management of ComAp since its foundation. This is reflected by the fact that for the first 20 years of ComAp existence not a single employee was fired. This simplistic approach is also reflected in its half pager Shareholder Agreement.

Martin Jr. has been active in ComAp's finance department for several years and even met his wife there. According to Martin Sr., he would be very happy if one day Martin Jr. would take over the overall management, but the most important thing for Martin Sr. is that his son is satisfied with what he is doing, even if he is working for another company. At the same time, he would also be happy to help Aleš' son with his support and experience when taking over the overall management.

In summary, it can be stated that in the case of ComAp the friendly cohesion of the founders, the consultation of external advisors, the sufficiently arranged time window and the successive delivery of the founders as well as the realization to recognize the correct time to leave the management of the enterprise to others, led to a successful transition of the founder CEO to the external CEO which opened a new chapter for ComAp.

8.4) Analyses of the Succession of ComAp a.S.

The following illustrations show the 3 Circle Models of ComAp in the transformation phase between 2016 and 2018.

8.4.1) The 3 Circle Model of ComAp a.S. until 2016

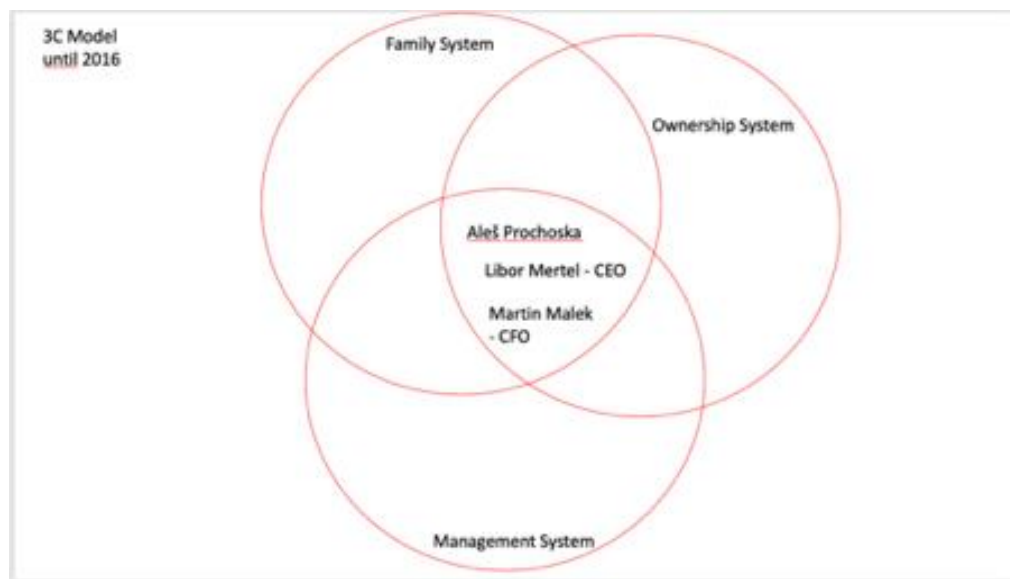


Illustration 12: The 3 Circle Model of ComAp until 2016 (Malek, 2018)

Since the foundation of ComAp in 1991, Martin Malek, Aleš Procházka & Libor Mertel have been the sole focus of the 3 Circle Model. No other family member was significantly involved, and all shares of the company and its management were in the hands of the three founders.

This changed dramatically in two phases:

- 1) When Aleš Procházka died and the Procházka family took over the ownership in 2011
- 2) When Libor Mertel and Martin Málek Sr decided to leave the active management of ComAp in 2016

8.4.2) The 3 Circle Model of ComAp a.S. from 2018

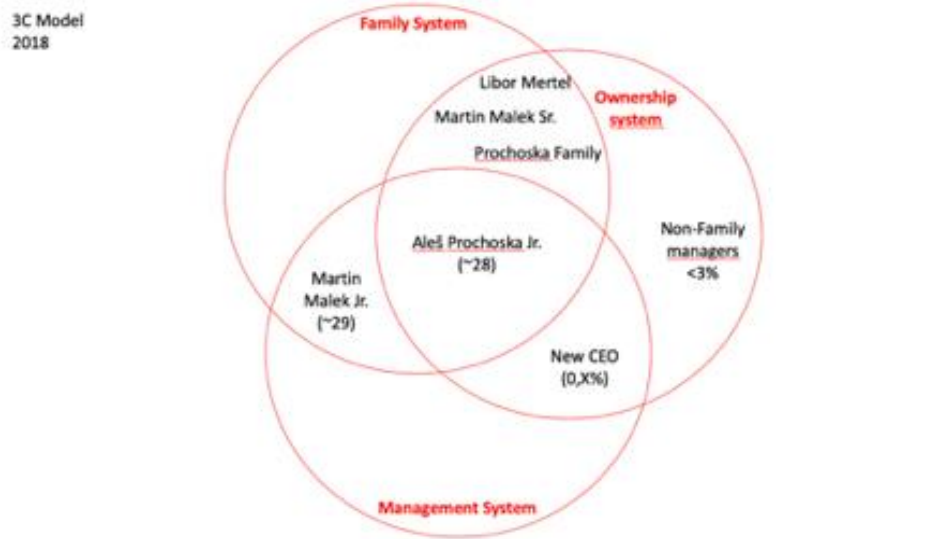


Illustration 13: The 3 Circle Model of ComAp 2018 (Malek, 2018)

Martin Málek Sr. and Libor Mertel moved from being Family Owner-Employees to the family owners' part of the 3C model.

Aleš Procházka Jr. entered the business and is the only Family Owner-Employee in ComAp. His ownership lies with the Procházka family. Martin Málek Jr. entered the business too but does not own shares, what places him in the Management-Family Circle.

Furthermore, the distribution of company shares can be clearly seen: The newly established CEO is responsible for the management of the company and also has (even if only small) shares in the company. There are only a few silent partners in the company and thus in the area of the ownership system who hold approx. 3% of the shares. The remaining shares are held equally by the three founders and their families.

8.4.3) Transition Phases of ComAp a.S.

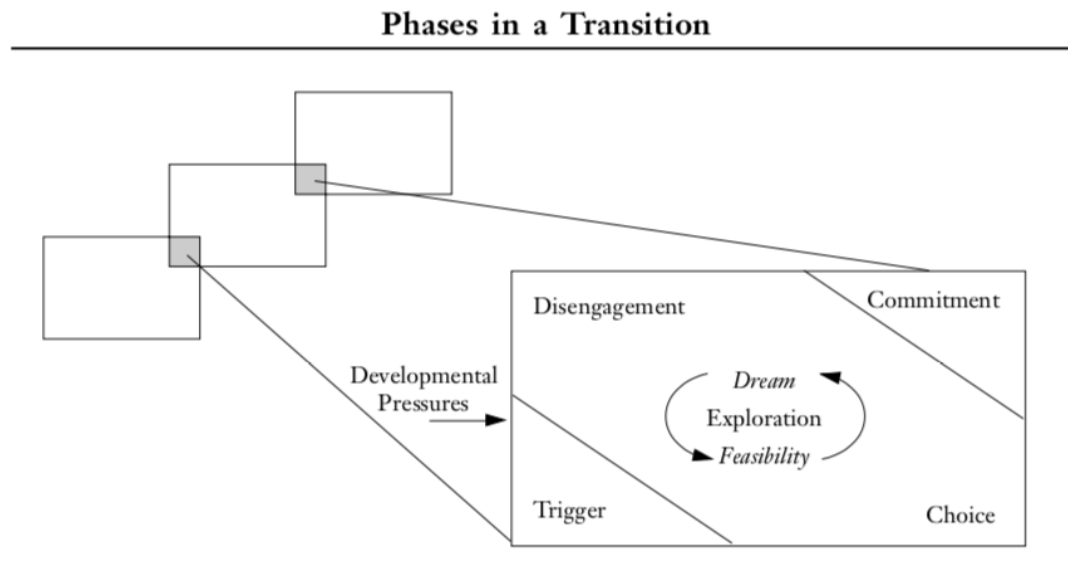


Illustration 14: Phases in a Transition in family owned Businesses (McGoldrick, 2008)

ComAp had to face various internal and external changes: The development pressure was not the primary pressure why the two remaining founders decided to act. ComAp was struggling with a slight drop in profits, but the ultimate conviction that after 30 years it was time to "let go" and give others the opportunity to bring more value to the company outweighed it.

Developmental Pressure:

- Decreasing marginal profit (still profitable but profits were declining)
- Hard work as entrepreneurs for 30 years
- Fear of founders adding less and less value

The sudden death of Aleš Procházka was decisive. The resulting changes in ownership led the founders to consider their succession process for the first time.

Trigger:

- Environmental trigger
- Death of Aleš Procházka (one of the founders)
- New division of ownership (Family of Aleš now in the ownership circle too)

The disengagement process also plays an important role, because Libor in particular has realized through the sudden death of Ales that life can take unexpected turns, that he wants to enjoy his life and wishes to retire.

Disengagement:

- Libor Mertel and Martin Málek Sr. realizing the new situation requires new governance structures
- New Family Business Model required

In their search for a potential managing director, Libor and Martin have decided to enlist the help of a headhunter to find the best possible candidate. Furthermore, workshops were held with all three families who were working on a new family business model.

Exploration of alternatives:

- Working with consultants on new family business model
- Martin Málek Sr. stepping down as CFO and becoming head of HR to find replacement of Libor Mertel who was CEO
- Using Head Hunter firm to find new CEO

A suitable successor was found promptly, so that the decision to leave active working life was made easier. Martin Malek was in the office until the end of 2018 for half a day a week to support the induction of the new CEO and to make the handover as smooth as possible.

Choice:

- Decision of Libor Mertel and Martin Málek Sr. to step out of active company management

Commitment to the new structure:

- Libor Mertel transitioning out within 3 months of new CEO arrival
- Martin Málek Sr. leaving management board as well

8.4.4) SWOT Analysis of the Succession Regulation at ComAp a.S.

The succession regulation of ComAp can be described as exemplary. After the sudden death of Ales Prochoska, Libor Mertel and Martin Malek were forced to think about the succession plan. Since their sons were still too young and had too little experience for the management of the company, it is reasonable to appoint an external and experienced managing director. Fortunately, Ales Prochoska Jr. and Martin Malek Jr. were very supportive of this decision as it could have led to a possible conflict if one of the sons had already made claims on the management at the time of the handover to the external CEO.

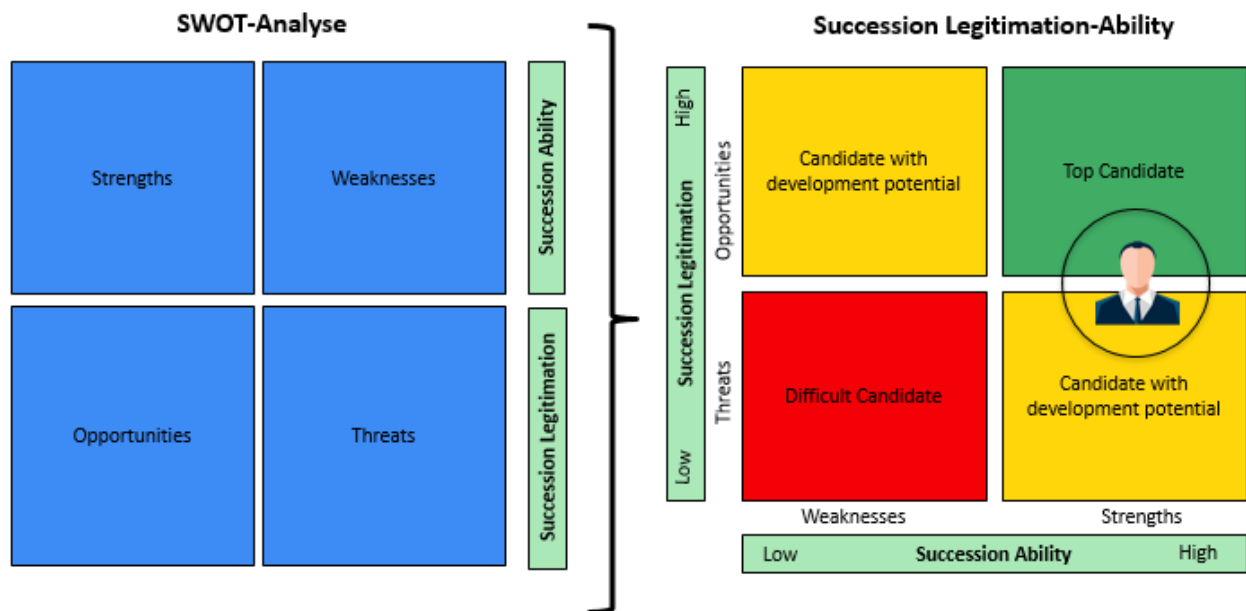


Illustration 15: SWOT analyses of a successor of a family business / own illustration combining ideas and concepts of the St. Galler Nachfolgemodell (Halter & Schroeder, 2011)

Another important decision during the succession planning was the issue of time. ComAp had no time pressure with the successor regulation and was able to create an exact profile with external consultants and headhunters with the requirements of the new managing director. Furthermore, it was very helpful that Martin Malek integrated the new CEO into the company over a period of one and a half years and thus enabled a smooth transition. In the medium term, his son, Martin Malek Jr. and Ales Prochoska Jr., can also imagine taking on a leading position in the company. Both sons have an engineering background and are already working successfully for the family business. Martin Malek excludes a possible rivalry between the two, because there is a harmonious relationship with each other in which there have been no disputes so far. It would be very advantageous if both sons could learn from the current external CEO and take over the

management of the company at the right time. For this reason, the successor process is placed between the "Top candidate" and the field "Candidate with development potential". As soon as one of the sons takes over the management of the company, he should be placed in the SWOT model in the "Top Candidate" field.

Sufficient time, respectful interaction, an open communication policy with the other families and the same goals for the company can make such a smooth succession process possible.

9) The Family Business Lappmann AG

The following interview only took place under the condition that neither company names nor surnames will be used. For this reason, the family business is hereinafter referred to as "Lappmann AG" and participating persons are identified by alias names.

9.1) History and Development of Lappmann AG

The Lappmann AG was founded by Anton Lappmann in 1921 as a small mechanical workshop. At the beginning the firm repaired bicycles and agricultural machines. In the 1920s, the automobile began its triumphal march. The founder Anton Lappmann began manufacturing tools for the automotive industry at an early stage, quickly developing an important core competence. Using a specially developed drawing technique, he produced the first body parts in series production.

As early as 1928, the first major orders from the automotive industry were won, leading to rapid growth even in the early years of the company.

The company grew to about 20 employees who now manufactured tools for non-cutting forming for the sheet metal processing industry, especially for the automotive industry, in the company's own pressing and stamping plant.

In 1940, Anton Lappmann took his three children, Erwin, Elise and Hartmut, as partners in the company. He appoints his two sons to the management, shortly afterwards also his son-in-law Egon Meier.

His son Erwin Lappmann was known as a focused and disciplined engineer, who had his eye on technology, his second son Hartmut was a spirited and decisive doer who could sweep people

away. The third in the group, Egon Meier, who often slips into the role of mediator as a link with a feeling for technology and a prudent being.

After the second world war, the manufacturing companies like Lappmann had a hard time due to the fact of lack of raw materials and the limitation of automobile production. Together with the second generation, Anton Lappmann acts wisely and sets up a new product range.

Thanks to this adaptability, the difficult phase up to the currency reform in 1948 can be overcome and even the proven staff can be retained.

In 1950, the Lappmann AG moved into three new factory buildings, equipped with state-of-the-art machinery. In the meantime, the number of employees has risen to over 1,000 and the company's customers are supplied worldwide. In 1974, Lappmann acquires the company FIBRA, which was in a bad state at the time. The company, which was founded in 1958 and is a manufacturer of standard parts for toolmaking and rotary tables. Today FIBRA is still a part of Lappmann and has established itself as a successful player on the market. With 7 international subsidiaries and more than 70 agencies, the company is present worldwide.

What began in 1921 with an apprentice in A. Lappmann locksmith workshop has since developed into an independent company with over 200 apprentices, students and trainees per year.

To find a sustainable successor for the management of the family business Lappmann, the shareholders decided in 2002 to transfer the entire activities of the company into the legal form of a stock corporation. The shares are still 100 percent in family hands.

Following the departure of the second generation, an externally appointed executive board took over the management of the company for the first time in April 2004 and is assisted by a Chief Financial Officer. A constellation that has been maintained to this day.

In 2019, Lappmann AG expands in the largest automotive market in the world - China.

Today Lappmann AG employs about 2700 employees with an annual revenue of approximately 600 Million Euros. (Bauer, 2019)

9.2) Succession and Governance of Lappmann AG

The interview was held with Dieter Bauer, the great-grandson of the founder A. Lappmann and former member of the board. (Bauer, 2019)

The question of succession has arisen more frequently in the company's history and has often led to conflicts. In the first years since its foundation in 1921, the company has experienced an extremely positive development. In 1940 the founder A. Lappmann established his two sons, Erwin and Hartmut, as well as his son-in-law Egon Meier in the company.

The distribution of roles was clearly divided: Erwin was responsible for the operative area as an engineer, Hartmut was mainly active in management and administration and their brother-in-law Egon was established as a link between management and production. Founder and father Anton Lappmann supervised the skills of his descendants until his death in 1968. In the years from 1968 to 2003, the focus of the family was exclusively on the company. The next 40 years were marked by the economic upswing and thus a steady growth of the Lappmann AG. At the beginning of the 2000s, the question of succession was raised again for age reasons: A jointly selected family member became unexpectedly seriously ill, so that the position of the future managing director remained unclear. There was no plan for an orderly succession plan.

At that time, Hartmut Lappmann oversaw the company and the two co-heads Erwin and Egon were only partially involved in the day-to-day business. Hartmut can best be described as the patriarch of the family and the company. His personality is described as very harsh and decisive. Moreover, it was almost impossible to convince him of a different opinion. This was also evident in the question of succession planning: Hartmut, Erwin and Egon each received one third of the company's shares. In addition, each had his own family in the meantime. This constellation made it difficult to agree on a single successor, because none of the three wanted his family to be disadvantaged. In 2002 they decided to establish a private limited company and to distribute the shares equally within the family.

The Supervisory Board consisted of 3 external persons and 3 family members. Hartmut Lappmann found it especially difficult to withdraw from the company and leave the post to another family member. In 2004, he could finally be convinced to have relinquished the management of the company and only be active in the supervisory board. The family members agreed to look for an external candidate for the position of the managing director, since none of the family wanted or had the skills to take over this position. At the same time, no side of the family should be favored, so that the decision to hand over the management of the company to an external manager was taken unanimously. Hartmut Lappmann had to vacate his position on the supervisory board for age reasons shortly afterwards, so that his family had to ask themselves who should take his position.

His grandson Dieter Bauer had just finished his second study in the USA. He had no work experience and no engineering background, but his family asked him to take his grandfather's place. The good relationship to his grandson was one of the reasons why Hartmut was persuaded to slowly withdraw from the company. The families of Erwin and Egon also delegated one family

member each to the Supervisory Board. The positions on the supervisory board were often occupied by family members who had no engineering background whatsoever, which often added to the length of strategic decisions, as they had to be explained in an understandable way.

In the past the supervisory board meetings were rather used to deal with family disputes and not to solve urgent company topics.

In 2006 Hartmut Lappmann, the patriarch of the family, died as the last of the second generation. With the subsequent global economic crisis in 2007/2008, the Lappmann AG was faced with a crucial decision: To continue the company as a family business or to sell it entirely. In addition, the company had to find a new managing director. To master these challenges, an external consultant was added, who was also highly regarded by all family members. Through the moderation and mediation of this consultant, all family members quickly concluded that the Lappmann AG should continue as a family business. However, the different opinions on how the company should be set up in the future remained the same and increased even more in recent years. External members of the supervisory board often had to be replaced by new ones, because, as already mentioned, personal sensitivities were mixed up with the topics of the family business and a quick and targeted solution to the problem could often not be found. During the time of the world economic crisis, decisions were often cancelled after only a few days, so that an orderly management of the company was only possible to a limited extent. According to Dieter Bauer, the Lappmann AG would most probably be even more successful if it were not a family business. The advantages of a family business such as flexibility or short and fast decision-making processes were decimated due to personal sensitivities. Today there are 20 family members holding shares at Lappmann AG, none of are active in the company except for the supervisory board. In the past 15 years, the managing director has been replaced 3 times.

In summary, Lappmann is such a successful company, not because of its family ownership, but in spite of it. Nevertheless, Lappmann is more successful today than ever before. A decisive reason could be that the management of the company has already been in external hands for several years, that consultants are called in case of disputes and that none of the family consciously only wants to enrich themselves with the company.

9.3) Analyses of the Succession of Lappmann AG

9.3.1) The 3 Circle Model of Lappmann AG

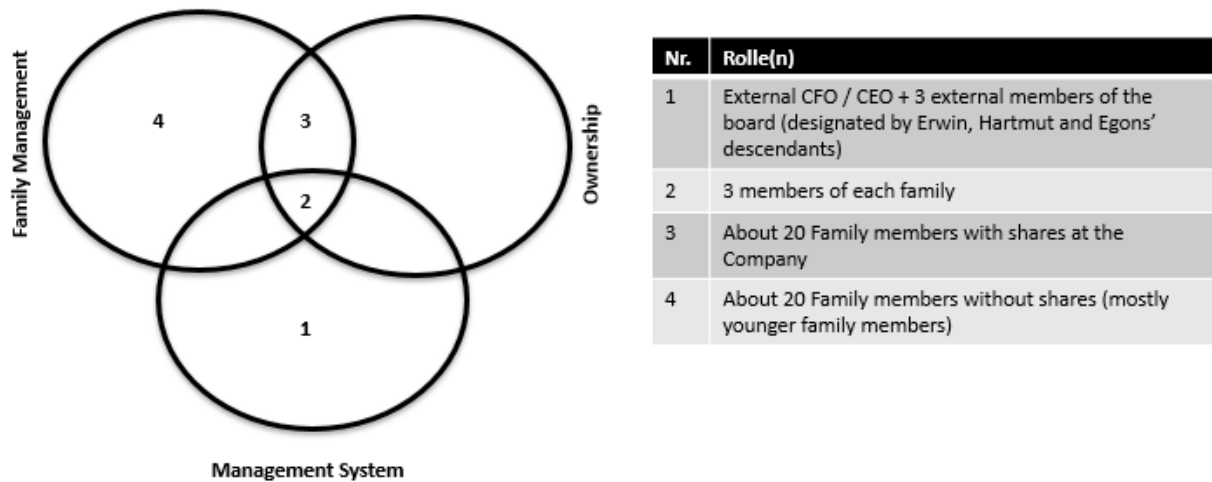


Illustration 16: The 3 Circle Model of the Lappmann AG 2019 (Bauer, 2019)

The shares are divided equally between the three families. The Supervisory Board consists of a total of 6 members: One family member each of the descendants of Erwin, Hartmut and Egon is delegated to the supervisory board and thus fulfils the requirements for the area of family-management, ownership-management and the management-system. In addition, each of the three families may nominate an additional external member of the Supervisory Board. This must then be unanimously confirmed in office.

Since 2004, the company has been managed by a CEO and CFO outside the family. Since then, this dual leadership had to be replaced 3 times. A total of around 20 family members hold shares in the company, but they are not yet involved in the company (in most cases these are the under-age descendants).

9.3.2) Interpretation of the Genogram

The genogram clearly (see annex 1) shows how much the Lappmann family has grown over the past 100 years. However, the sheer size of the family also makes the decision-making process more difficult, and often obscures the advantages that family businesses are often associated with: For example, fast decision-making processes and clear areas of responsibility. According to Dieter Bauer, approximately 20 family members currently own shares in the company. However, it is to be expected that this number will increase in the medium term due to the numerous descendants. The year 2004 represents a special turning point: In that year the last descendant (Hartmut Lappmann) of the first generation died. Although the management of the company was restructured in 2002 with a supervisory board consisting of 3 external and 3 internal members, future decision-making processes were largely delayed or blocked due to different opinions. Furthermore, the family around Elise and Egon Meier complained that they found themselves excluded from important decisions and not sufficiently informed. In addition to these internal family tensions came the financial crisis of 2007/2008, which hit Lappmann economically hard. Even a complete company sale was briefly up for grabs. Nowadays, the relationship between the families is described as purely "business". Personal sensitivities are less fought out in the course of supervisory board meetings, but the family cohesion has suffered very much in the course of the generations, so that celebrations of the entire family hardly take place any more.

9.3.3) SWOT Analysis of the Succession Regulations of the Lappmann AG

The company Lappmann AG has to face the challenges of the "Family Ownership" structure. The structure of the company is characterized by three family-lines with numerous shareholders. Except for the respective member of the supervisory board, none of the family members is involved in the day-to-day running of the company. The distrust among the families led to personal sensitivities being fought out in the supervisory board meetings and important decisions are often being blocked or boycotted. To entrust an external manager team consisting of CEO and CFO seems to me to be the only feasible solution in this case. As Dieter Bauer stated in the Interview, the necessary approval of the other family members would be denied if a member of one family-line applied for the chairmanship of the management. In addition, the first and second generations of the company consisted of mechanical engineers, whereas the current family's internal composition of the Supervisory Board has no background in this area.

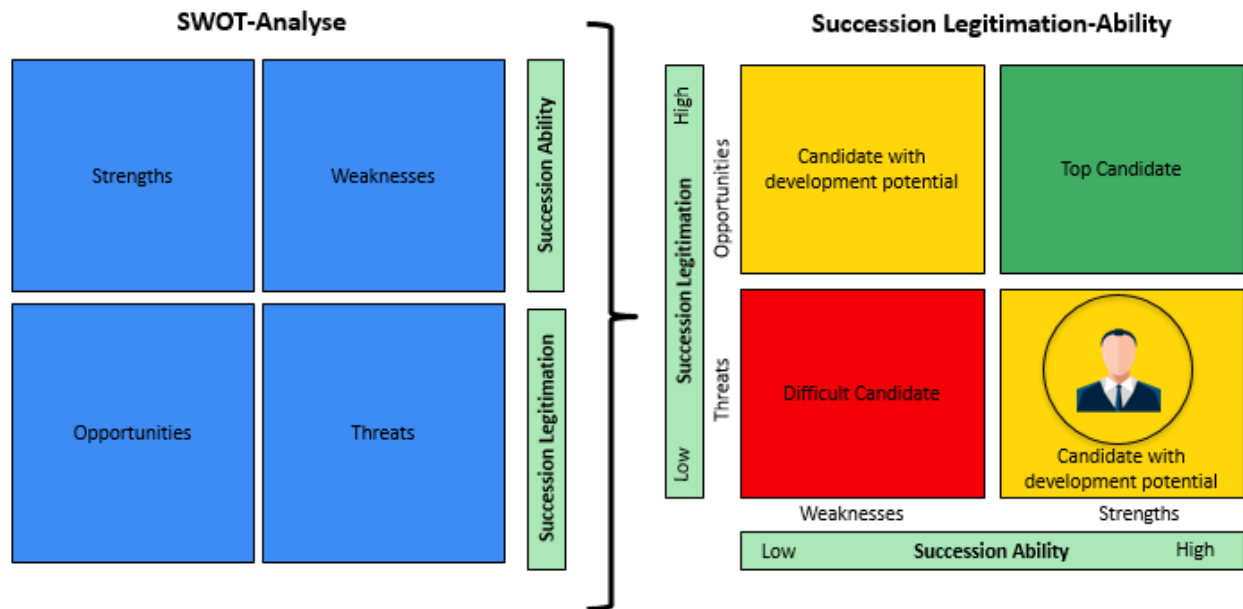


Illustration 17: SWOT analyses of a successor of a family business / own illustration combining ideas and concepts of the St. Galler Nachfolgemodell (Halter & Schroeder, 2011)

Numerous shareholders with little interest and knowledge of the company, the disagreements among the ownership families and the sheer size of the company led to the decision to leave the management of the company to external managers. The three times exchange of the managing director in only 15 years is an indicator for the great challenge to lead this family business with all its different interests. For this reason, the current managing director was marked as a person with "development potential" in the SWOT analysis. The successful management of the company shows that he meets the necessary requirements, but at the same time he is not a family member and an unexpected resignation is possible at any time.

10) The Family Business C.E. Noerpel GmbH

10.1) History of the Family Business C.E. Noerpel GmbH

Founded in 1881, the Noerpel Group is one of the leading transportations and logistics service providers in Germany and is co-founder and co-partner of the general cargo network. The fourth-generation family-run company combines transport and logistics services with extensive co-packing services and its own temporary employment agency. In the field of transport, the

Noerpel group provides national and international road and rail transport as well as worldwide air and sea freight. (C.E. Noerpel GmbH, 2019)

As an all-round service provider, Noerpel supports its customers along the entire supply chain and offers comprehensive logistics services from a single source with its industry-experienced employees. The Noerpel Group has its headquarters in the German city of Ulm and operates further locations in Elsdorf, Freiburg, Hamburg, Hanover, Hilden, Heidenheim, Herbrechtingen, Munich, Kempten, Passau, Ravensburg and Villingen-Schwenningen. (C.E. Noerpel GmbH, 2019)

The interview was held with Lucas Schneider-Noerpel the future successor and great great-grandson of the founder Carl Ernst Noerpel.

10.2) Development of the Family Business C.E. Noerpel GmbH

The company was founded 138 Years ago in 1881 in Friedrichshafen, Germany by Carl Ernst Noerpel.

In 1935 the oldest son Egon Noerpel took over the management of the company. During the Second World War the offices and warehouses of the company were destroyed and had to be rebuilt in the following years. In 1965 Egon Noerpel dies and his son Hartmut Noerpel-Schneider and the manager Hans Schulz took over the management of the company. Until the mid-1990s Noerpel acquires numerous smaller logistics companies and expands his company empire. In 1998, Helmut's son Stefan Noerpel-Schneider takes over the management of the company. Under his leadership, the company became more modern and prepared for the demands of the Internet age. In 2012 and 2014, the largest acquisitions in the company's history took place.

Today the Noerpel Group has around 2.300 employees and an annual revenue of nearly 500 Million Euros. (C.E. Noerpel GmbH, 2019)

10.3) Succession and Governance of the Family Business C.E. Noerpel GmbH

Founded in 1881, Noerpel is currently in its 4th generation. The peculiarity of the Noerpel company is that it can look back on almost 140 years of history and the owners' structures have been kept very slim and clear.

One of the reasons was that Lucas' grandfather's uncle had no children and bequeathed the entire company to his grandfather, with the only condition that the name "Noerpel" must be retained. He ran the business for a total of 30 years from 1968 until 1998.

In 1998, his only descendant, Stefan Noerpel-Schneider, took over the management from his father Hartmut Noerpel-Schneider and became the sole shareholder of the company. Stefan Noerpel-Schneider just recently decreed that 51% of the company's shares are held by him and 24% each by his children Lucas and Judith Noerpel-Schneider. Hartmut Noerpel-Schneider continues to hold a symbolic 1% of the company and is responsible for the company's construction projects. The recipe why Noerpel managed to make decisions within the family for more than 140 years without any major complications and to structure the succession process clearly was described with the words "respect" and "trust". Furthermore, Stefan Noerpel-Schneider's leadership style is described as "transformational", meaning that he blindly trusts his employees and gives them responsibility. The company is not run patriarchally, but the current cohesion and resolution of conflicts is based on flat hierarchies, the constant, respectful exchange among each other and the values that the Noerpel-Schneider family cultivates. The next generation around Lucas and his sister Judith are not put under any pressure if they want to join the company at a later date but both siblings are glad to be actively involved in decision-making processes. Judith has already founded a successful start-up in the logistics industry but is considering concentrating completely on the family business "in the not too distant future". Lucas' is currently completing his master's degree and would like to gain experience in another company before he takes over the management together with his sister. (C.E. Noerpel GmbH, 2019)

10.4) The Three-Circle Model of the Family Business C.E. Noerpel GmbH

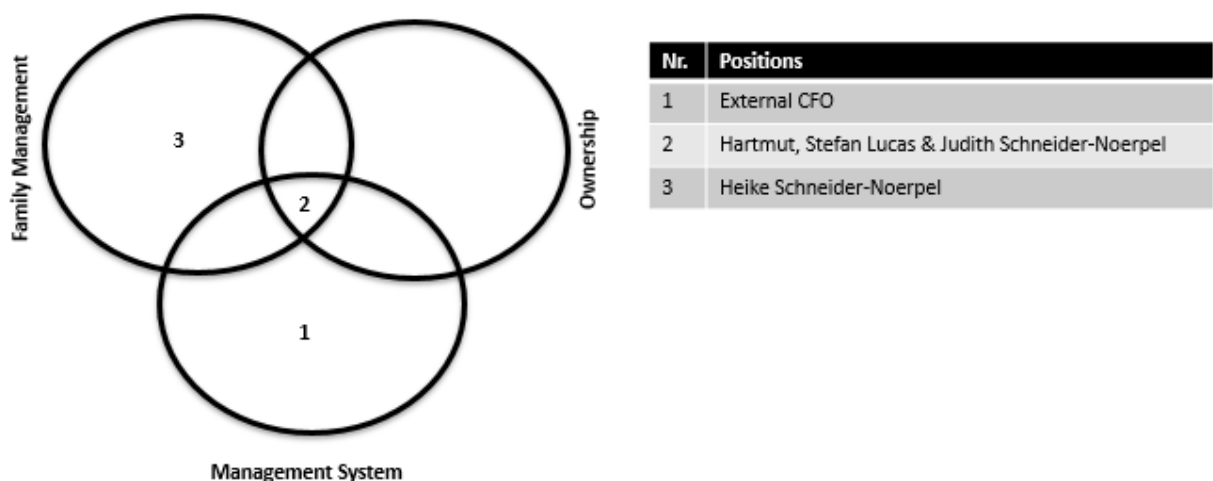


Illustration 18: The Three Circle Model of "C.E. Noerpel GmbH" 2019 (Noerpel-Schneider, 2019)

The three-circle model clearly shows that Noerpel's corporate structure is kept very lean and agile. One of the reasons why the company is still family-owned after almost 140 years is that the ownership has always been in the hands of a maximum of two people. Since the foundation of the company, the position of CEO has always been held by a family member. The position of CFO is held by an external employee who has been with the company for a long time and has a large degree of freedom in your decisions. All other strategic decisions are made directly by Hartmut, Stefan, Lucas & Judith Schneider.

10.5) The Transition Phase of C.E. Noerpel GmbH

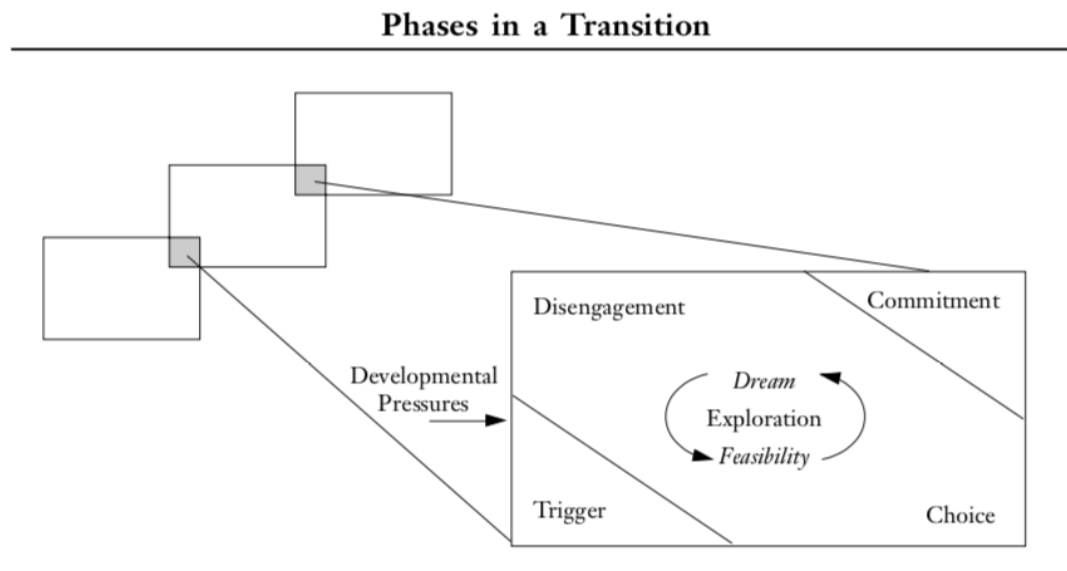


Illustration 19: Phases in a Transition in family owned Businesses (McGoldrick, 2008)

Hartmut Noerpel-Schneider ran the Noerpel company for more than 35 years and it was time to hand over the management to his son Stefan. However, Hartmut did not want to withdraw completely from the company but is responsible for the "construction activities" of the company. With Stefan Schneider-Noerpel's naming of the business activities, there was also a change in the way the company was managed: His father Hartmut is described as very "patriarchal" and "determinant", whereas Stefan is someone who is very much in favor of flat hierarchies and the participation of all employees. It was also Stefan who realized that he wanted to give up responsibility directly and gave his children Lucas and Judith shares in the company at a very early stage and actively involved them in the decision-making process of the company. According to Lucas Noerpel, it is not ultimately due to his father and his management style that the company has more than doubled its turnover since he started as managing director.

Both Lucas and Judith can decide for themselves when and if they want to join the company at all, as their father has realized that pressure and coercion will result in a rather negative result for the company.

10.6) SWOT Analysis of the Succession Regulation of C.E. Noerpel GmbH

Noerpel has an impressive company history, because the company has been run by one family line for 140 years. In the case of family businesses that have existed for such a long time, it is to be expected that the company will be run as a "family ownership" business (see Lappmann AG) and not as a "sibling partnership" model as in the case of C.E. Noerpel GmbH. This possibility has proven to be a great advantage for the company: Until the last generation, the company was managed solely by the owner (Controlling Owner). With the participation of the descendants Judith and Lucas Schneider-Noerpel, the company was subsequently run for the first time as a "Sibling Partnership". In doing so, C.E. Noerpel will be able to further exploit the important advantages of a family business: Fast and unbureaucratic decisions, short decision-making paths, flexibility and the familiar contact persons for the customers in the company.

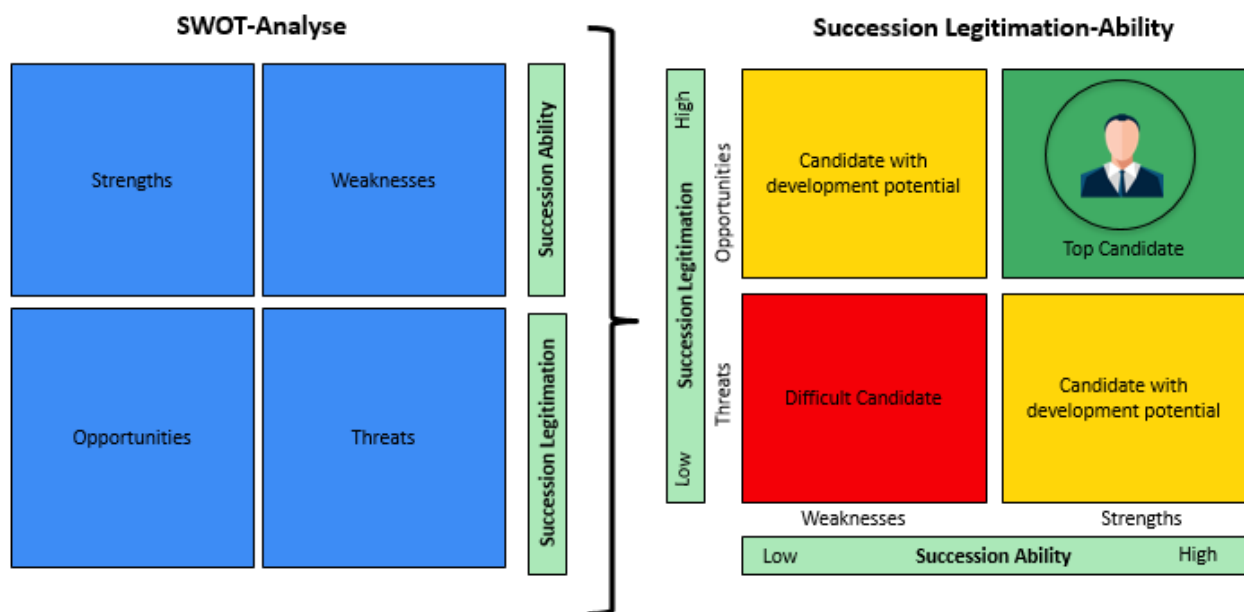


Illustration 20: SWOT analyses of a successor of a family business / own illustration combining ideas and concepts of the St. Galler Nachfolgemodell (Halter & Schroeder, 2011)

Judith Schneider-Noerpel's start-up deals with the topic of logistics of the future and can be understood as a great opportunity for C.E. Noerpel as soon as she brings her knowledge entirely

into the company. A threat could be possible different visions of the siblings for the future of the company, but the impression arose that both pursue the same intentions and intend to make the company even more agile for the future. The current succession process appears to be exemplary, as the potential successors are granted their freedoms, but they are simultaneously involved in the decision-making process at an early stage through shares in the company. The cultivated respectful and open contact with each other supports thereby decisions objectively and problem-free to solve. The previous training and experience of the successors in the company paired with the slow approach to management positions is the reason why C.E. Noerpel is well positioned for the future and the successors Lucas and Judith Schneider-Noerpel can be called "Top candidates".

11) The Family Business Berg-Gruppe

The following interview only took place under the condition that neither company names nor surnames will be used. For this reason, the family business is hereinafter referred to as "Berg-Gruppe" and participating persons are identified by alias names.

11.1) History of the Family Business Berg-Gruppe

The Berg-Gruppe celebrates this year its 100th anniversary (founded in 1919). For a century the "Berg-Gruppe" has been known as a producer of mineral raw materials. As an independent family business, it has combined high-quality raw material deposits with modern and efficient processing technology.

The extraction, processing and refinement of industrial minerals are the focus of their trade. Quartz, kaolin, feldspar, and mica in particular are processed into over 700 different quality products and sold in 50 countries.

In the following the most important milestones since 1990 are presented:

In 1990 long-standing managing director Hans Berg leaves the company after almost 50 years of service, 38 of which as managing partner. His son, Dipl.-Kfm. Robert Berg joins the company, initially responsible for the development of the Eastern European sector. In the following years he is appointed to the management board. In the years until 1999 the "Berg-Gruppe" acquired additional plants in the new German states and in the Czech Republic, Poland, Slovakia and Russia.

The year of 2006 was particularly shaping for the whole company: The shareholder families reorganized their “interest”, meaning that one family has been bought out of the company. In addition to Robert Berg and three external managers were appointed to the Management Board.

In the following years further, plants in Ukraine and Bulgaria were added to the firm’s portfolio. The “Berg-Gruppe” employs today around 3200 employees with a total turnover of about 600 Million Euros. (Berg, 2019)

The interview was held with Roland Berg the future successor of the “Berg-Gruppe”.

11.2) Succession and Governance of the Family Business Berg-Gruppe

In the more than 130 years of the company's history, the “Berg Gruppe” has been led by two families – the Berg Family and the Meier family. However, this changed in the year 2006. The current owner family Berg has managed to increase their shares over a period of more than 10 years through targeted purchases and sales, so that the other family could be "pushed" out of the company. According to Roland Berg, decisions and ideas were deliberately blocked and a possible initial public offering of the company was pursued, which was against the ideas of the Berg family. Due to the statutes, the Berg family had the pre-emptive rights to the company shares and was thus able to buy the Meier family out of the company. Since this transaction, the company has been managed solely by Roland’s uncle Robert Berg. Since the sole management of the company by the Berg family, the revenue and the number of employees has almost doubled. Roland Berg cites this as an indication that it was the only correct decision to manage the company from a single source, even if the sole takeover meant a high financial outlay. One of the most important issues in recent years has been the tightening of inheritance tax law in Germany in 2007. The first drafts of the law provided for an extra tax to be levied on the transfer of the company to the potential successors, which would have led to considerable economic cuts.

For this reason, the father of Roland decided to pass on the company's shares to his three adult children prior to the tightening of the law. However, he had an additional clause included that he would continue to keep 20% of the inherited company shares, as he feared that he would no longer be able to exert any influence on the company. Roland and his two siblings were obliged to deal with the company's current situation at an early stage. The children of the current managing director Robert Berg are still minors, so that he has to pay the extra tax when handing over his shares to his children. He has decided to keep the shares until he leaves the company. The small investors who were remunerated with small shares in the company during property purchases are regarded as rather disturbing. A pool of about 15 persons owning about 2% of the company shares. However, they have no influence on the composition of the advisory board,

which consists of two brothers of the managing director and one member from outside the family. This external member is a specialist in legal and succession issues. A total of 28 persons are holding company shares of which 15 persons, as mentioned above, are not part of the Berg family, but only hold a very small share in the company. Since the company has been successfully managed by a family member throughout its history, with the exception of a short exception of 3 years, Roland Berg has the opinion that the company continues to benefit greatly from being a family company. Since there is currently no other family member besides him who has the qualifications and motivation to continue the business he has emphasized that there was no pressure to fill this position in the medium term, but it was considered "desirable" if the tradition is continued and the company continues to be run by a "Berg".

The current managing director Robert Berg is also the first who had no engineering but a business background. However, there are no requirements within the family that have to be met in order to run the company. There is also no specific training or timetable when the right time could be reached to leave the company to the next generation. The great upheaval in 2006, with the sole acquisition of the company, has welded the Lindemann-Berk family together so that since then no disputes have arisen about the continuation of the company. However, Roland Berg has stated that, after our interview, he will initiate an orderly schedule with training by external consultants until his takeover. (Berg, 2019)

11.3) The Three Circle Model of the family business Berg-Gruppe

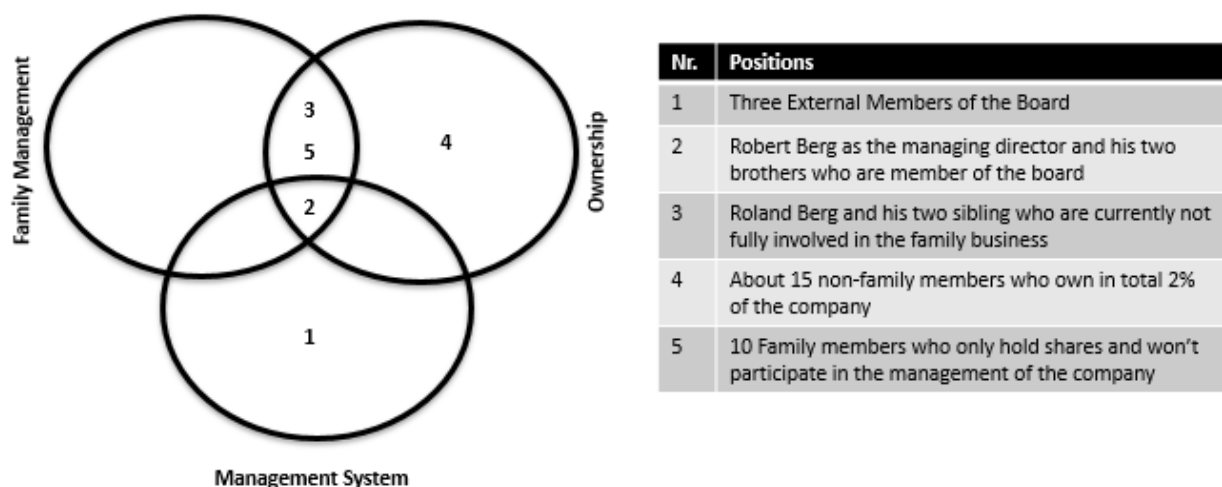


Illustration 21: The Three Circle Model of the "Berg Gruppe" 2019 (Berg, 2019)

11.4) Genogram of the Family Business Berg-Gruppe

The genogram shows the current inner circle of the Berg-Family. The children of the current managing director Robert Berg, who are currently underage and do not yet own any shares in the company. A situation that needs to be observed is to what extent Thomas Berg and his wife will be involved in the company and the succession process in the future without their own children.

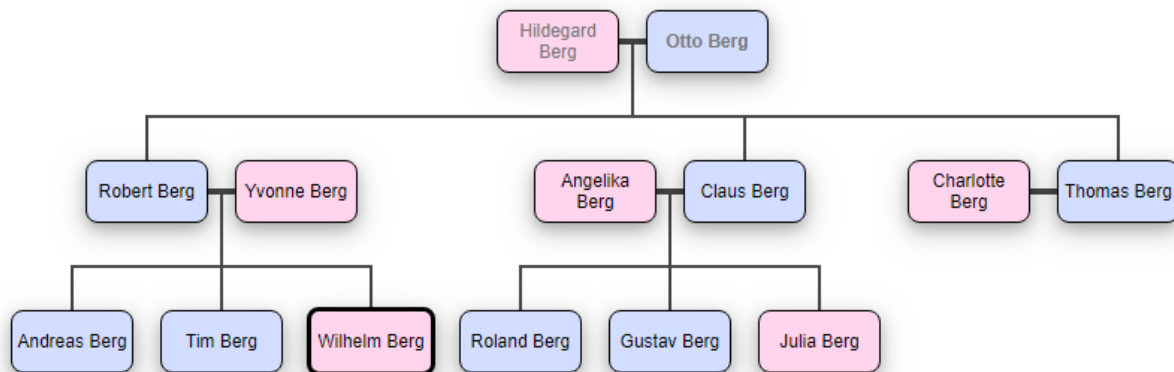


Illustration 22: The Genogram of the Berg Family 2019 (Berg, 2019)

11.5) SWOT Analysis of the Succession Regulations of the Berg-Gruppe

The Berg-Family has moved closer together after the decisive year 2006 and the sole takeover of the company. In the course of this transformation, they realized that different visions about the future of the company could, in extreme cases, jeopardize the existence of the company. This feeling of unity as a family has led to no disagreements regarding decisions relevant to the company since then. This is remarkable for a company the size of the "Berg-Gruppe" because, as can be seen in the Genogram, the family consists of 3 different lines and thus a mixed view on the management of the company seems likely. One reason why the upcoming successor Roland Berg cannot yet be classified as a top candidate is the young age and the lack of experience. However, this challenge can be overcome by the slow introduction to the company and the support of his uncle in the coming years. Furthermore, a clear succession plan and a list of requirements for future successors would be more appropriate. For outsiders, it may seem that a the "Berg-Gruppe" with its focus on mineral resources should be managed by a manager with a specialist background. However, this has worked flawlessly since 2006 under the leadership of

Robert Berg who has an economic background just like his nephew Roland. The required external knowledge was either acquired or the knowledge was leveled out by external consultants.

For this reason, the upcoming successor Roland Berg is currently still localized in the SWOT analysis as a candidate with development potential, with a high probability of becoming a top candidate.

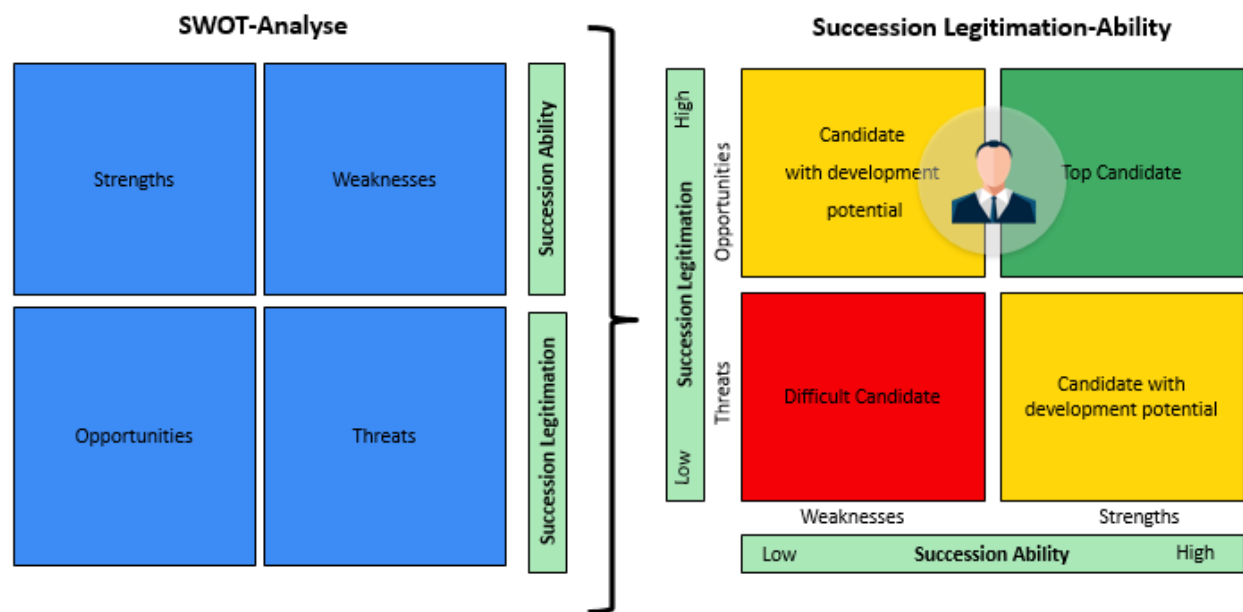


Illustration 23: SWOT analyses of a successor of a family business / own illustration combining ideas and concepts of the St. Galler Nachfolgemodell (Halter & Schroeder, 2011)

12) The survey of potential successors of Family Businesses

12.1) Introduction of the survey of potential successors of Family Businesses

In order to make a direct comparison with the current challenges of the four analyzed family businesses, a questionnaire was created and sent to a large number of young, potential successors of family businesses. The aim was to find out whether other potential successors also face similar issues and which areas are considered particularly challenging while succession planning and governance.

The questionnaire was conducted in cooperation with the Family Business Club of the University of St. Gallen in Switzerland. The Business Club has the goal to promote an exchange of students

and family businesses. The members of the association are almost exclusively potential successors of their own family business. (HSG, 2019)

The structure of the survey was based on the question in which generation the family business is currently situated, following the question whether the topic of succession is current and, if so, which points speak for and against from the point of view of potential successors. In addition, the topics of ownership structure, governance and whether there are often disputes within the family due to the family business were also surveyed.

12.2) Findings of the Survey of Potential Successors of Family Businesses

The findings of the survey will be evaluated and assessed below. A total of 30 potential successors to their family business took part in the survey. The complete survey is attached in the appendix.

The survey begins by finding out which generation is currently in charge of the company:

More than three quarters of the participants stated that their family business is currently in the 2nd or 3rd generation. In the near future, most of the interviewees will undergo a further change of generation: Because 22.2% are currently in the decision-making phase, and over 50% are already in the training phase or the preparation phase (22.2% and 29.6%, respectively). Only two people claimed to have decided against a succession in the company. This can be taken as a clear indication that a high proportion of potential successors are also willing to take on a responsible position in the family business in the future. This is also confirmed by the following question: When asked which the three reasons for a succession in the company are, almost all the respondents are eager to assume full responsibility and continuing the family tradition. Furthermore, financial motives and interest in the industry play a major role. Social reputation and creative freedom are only mentioned by a few. However, there are not only reasons for a succession in the family business, but also reasons against it. Of the 28 participants in the survey, 21 also listed reasons why a succession is associated with challenges, too: family tensions and a lack of interest in the industry were mentioned by the most. It can be assumed that the expectations to continue the family tradition can automatically lead to family tensions in the management of the company. As a third decisive point, other professional alternatives are indicated.

If it applies to you: What are your three main reasons against deciding on succession?

21 Antworten

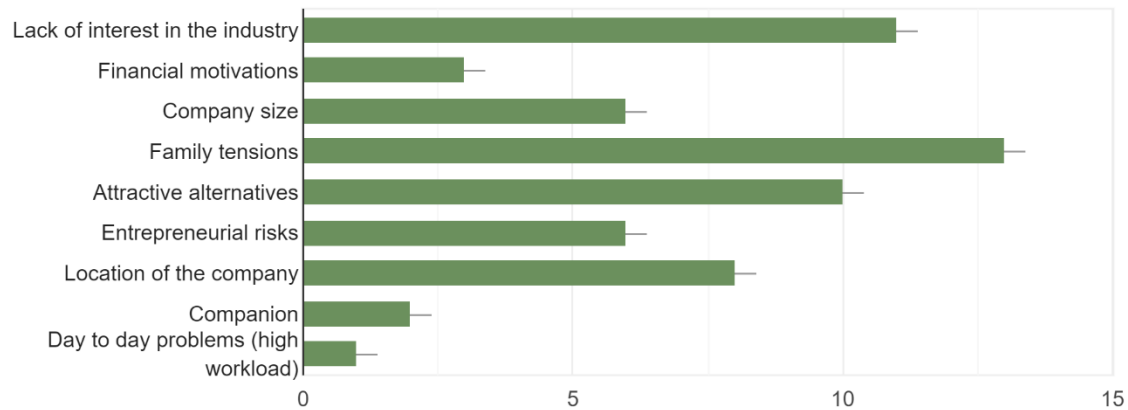


Table 10: Survey Question: "If it applies to you: What are your three main reasons against deciding on succession?"

There are parallels to the Berger Group as well as to the company C.E. Noerpel. Both potential successors stated in the interview that they would like to work in another company before moving to the family business. The amount of work involved, and the financial aspects also played a subordinate role in this question. Whether an external consultant had already been called in in the past to support the successor process was answered positively by 40% of those questioned. This number is surprising because, according to the literature, the use of external consultants in this area is rather the exception. (Lambrecht, 2008) This can perhaps be a change in thinking on the part of family businesses. The participants who filled out the additional textbox stated that the external consultants only wanted to enrich themselves with their mandate.

A very diversified answers were given to the question of how many family members hold shares in the company: Four possible answers dominated: led by 2-5 family members with 26.7% over 0-2 or 5-10 family members with 20% each and 10-20 family members with 13.3% of the interviewees. (Table 10)

(Approximately) How many family members have shares at the family business?

30 Antworten

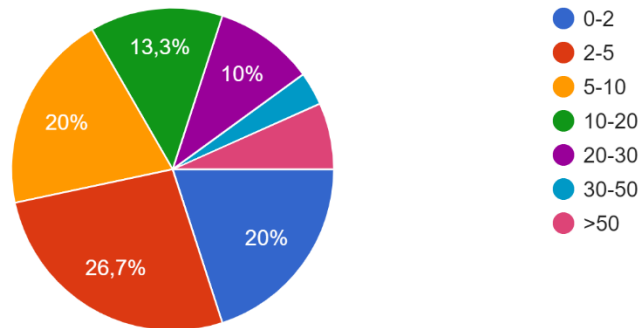


Table 11: Survey Question: “(Approximately) How many family members have shares at the family business?”

This fragmented distribution now allows to transfer how many family members are ultimately involved in important issues and to identify possible trouble spots. Although in most cases the shares are held by many family members, the important decisions are almost exclusively made by 1-5 family members. This was stated by 82.9% of the respondents.

(Approximately) How many family members are directly involved in important strategic decisions?

30 Antworten

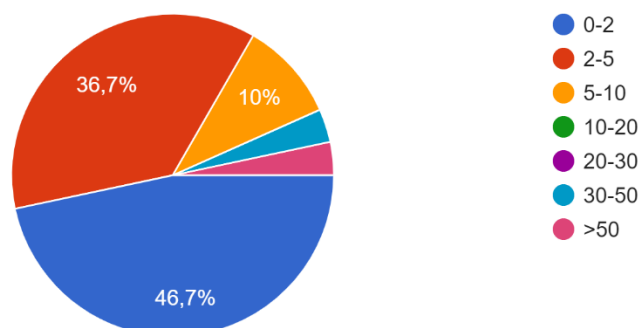


Table 12: Survey Question: “(Approximately) How many family members are directly involved in important strategic decisions?”

However, the same percentage of respondents also indicated that they consider it an advantage that the company is still family owned. Conflict of opinion and no clear structure of governance were cited as reasons for not doing so. Especially on the last point mentioned, one can draw parallels with the company Lappmann AG. The next question deals with the dominance of a family: two thirds of the companies are completely or largely dominated by a single family and 11 of the 30 companies are run by several family members in equal shares. More than a third of the respondents (36,7%) stated that the company is often the cause of disputes within the family.

12.3) Conclusions and Results of the Survey

The survey has made it possible to better understand a differentiated view of the current challenges facing the next generation. The investigation and understanding of these challenges are the first necessary step to get an overall picture, to analyze the situation and then to arrive at a recommendation for action. Especially the answers to the question which current challenges the interviewees see in the course of the change of generations are remarkable: Mainly reasons were mentioned which either suggest a lack of interest in the company (Lack of interest in the company / attractive alternatives), or that the biggest challenge is not to manage the company but to deal with one's own family. Parallel to the analyzed company Lappmann AG can be seen: Due to the position Dieter Bauer held for several years, he was inevitably confronted with the disputes of the family and had to serve as a scapegoat for many decisions, which has worsened the relationship to his relatives. Many of the participants who are not willing to risk their good relationship with their relatives through a leadership position in the company might have similar fears. The potential successors who have indicated that they have no interest in the industry in which their family business operates are more likely to advise leaving the leadership position to someone else. Especially a family business should be managed by someone who lives for his company and his products. A more and more frequently mentioned decisive argument for the young successor generation is the location of the company. Here, too, the fourth most frequently mentioned argument is why taking over the family business is seen more as a challenge. The reasons for a succession are to be evaluated also rather as duty-conscious acting and less as extensive identification with the enterprise: An indication for it is that the interest in the industry landed only on the third last place. The governance structure of the companies can be seen as a broad challenge: Because the number of shareholders in the company and ultimately those who run the company are in a gross imbalance, which has already led to distortions within the family at Lappmann AG. This follows on from the question of whether the company can be held responsible for many disputes within the family, which was answered in the affirmative by more than a third of the respondents. In other words, a clear division between family and company

does not seem to be possible in most cases. Since more than 70% of those questioned stated that a generation change is imminent, an orderly transition and a clear and transparent management structure are of great importance.

13) Recommended Action to solve Succession and Governance issues

Family and business already stand for potential conflicts. Taken together, it is almost an unsolvable problem. In the process of the analyzed literature, the interviews and the analyses of the companies the realization is reached that there cannot be one sole recommendation for family businesses. Family and company structures are far too complex and differently set up for this purpose. However, a possible indicator has been observed which can lead to disputes and ultimately to a break with the family and the company: The lack of an early strategy and rule setting.

Looking at the companies "Lappmann AG" and the "Berg-Gruppe", they have numerous things in common: Both companies were founded roughly in the same period, have a similar number of employees and a comparable annual turnover. Furthermore, in the recent past, both companies have breached the shareholder structure: At Lappmann AG, this affected their own family and at the Berg Group, the long-standing partners and friends of the Meier family were pushed out of the company. Both processes were associated with high financial and emotional costs. A settlement of the disputes in the near future is not conceivable according to both enterprises. It is also conspicuous that these major disputes only reached their climax after several decades. Therefore, it can be assumed that it was not the fault of one individual, but the collective failure over several generations. Since these conflicts can threaten the existence of a company and the cohesion of a family, an internal corporate strategy with a focus on governance and succession should be formulated at an early stage.

1. Common meeting with all family members

The advantages of an early and jointly formulated rules-catalog would stabilize the family through a framework of institutions and binding rules and can prepare the entrepreneurial families to deal with the issues of leadership, participation and cooperation. Furthermore, those guidelines can help to reduce the number of conflicts, limit their scope and create mechanisms to solve them. Above all, however, it does one thing: the unity of the family becomes again the familiar point of reference for the thinking and behavior of the family members. Through constructive cooperation with each other, the ability to negotiate controversies properly and to come to solutions, a quarreled family gains new security. It is no longer driven by circumstances

but shapes them. Jointly agreed rules can ensure the maintenance and growth of family businesses and family assets, further it can serve as an instrument for forward-looking planning and the development of a family governance. Family businesses should act at an early stage because it saves a lot of time, energy and money and can support the continued existence of the company and the family cohesion.

As was to be observed at Lappman AG or even at Berg-Gruppe, the fronts are often hardened. In other words, the focus is not initially on important leadership issues, but on getting the family back to the point where they can make rational decisions together. The family strategy first examines the basis for a functioning cooperation. Every family member involved in the company must be able to justify why it makes sense to invest together in the company. The aim of the family rules is to identify similarities between the family members. No one has chosen to be attached to the company and its decisions, but this duty has been inherited. If one side of the family cannot answer this question clearly, individual interests will dominate. If this is the case, the potential successor no longer must think about the appointment of the management. It probably will not be able to develop the necessary strength to control the alienation and its consequences. In the case that the individual interests outweigh the common interest a sale of the company is recommendable. Only when the connecting element in a family is strong enough to give meaning to the common investment it can answer the question of the common goal. The descendants of Lappmann had to face this question in 2006 and they decided to continue. Today it can be seen that the families are still divided and that the company would most probably be more successful if it were no longer a family business. If there had been a joint strategy at an early stage, in which the families would have had to answer the questions about identification and visions for the company, it would have been possible to recognize that the opinions were contradictory.

II. Review former agreements

To establish these new rules within the company, it is first necessary to review the current agreements which are directly and indirectly related to the family constellation within the company. During a joint meeting, all future rules and decisions will be formulated and approved as a community. The aim is to review and update old agreements and all family members should be given the opportunity to become actively involved in this process of reorientation. If a family member subsequently decides not to be actively involved in the company, he can decide between two options: To remain in the family business as a silent shareholder or to be paid off. After this joint analysis and agreement on the future of the company, the approaches will be further elaborated and recorded in the family rules. Those rules are the sum of the shared beliefs and the results of family governance discussion. The family rules answer the basic questions of an entrepreneurial family management, participation and cooperation in the company, to joint

values and goals. All in all, these are the new rules that the next generation will have to follow. These rules are not rigid but should be reviewed and updated at regular intervals. The aim is to give the following generations a voice in the future of the company and at the same time access to the company. According to the companies analyzed and through the survey responds, it is becoming increasingly difficult for the next generation to identify with the family business. This is particularly the case when the family business exceeds a certain size and cannot be identified as such directly anymore.

III. Formulate goals & values

The respondents of the survey frequently voted for the possibility of "continuing the tradition" as an answer. Traditions comprise the sum of unwritten rules and customs in a family. They are the historically grown basis of the family's self-image. But especially in the last decades the binding effect of traditions has diminished and in family dynasties they are no longer easily recognizable (see Lappmann AG). To counteract this fragmentation, the values, goals and roles within the family should be clarified. It is conceivable that views on these parameters have changed over time and must be redefined by the next generation. However, it gives every family member the opportunity to bring his understanding of tradition to the point of pressure and to keep rules in the family. Especially for family businesses that are characterized by many shareholders and family members, it could give the chance to increase the identification with the company again.

Lucas Schneider-Noerpel, the future successor of C.E. Noerpel GmbH, said that his company's lived values were decisive. For many successful family businesses, values are of outstanding importance: They have a defining and at the same time relieving effect. They influence their acting and decisions in all relevant areas of the company: According to him those values affect investment decisions, selection of personnel and of business partners. The family values characterize a family business and are often a "tangible" difference to non-owner-managed companies. Family businesses should redefine these together and learn what values the other family members associate with the company.

IV. Achieve consensus

Additionally, the mentioned values of a company are decisive for its goals: There should be consensus about the company's goals. Goals are fundamental decisions for the future of family and business. Contrary to the values, goals are final in character. They are concrete and verifiable, because they are designed to be integrated to be put into action. Above all, the question arises as to who will achieve the goals for family and business. Different spheres collide here working and non-working partners, senior citizens and juniors, head of family and external shareholders. Formulating them is therefore a major challenge and an important decision. The goals should

create clarity as to how the family business should be aligned in the future. The formulations should be chosen with foresight, because the goal of a family to continue the business in the third generation and to maintain it must be aware that the decision will have a great influence on the future family cohabitation. In summary, the following things should be done within a family business to avoid possible disputes: A common dialogue as a family about structures, goals, positions and management of the company. In addition, what the parameters tradition, values and goals of the company mean to an individual and in the context of the family and the company.

V. Agree on a future governance structure

It is advisable to consult external consultants to start this process and to have it accompanied by an independent party. According to the survey 40% of the participant stated that their family businesses have already used the services of an external consultant to solve succession and governance issues. The consultants should have a moderating role to ensure that no side of the family is favored or disadvantaged and that everyone can express their understanding of the family business. What is decisive is the management structure of the company and what other options are feasible to run the family business in the future. For each owner structure there are different governance models in which the external consultants can provide their support:

	<i>Controlling Owner</i>	<i>Sibling Partnership</i>	<i>Cousins Consortium</i>	<i>Family Ownership</i>
	<i>Business Governance</i>	<i>Ownership Governance</i>	<i>Family Governance</i>	<i>Wealth Governance</i>
<i>Potential Governance Instrument</i>	<ul style="list-style-type: none"> • <i>Corporate Vision</i> • <i>corporate mission</i> • <i>Strategy, structure and culture of the company</i> • <i>organizational regulations</i> • <i>division of responsibilities</i> • <i>contingency plan</i> 	<ul style="list-style-type: none"> • <i>owner strategy</i> • <i>Board of Directors & Advisory Board</i> • <i>general assembly</i> • <i>shareholder agreement</i> • <i>inheritance</i> • <i>articles of partnership</i> • <i>bylaws</i> 	<ul style="list-style-type: none"> • <i>family council</i> • <i>family reunions</i> • <i>family charter</i> • <i>family constitution</i> • <i>family letter</i> • <i>family book</i> • <i>next-gen program</i> 	<ul style="list-style-type: none"> • <i>family office</i> • <i>multi-family office</i> • <i>Trust & Foundation</i> • <i>investment committee</i> • <i>asset management</i> • <i>investment strategy</i>

Table 13: Potential Governance Instruments; Inspired by (Halter & Schroeder, 2011)

VI. Requirements of a future successor

After an agreement has been reached in this process on the governance structure according to which the company should be managed, it is advisable to formulate a list of requirements for future managing directors. None of the analyzed companies has stated that they have dealt with these requirements so far, but it can be very helpful to create clear structures and prevent disputes. The requirements must be defined individually for each company, but they should be fair, transparent and adaptable. Topics that should be considered are whether the successor should first gain work experience outside the family business, whether in-house training is offered and how much training time the successor is given. Furthermore, it should be clearly stated how the transition takes place and how the voting process of the other shareholders on a new managing director should be designed.

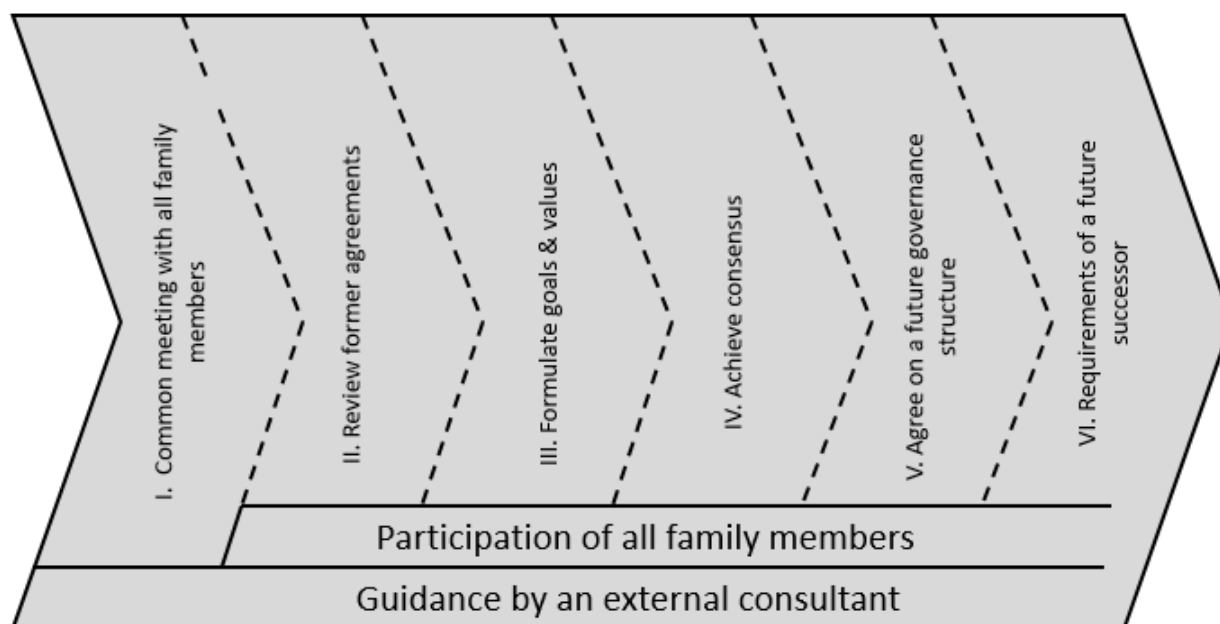


Table 14: Recommended governance & succession model (own illustration)

The active exchange among each other and the transparency of decisions, as well as the democratic process within the family enterprise can help to prevent disputes and to secure the success of the enterprise.

The aim of the thesis was to determine the level of financial literacy of Slovenian executives managing small-and-medium sized family business enterprises. For the purpose of research, three hypotheses were established, providing guidelines throughout the thesis and undertaken

survey. The latter of the two was conducted in order to determine the level of financial literacy, with a focus on reading and comprehending financial statements, among executive mentioned a few lines before. Lastly, based on the results of the survey, the best practices of other countries tackling low levels of financial literacy were offered and reviewed.

14.) Conclusion

The aim of this thesis was to identify and analyze the biggest challenges for family businesses encounter when dealing with the succession and governance process.

Before the topic has been analyzed, three hypotheses were created that predict the expected reasons: The hypotheses named time, to find a suitable successor and the distribution of money and power as the three greatest challenges in the succession process. During the literature research, interviews and the survey, these were confirmed to be largely accurate. However, an important finding is that the challenges are as different as the families who run the companies. One of the most important factors identified was timing. The prospective structure and a future, regulated transition from one generation to the next should best be settled by the founders themselves. It will not be in their interest that the company they founded will divide the family in the future and they should therefore define not only rules for their direct successor generation but also a declaration of intent for all subsequent generations. For companies like Lappmann AG it will be very difficult to continue the success of the company and to restore the harmony within the family. Previous regulations could have been a great help here. However, there are also blatant contradictions as the company C.E. Noerpel GmbH proves: For over 140 years the company is successfully run by one family without any distortions within the family. The management structures were deliberately kept lean and the company shares were always owned by a single Person until the current generation. It remains to be seen whether this success story can be continued with the wider distribution of the company shares.

Finally, it can be said that the identification of the following generations with the company, the family pressure, the demands on a suitable successor and the widely ramified shareholders are the greatest challenges for family businesses in the course of the succession and governance process. However, through the gained insights there can be optimism that the next generation has recognized these challenges and, with the help of external consultants and clear structures, will be able to handle them successfully and that fewer family businesses will be threatened in their economic existence.

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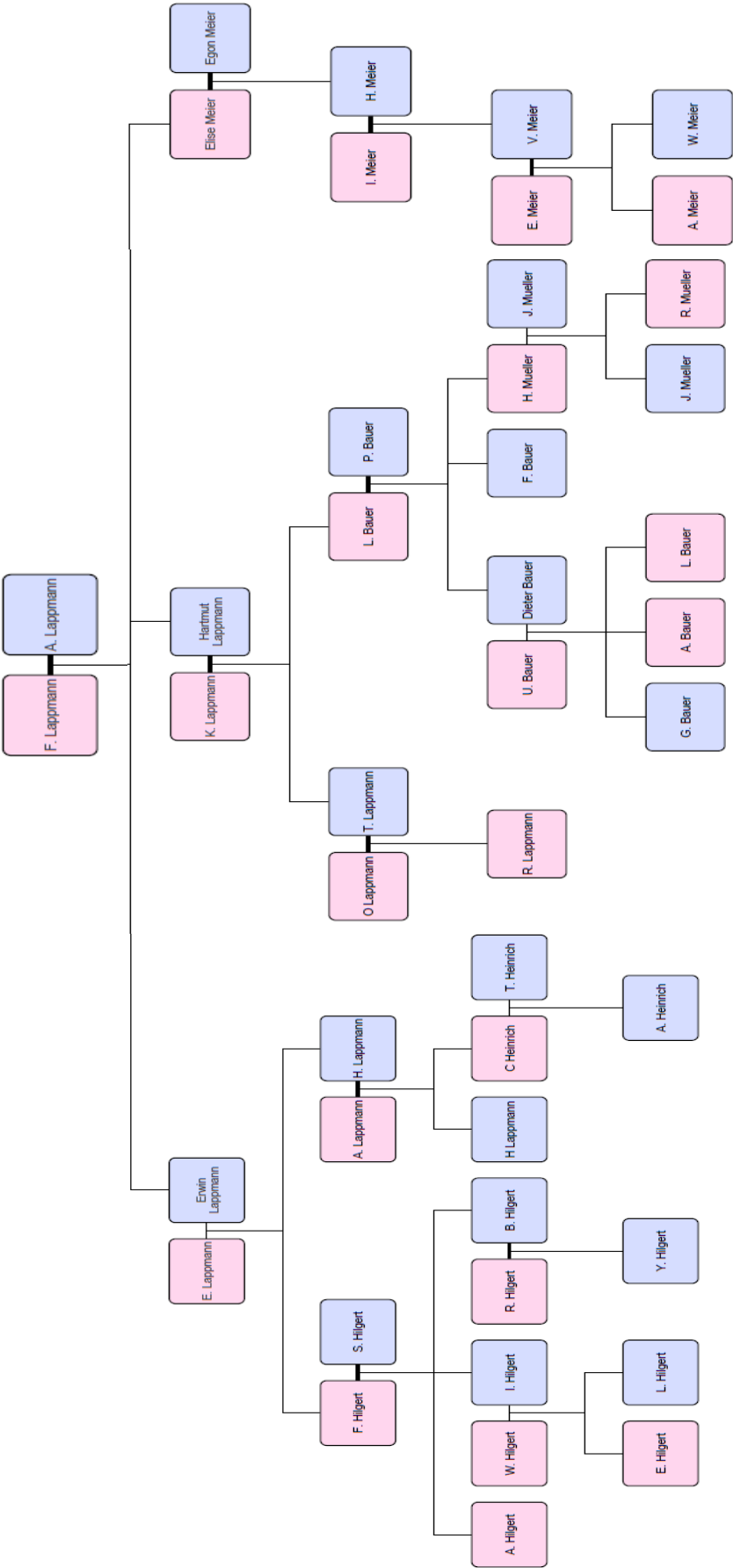
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Annexes

Annex 1: Genogram of the Lappmann AG Family	73
Annex 2: Results of the Survey.....	74 - 79

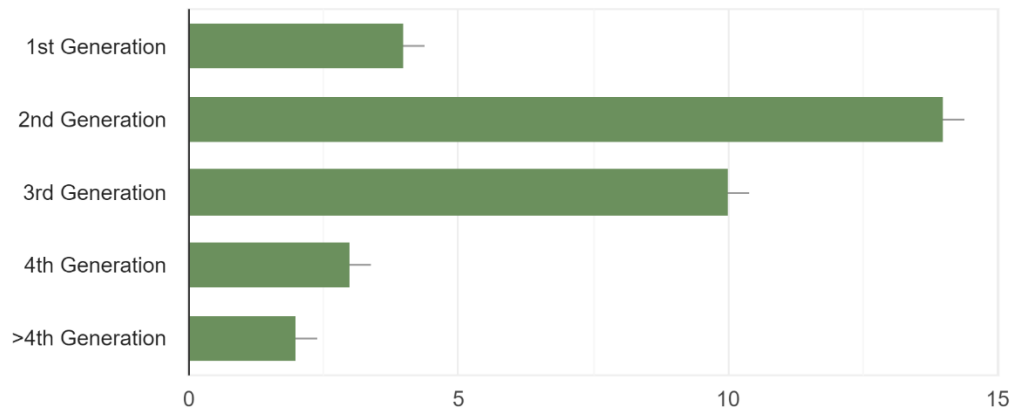
Annex 1: Genogram of the Lappman AG Family



Annex 2: Results of the Survey:

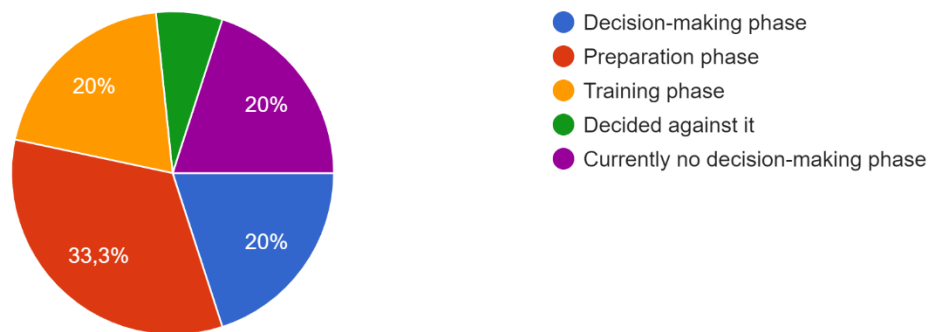
In which generation is your family business?

30 Antworten



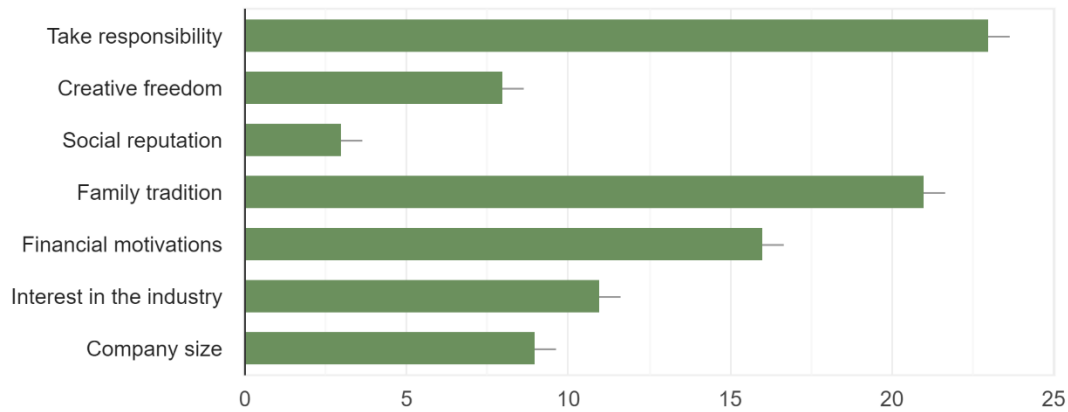
Which phase of the succession process are you currently going through?

30 Antworten



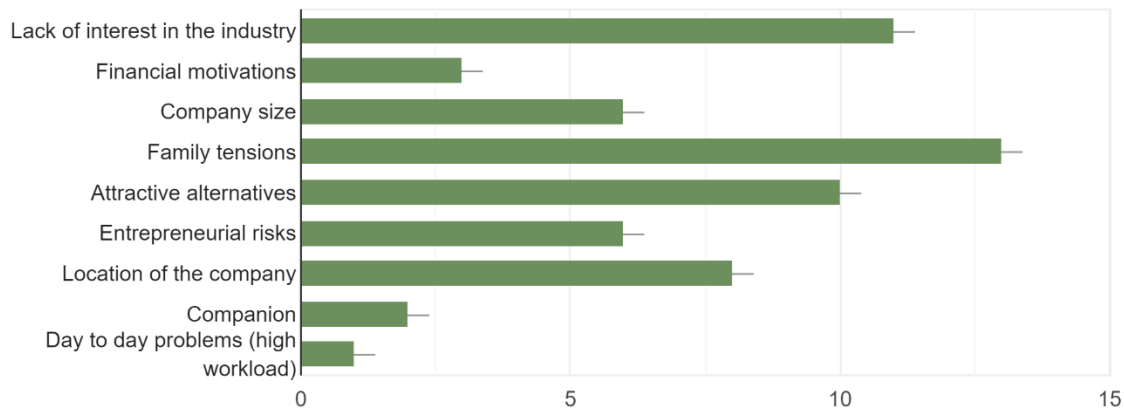
If it applies to you: What are your three main reasons for deciding on succession?

30 Antworten



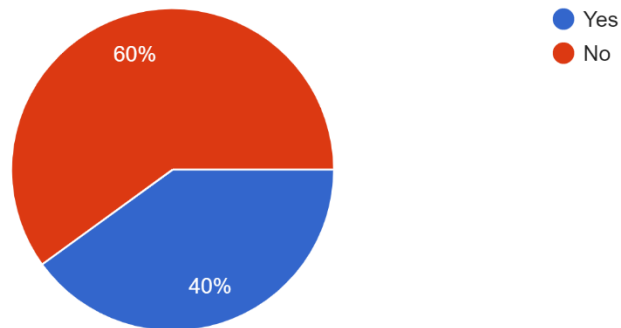
If it applies to you: What are your three main reasons against deciding on succession?

21 Antworten



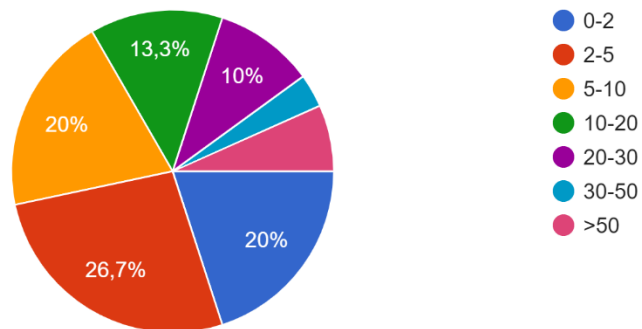
Has your company ever hired external consultants to solve the succession process?

30 Antworten



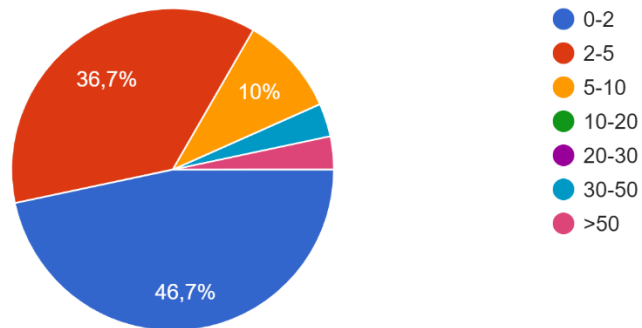
(Approximately) How many family members have shares at the family business?

30 Antworten



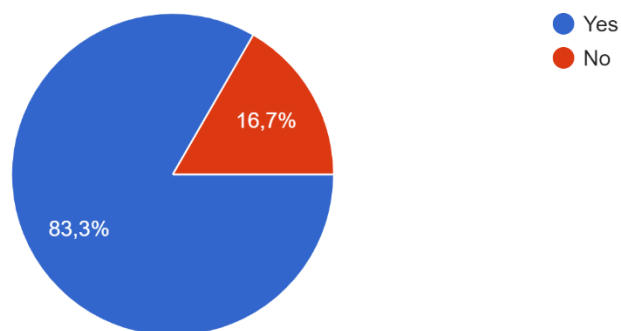
(Approximately) How many family members are directly involved in important strategic decisions?

30 Antworten



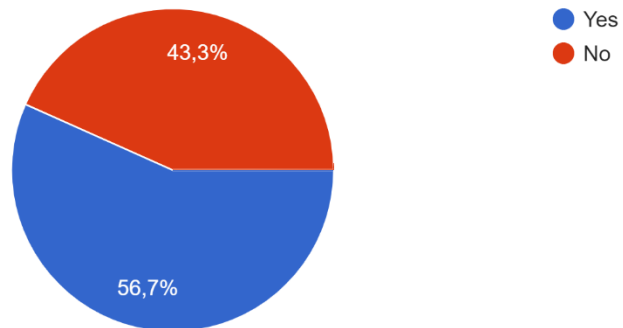
Do you see it as an advantage that your business is still family-owned?

30 Antworten



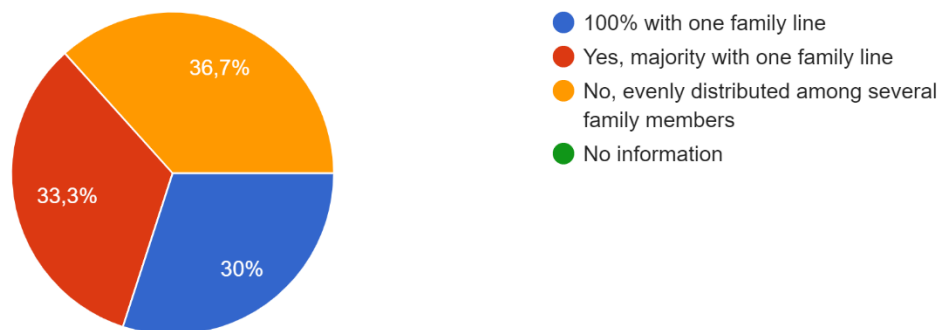
Do you have siblings who are involved in the company?

30 Antworten



Does a part of your family dominate the company? (in terms of ownership and management)

30 Antworten



Do you have the impression that the company is often the cause of family disputes?

30 Antworten

