

STOB Region Interreg Europe

Pilot workshops report

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Background

Most companies in Slovenia (83%) are family-run and are categorized as small companies with less than 50 employees. They typically generate annual revenues of up to 4 million euro individually, are operating more than 20 years and are under the leadership of the first or second generation. They are driving force in the economy. All together family businesses make 69% of total sales, 67% of added value and employ 70% of all work population.

Definition of family business in Slovenia:

- companies in which family has control over the strategic direction of the organization – broader definition,
- companies which have more than one generation and more than one family member with managerial responsibilities – narrow definition,
- either public companies with a minimum shareholding or voting power of the owner family of 32%, or private companies with a minimum shareholding of the owner family of 50% - used in analysis from where we took the data about family business in Slovenia.

In Slovenia family businesses are mainly micro or small companies with less than 50 employees (95%), total yearly revenues of 4 million euro or less (87%), are more than 20 years old (74%) and operate in various industries. The most important of these are retail and wholesale trade (19%), construction (19%) and manufacturing of industrial goods (17%), with other industries also well represented.

Family businesses in Slovenia are typically led by first generation (58%) or second (37%), and only 5% are led by third or younger generation.

Due to the characteristics of Slovenian family businesses and their managers, business transfer process is becoming very interesting topic in Slovenia.

In Slovenia 82% of companies tend to plan to transfer the company to the next generation, but we have 40% of companies, where managers are exclusively family members, 38% companies in which leading employees are not family members and 14% of companies where managers are non-family.

Till now not much attention was given to business transfer. Due to the characteristic of companies in our region (mostly micro and small companies, a lot of them sole entrepreneurs with 5 to 10 employees) also the support organizations as Regional development agency (BSC Kranj), The Chamber of Craft and Small Business and The Chamber of Commerce and Industry found out that they will have to play more active role in helping entrepreneurs managing business succession.

Rationale

Several pieces of research done by both academic and consulting firms prove that 60-80% of SMEs in Slovenia are family businesses. Three quarters of these are still managed by the founding generations or at least there is still a very high level of involvement of the first generation into daily operations. These companies were in most cases established in 1990ies after the fall of the previous political system which did not really support private economic activities and ownership. As in other economies with longer and more extensive tradition in family businesses, transition on to the next generation is a critical period in a life-cycle of such a business. Due to the relative youth of family businesses in Slovenia, there is unfortunately no extensive experience and/or systematic approach available in order to assist these businesses and families to be able to proceed further to the next generation. Thus, there is a reliable threat that several of these fine businesses will fail to continue and a severe negative economic impact will occur.

Due to the lack of knowledge and experiences about business transfer we decided to prepare pilot project – pilot workshops, with which we will find out:

- needs of small family businesses in region (first we planned to make this workshops only for Gorenjska region entrepreneurs),
- challenges they are facing when starting with succession,
- process of business transfer,
- our role as supporting organization for entrepreneurs in the process,
- the starting point for the preparation of the action plan – one of the objectives of STOB Regions project.

Pilot workshops objectives

The ultimate objective of the project was to develop a methodology for assisting family business for a smoother entry into transition process. Several family businesses never enter into a systematic process of transition because they simply do not know, how and where to start, being overwhelmed with daily business obligations. At the same time, they are often burdened with some family baggage of interpersonal relationships, which is usually easier to keep them silent rather than entering into painful process of resolving them. The goal of this methodological approach is to bring families to the decision of entering into transition process on the basis of the written and agreed transition plan.

The planned methodology was tested in a pilot project. This involved direct work with 11 family businesses and the goal is, that in 20 weeks of the duration of the pilot project. By the end, at least some of the families should have had written succession plan, ready to go and their clear and honest commitment to carry on with the transition activities.

When preparing the program for pilot workshops we planned to organize it for 5-7 family businesses from Gorenjska region. Due to the high interest we opened attendance in the pilot workshops for 17

companies from the whole country. In the process of 20 weeks we “lost” some and we finished the program with 9 companies participating.

Condition for participating in these workshops was that the representatives of first and second generation are attending meetings. In this way we could optimize the communication gaps between generations, hear the opinions and ideas from both side, started to work on complicated relationships between business and family.

Methodology

An experienced family business consultant with more than 20 years of consultant experience on the top of the own family business experience and extensive academic work led a self-aid group of then family business teams. Two members from the same family were expected: older and younger generation representatives. Gender variability was encompassed by having at least one third of women participants in the group. The reason for this is that (1) women are still underrepresented as SME (and generally business) leaders and (2) women are often neglected as possible successors in traditional “masculine” industries.

The consultant, who led the group, used the therapeutic andragogic method of free associations: (1) a moderation of the group leader will be followed by (2) group discussion, (3) preparation of the homework done on the topic and influenced by group thoughts and (4) short presentation on the next meeting. For the homework, the consultant enabled two hours of face two face consultancies for each family business team. Homework was expected to have a very important role in the process, because the clear objective is to make the family sit down and think about the issues, which would be raised at the next session. The homework was also expected to be a link between family members, which would not come to the session and those who would. The following topics will be covered as a process in 20 weeks with a session on approximately every two weeks (we adjusted the dates to national holidays):

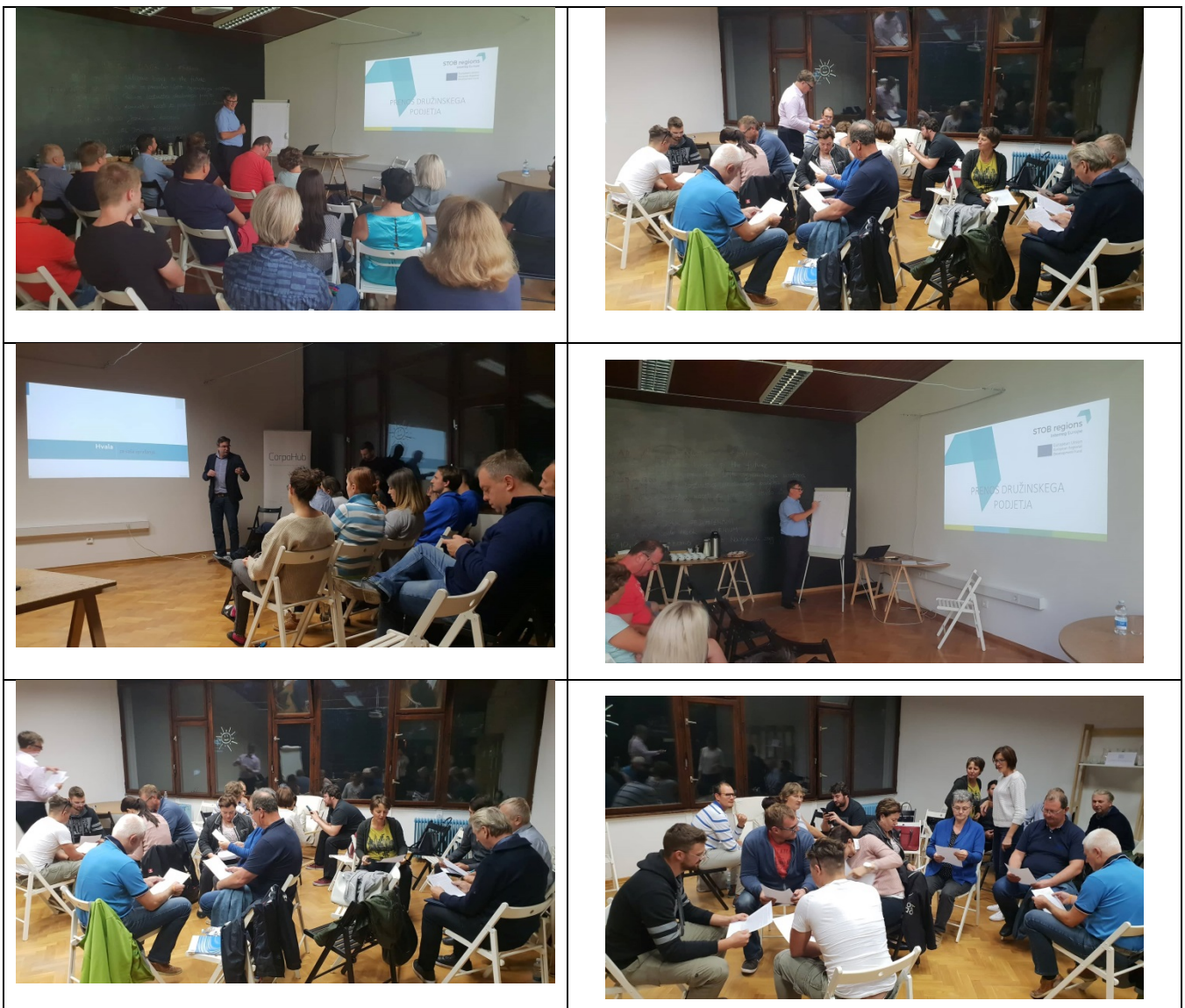
- introduction to the program, presentations of participants,
- strengths and weaknesses of family businesses,
- opportunities and threats of family businesses,
- sources and management of conflicts,
- organizational peculiarities and “Should I stay or should I go?” dilemma,
- intra and intergenerational differences and conflicts,
- family business constitution and long-term vision,
- family business and business family finance (with a guest speaker),
- legal aspects of family businesses (with a guest speaker),
- succession plan for next generation.

The course of the workshops

In the end we organized 9 group workshops (we combined two topics in one meeting) and we gave opportunity for individual counselling from our external expert to family businesses members. On these meetings they discussed more sensitive topics (including family and business finances, more complexed challenges and problems of succession). This option was used only by the companies who plan succession in next three years and are really in the hurry. Others didn't decide to take it.

Dates of workshops: 20.9.2018, 4.10.2018, 18.10.2018, 8.11.2018, 15.11.2018, 10.1.2019, 14.2.2019, 7.3.2019, 28.3.2019.

Some photos from workshops:



Outcomes of the pilot workshops

Outcomes of the pilot project based on the observations of the consultant and the support team. They are mostly based on the quality of the prepared deliverables from the workshop sessions and feedback from participants. The main findings from the pilot project can be summarized as follows:

- There is a definite need for family business (and other SMEs) consultation services in the field of transferring businesses onto the next generation or possible other shareholders outside the family.
- There is a need for a development of a standardized systematic approach for the consultation on this matter.
- The robust framework of dual methodology is a combination of (1) group work backed by the methodology of free associations and (2) consultation on the business level (both, group and individual) proved to be a good practice.
- Even the family businesses which express high level of commitment at the beginning of the process may find that they are simply not ready yet once the process goes deeper in the resolution of the possible barriers to planning.
- The rate of 50% of those which enter the process and end up with a written succession plan should already be seen as successful.

Recommendations for the improvement of the methodology

1. The group part of the consultation process may probably be reduced, even halved – due to occupancy of entrepreneurs, the process should be shortened.
2. A more intense push from the consultant and the supporting team would be appreciated by the clients.
3. Individual and group work should probably overlap more (at the pilot, individual consulting work was concentrated in the end of the project).
4. More effort should be dedicated in the beginning of the consultation project to understand more in-depth the position and needs of every individual family business.
5. Women more enthusiastic than men, in reality there was more women attendants of the workshop. This is compliant with several pieces of literature saying that women are neglected parties in the consulting process and may serve as important catalysts.

These workshops were crucial starting point in the preparation of the action plan and clear need of family businesses in Slovenia.