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Business Succession in Family Businesses

Case Study of Johann Bartak KG

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For reasons of better understanding the differentiation between male and female form was not used in this thesis. Nevertheless, for correctness it is mentioned that both genders are always meant equally.

Abstract

Currently one of the most interesting topics among young Austrian academics is launching a Start-up. Nevertheless, at least as important as founding and expanding a company but by far not mentioned as often during discussions as well as in journals is the succession process. However, it is one of the most crucial chapters during the life cycle of each family business. Insufficient attention to the succession process often ends in failure and even well prepared ones tend to stumble when facing this important phase of the company. Due to the offer to take over the business *Johann Bartak KG* the author of this paper decided to deal with the topic of business succession in more detail and to point out whether a takeover is reasonable in a sustainable point of view.

To study the research topic of business succession first of all a review of existing cases and literature has been conducted. After dealing with the theoretical part in the first main chapter the second one builds on the collected information at Johann Bartak KG. This practical part concentrates on the analyzation of the current state of the company. Therefore, for the evaluation of the status-quo of the family business a Business Model Canvas was generated and then analyzed to determine if there is still potential for success. Already at the beginning of this thesis there have been indications like a decreasing revenue that Johann Bartak KG might not perform as well as some years ago. Intensive insights have been possible as the author experiences the situation of business succession first hand. Additionally, he started working full time at the transferring company during this thesis and he was placed in the position of chief operating officer right away.

The results underline that especially psychological aspects have an intensive impact on the succession process and that each case is completely individual. Therefore, it is impossible to generate a recipe for success but there are good guidelines as well as advices that are helpful to take the different hurdles more easily. Another outcome of this thesis is that the initial situation for the succession process of Johann Bartak KG is suboptimal as there are some negative aspects about the current operative state of the company. After three years without chief operating officer and other leading positions as well as missing investments it is therefore high time for improvements. Nevertheless, the research shows a sustainable enterprise with a nearly century old history that still has potential for success. Therefore, towards the end of this thesis the author decided to take over the company and the two entrepreneurs currently find themselves in the middle of a business succession.

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List of Abbreviations

AG	Public Company
APV	Adjusted Present Value (- Approach)
BMC	.....	Business Model Canvas
COO	.....	Chief Operating Officer
GmbH	.....	Limited Company
GmbH & Co. KG	.....	Limited Company & Compagnie Limited Partnership (special form of a Limited Partnership)
FCF	.....	Free Cash Flow
KG	.....	Limited Partnership
KPI	.....	Key Performance Indicator
LtO	.....	License to Operate
MBO	.....	Management Buy Out
MBI	.....	Management Buy In
M&A	.....	Mergers and Acquisitions
OEM	.....	Original Equipment Manufacturer
SBA	.....	Small Business Act
SME	.....	Small and Medium Enterprises
USP	.....	Unique Selling Proposition

1. Introduction

Nowadays one of the most discussed topics among young Austrian academics is launching a start-up. Even in television this topic is highly present in popular TV-shows like *“Die Höhle des Löwen”*. Nevertheless, at least as important as founding and expanding a company is the succession process between two generations. Even though it is one of the most crucial chapters during the life cycle of any company it is hardly discussed. At least as long as someone does not find himself concerned with this topic directly.

The succession process at the top management of an enterprise is a complex process which holds challenges of all kinds, for the entrepreneurs directly as well as their environment. The reason behind all this is that there are not only physical and financial but nearly always hot-blooded difficult emotion-related drivers during the transfer of a company. In particular family companies where business and private life are in tight correlation are affected. (Andric et al. 2016)

Forecasts in different literature predict an increase in company successions for the next years. A lot of entrepreneurs and successors will then face legal and psychological tasks which they never had to handle before. The same goes for Johann Bartak KG which is further elaborated in this thesis and serves as a case study.

To explain why this small foundry was used as a case study the background and the origin of this research topic shall be mentioned. During his last academic year at Graz University of Technology the author was asked by his uncle Erik Eder to take over the family business Johann Bartak KG. Before that, there have just been indications as the current owner does not have children nor close relatives. Beside that there has only been vague speaking like *“one day someone in the family could take over the company”*. Moreover, there is one older relative than the young author (24 years in age) who would have also been suitable for the succession considering the technical education. That combined with the fact that the author did not have an academic degree or that much of professional experience by then he has not been thinking about taking the succession that early. Furthermore, he always had in mind to spend some years abroad after graduating. Nevertheless, shortly before finishing studies the author has been asked directly. Therefore, he and his uncle found themselves in the process of business succession and the perfect occasion to write this thesis occurred. However, this subject is so broad that the paper is by far not able to cover every single topic in detail. Nevertheless, including anecdotes and different case studies it should be a supportive guide for everyone who is going to read it as it was for the author and his uncle.

1.1. Research Questions & Methodology

One goal of this thesis is to support the first steps into the succession process. Therefore, the following two research questions are: “What kind of challenges can occur during business succession?” and “Which recommendations can be identified?”. To answer this research topic of business succession first of all a review of existing cases and literature has been conducted. Within this more theoretical part different phases of the succession process are exposed and explained.

In the Johann Bartak case the first hurdle was already taken when the senior, Erik Eder, decided to finally hand over the family business and chose to go for a family internal succession. Even though most of the current seniors in Europe are wishing for this solution, according to current researches, only 50 % of these preferences are fulfilled (Wegmann 2015). Therefore, an additional research question arises whether the model of family companies is still successful compared to corporate groups or not. Other forms of company succession must be considered, and a strategic process with an appropriate forerun time is required. This succession process including the first three research questions is explained in *chapter 2.3* of this thesis and is supplemented by economic, legal, psychological and tax topics.

The practical research questions in *chapter 3* are used to identify further risks for the successor. After all it is not only the aim to find a suitable successor for the senior but to identify a sustainable company with the potential for success for the next generation. Especially companies which reduce or discontinue investments prior to succession are often not in top shape (Haunschild and Wolter 2010). Therefore, the research questions are: “What is the current state of Johann Bartak KG?” and whether a company succession is reasonable in a sustainable way including all its drivers. Further, there have been indications already at the beginning of this thesis that Johann Bartak KG is also not performing as well as some years ago.

Therefore, *chapter 3* builds on the collected information of Johann Bartak KG to answer this practical part. Intensive insights were possible as the author is experiencing the situation first hand in the position of COO of the transferring company. For the evaluation of the status-quo a Business Model Canvas is generated and analyzed.

1.2. Bartak a Century Story

Johann Bartak KG was founded by Johann Bartak in 1924 and therefore exists for nearly 100 years. How the family business was passed on afterwards is shown in *Figure 1*. The second CEO was Erik Eder Senior from 1955 to 1986 who was the son-in-law of the founder. The second business succession was between the author's uncle, Erik Eder, and his father which unfortunately did not work out that well as the senior was not willing to leave his position until high age. It was not even that long ago in 2017 when he still ruled on the executive chair. Therefore, Erik Eder was not able to take over the lead of the company successfully which led to extensive disturbances within the family business. This already underlines how crucial business successions are for the continuity of an enterprise.

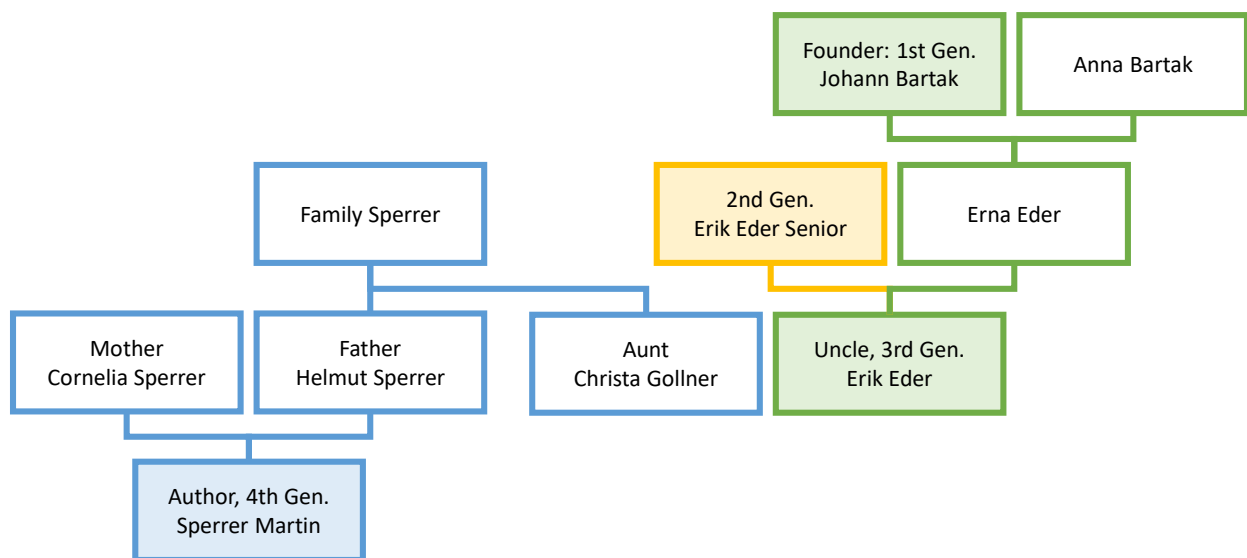


Figure 1: CEOs of Johann Bartak KG, family tree (own design)

Erik Eder is an only child and does not have any on his own. Due to these circumstances he decided to broaden his search field and took the nephews of his life partner, Christa Gollner, under consideration. Therefore, the Johann Bartak case deals with a family internal solution in a broader sense as the senior is not directly related to the successor Martin Sperrer.

Currently Johann Bartak KG employs about 30 people but already had up to 90 in the same facilities working in three shifts instead of one nowadays. The family business always produced aluminum and other non-ferrous casting parts either for the industry or artists. At the beginning in 1924 there was only one site in Linzerstraße, Wels. Afterwards the company expanded over the years and especially in the prime age of Erik Eder Senior it was possible to see major changes when he built new production facilities in Schlosstraße as well as the extensions in Linzerstraße.

Figure 2 shows a collage of different pictures between 1958 and 1971. Already back then the family business was dealing with topics like public relation and employee satisfaction. Therefore, the upper two pictures in *Figure 2* show on the one hand the big booth of Johann Bartak KG at the Welsler fair and on the other hand their successful soccer team. The other photos are showing the building sites between 1958 and 1971 as well as employees during work. The retailing of metal bars also started around this time in 1965 and became a second business field.



Figure 2: Collage of Johann Bartak KG between 1958 and 1971 (own design)

2. Succession in Family Businesses

As mentioned in the introduction, the start-up-scene is on everyone's lips, but still as important as launching new companies are the successions. Even the banks are giving this topic a high value. Already in 2001 the Volks- and Raiffeisenbank sent out a writing called "*no fear of credit ratings*". The paper included 22 questions which are typically used for credit ratings performed by banks. The very first question asked if the corporate succession is already regulated. The arrangement alone underlines the importance of this topic. Nevertheless, the common folk is normally unaware about the fact that the transfer of a company often comes along with difficulties. (Schackmann 2003)

The term of corporate succession is not uniformly defined in the literature. Summing up, it can be spoken about corporate succession if the owner of an owner-managed or family-managed company gives up his position as general partner for personal reasons. It is then common that at the same time, ownership is (completely) handed over, even though this is not mandatory. Frequent personal reasons include age, illness, accident or death. In the common literature it seems to be generally agreed upon that an enterprise is considered ready for succession if its general partner is going to withdraw within the following five years. At this point it is reminded that by far not every ready-to-take company is able to find a transferee, but only the economically attractive ones with a potential for success. According to the assumptions of the Institut für Mittelstandsforschung Bonn, a company is seen to be acquirable if the expected profit is higher than the expected income of a potential successor from an external employment plus income from an alternative investment. (Hauser et al. 2010)

2.1. Economic Impact of Businesses Succession

With the Small Business Act even the European Commission highlighted the role of family businesses and the need to exploit their full potential. After all they make up to 60 % of the European companies. Austria is among the TOP three countries in Europe when it comes down to the highest share of family businesses. Only Germany with 95 % has a higher share than Austria with around 90% of family businesses following the EU-Definition. In terms of employees and sales only Italy and Spain are ahead of Austria. (European Commission 2011)

If one-person-companies (sole proprietorship) are excluded then family businesses in a narrower sense are still making up to more than half of the Austrian companies with a share of 54%. Furthermore, they hold a share of 67 % of the Austrian working population that equals to 1.7 Mio people as well as 58% or EUR 365 billion of the countrywide annual revenue. The range of family businesses goes from small and medium enterprises (SME) up to successful global players. However, most of them include less than ten employees and operate in tourism, construction or manufacturing. More than 70 % of the 156,400 family businesses in Austria are placed around small towns. Therefore, they are not only playing a major role for the Austrian economy but also for the regional society and culture. (Haushofer 2013)

Although family businesses - like the other companies in Europe - were struggling with the consequences of the financial and economic crisis, overall they proved to be more robust. The current study by *KMU Forschung Austria*, commissioned by the WKO, shows that family businesses are still developing dynamically and creating new jobs. Due to the two overlapping spheres of family and business they are a specific type of company that faces different and highly complex challenges. However, it is exactly this overlap that also creates one of its most important benefits as it has a major impact on the principles behind family-based companies compared to non-family businesses. It turned out that the former ones are putting the aim of stability ahead of expanding. After all there is a need for a long-term strategy to bring a sustainable enterprise into the next generation. This can be identified as one of the keys to the success of family businesses compared to non-family businesses (so-called management enterprises) which are just aiming for profit. The only real threat to a family business seems to be that stability changes to stagnation which causes the death of any healthy business in the long term. (Haushofer 2013)

Additionally, family businesses are also influenced by the development of the big enterprises in the market. Back in the 70s and 80s it has been a side effect that when a company reached a certain size it became conservative and inflexible to a greater extent. Therefore, the big enterprises had a hard time when more and more mass products have been outsourced to low-wage countries as well as during the worldwide economic crisis. Compared to small family businesses which still had stable years as they are

characterized by their entrepreneurial style, high flexibility as well as a high market orientation. Nevertheless, during the last decades this difference has been nearly eradicated by state-of-the-art trends like digitalization or industry 4.0. The huge enterprises have been starting to use their resources to implement these new technologies as well as new designs of organizational structures like flat horizontal hierarchies to become more flexible and market oriented. Nowadays, it is also common to split formerly big corporations into several autonomous cells to utilize the advantages of SMEs. (Märk and Situm 2018)

Normally, when it comes down to a failed succession it is seen as a problem regarding the loss of jobs to highlight the economic importance of corporate succession. This approach, however, falls short because there are further economic correlations and effects that must be considered. Market oriented economies like in Austria and Germany are characterized by considerable fluctuation. Several hundred thousand new companies enter the market and almost as many leave every year. If the newly entering companies have competitive advantages on their side, they may displace established ones. (Schröder and Freund 1999) After all not every enterprise that faces the succession process is in a sustainable, or even for the short-term secure market position, and generates enough profit to be interesting for successors. Especially companies which reduce or discontinue investments prior to succession have to deal with these issues (Haunschild and Wolter 2010).

Due to a resulting lower competitiveness, these companies have difficulty to hand over to the next generation. Those are the cases when failed succession processes should not be considered negative from an economic perspective. Even if the senior would continue his enterprise himself, sooner or later the company would be eliminated by the market. (Kay and Suprinovič 2013)

This process is actually very important because it contributes to the renewal of the economy and therefore to the prosperity of a country. Due to these considerations it is not possible to characterize every corporate closure as negative in an economic point of view. However, it is critical if companies are shut down for reasons other than competition. Especially when they operate in fields which cannot be replaced by start-ups in the short term. (Schröder and Freund 1999)

In an interview the Upper-Austrian chairman of *Junge Wirtschaft* (young federal economic chamber) Bernhard Aichinger also highlighted the importance of successions as he said that like no other topic, successful company successions are deciding on the competitiveness of our state as a business location. He also mentioned that numerous companies are missing successors and only about ten percent of the enterprises make it into the third generation. If handovers fail or no successor is found then not only the founder's life work but also the irreplaceable experience and the know-how are lost as well as tens of thousands of jobs. In the Upper-Austrian market alone there have been 624 successions performed in 2016. Furthermore, prognoses are saying that between 2017

and 2023 there are more than 7000 successions. Consequently, around 60.000 employees are concerned. Therefore, the Austrian young federal economic chamber came up with hints which are discussed in detail in the subsequent chapters (JW OÖ 2017):

- Perfect planning is half the battle.
- Putting the cards on the table & leaving things behind (for senior).
That's the only way how the successor has a chance to take over.
- Courage to acquisition.
Acquisition requires courage, but it comes along with a bunch of benefits. For young people it can be an interesting alternative to founding a new company, for the simple reason that they can build on already implemented structures, customer relationships and valuable employees.

In the seniors` point of view the succession process gets a completely different meaning. A failure in either internal or external succession would mean financial damage to the enterprise as well as to the family. Even long-term consequences for their pensions are possible and in addition, there might be the feeling of failure. Therefore, there is no doubt that timely regulation of one's succession should be a top priority for entrepreneurs. "In time" does not mean at the end of the career but already with the beginning of entrepreneurial activity, because one thing is for sure: accident nor illness are waiting for you and occur at any age. (Kay and Suprinovič 2013)

2.2. The average Business Succession

First of all, it shall be elaborated what type of companies the majority of investors are currently looking for. Interesting figures regarding this issue have been acquired by the papers of Wieseahn (2015). The research shows that enterprise transferees are most likely to invest into the manufacturing sector with an interest of 50 %. Furthermore, trade (35.7 % of interested investors), information & communication such as software development & general programming activities (28.6 %) as well as the catering & hotel industry (21.4 %) are also increasingly in demand. The fact that also 28.6 % of the participants also do not ask for a specific industry but are generally interested in a successful equity participation can be seen as an indicator for a healthy investment environment as well as a certain investment pressure on the participating investors. The research further shows that most investors are still big players who would like to invest within one year into companies with an annual revenue of more than EUR 100 million. Enterprises with annual sales of EUR 10 to EUR 100 million are nearly similar popular. In the end only, micro-enterprises and small businesses seem to have it relatively though to find external investors. Therefore, it is not surprising that there are 81.5 % of seniors who would like to hand over an enterprise with an annual revenue less than EUR 10 million compared to 7.1 % of investors looking for this company scale. However, in his research Wieseahn (2015) discovered that more than three quarters of the participating family owned companies had less than 50 full time employees in the year 2013. More than the half had the legal structure of an GmbH, 22 % of a limited partnership and 13.4 % of a one-person-company. (Wieseahn 2015) This shows that even though of the high liability risks which come along with a limited partnership like it is Johann Bartak KG it is still common in practical use.

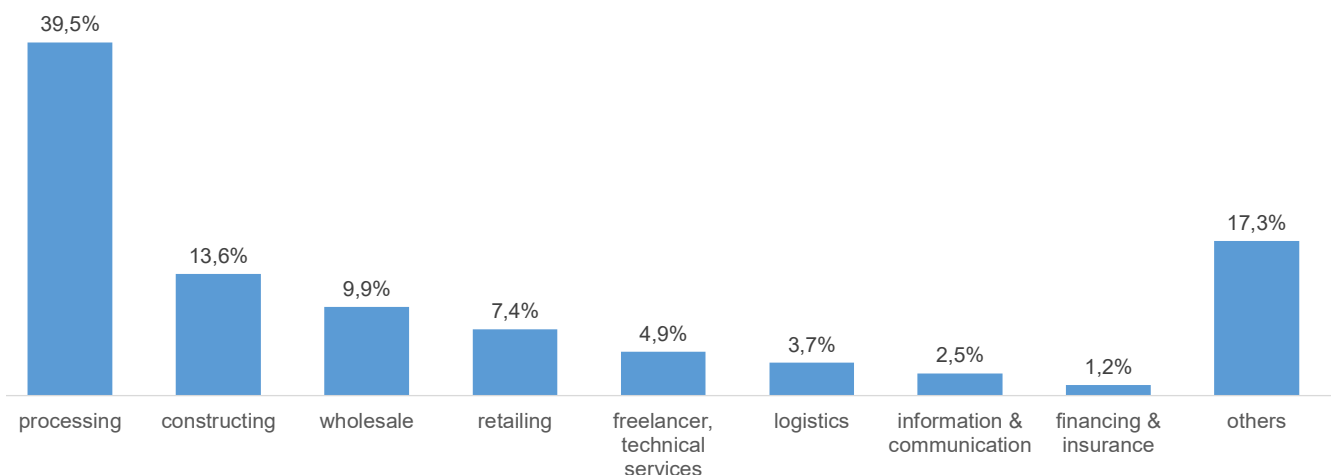


Figure 3: Industries of planned business transfers (Wieseahn 2015, adapted)

Another interesting aspect is shown in *Figure 3* when it comes down to the sector where the company operates in. As it can be seen most of the enterprises that plan to hand over are in the same field as Johann Bartak KG. In fact, it makes sense that there is a higher urge to keep running especially manufacturing companies compared to small family shops on the countryside due to the more expensive assets which are bonded. Furthermore, manufacturing companies are not as easily substitutable by another business. However, they normally also come along with a higher amount of necessary investment and workload.

Traditionally the management of a family business is burdened with a higher scope of workload than non-family businesses because they include less subordinate management levels. Therefore, Freund (2000) analyzed how this higher burden is quantitatively compensated in a correspondingly higher number of top management positions as well as qualitatively by a better education level of the leaders. It turned out that at average at the same company size family businesses show a higher number of top executive positions than non-family companies (on average 2.46 compared to 1.78 top executive positions). The number of academics per company is about the same, but the number of non-academic directors is much higher in family businesses. Furthermore, it turned out that the number of middle-aged executives (35 to 64 years) is slightly lower in family companies as it is in non-family businesses due to the significant higher proportion of young executives (under 35) and older ones (over 64 years) as it can be seen in *Figure 4*. (Freund 2000)

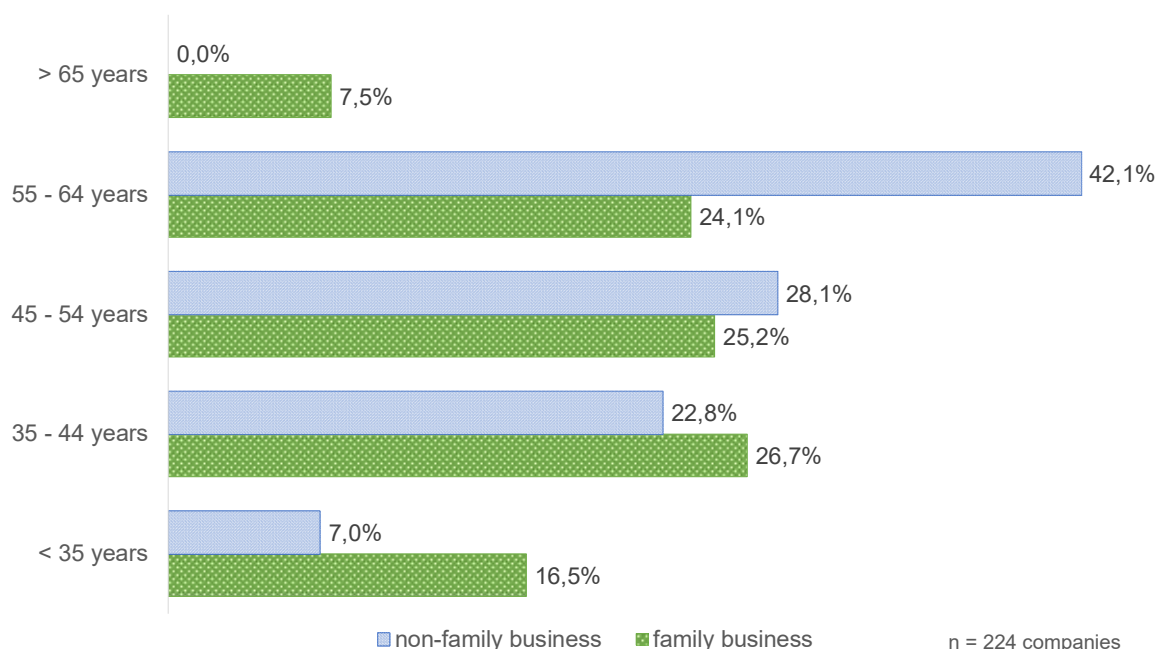


Figure 4: Age diversification of top management (Freund 2000, adapted)

Moving forward to the successors of family businesses it can be said that the current generation is most likely better prepared or at least higher skilled than the older one. Nowadays, 70 % of the juniors have graduated on an academic level and 44 % already have successfully performed in an external position with leading duties. Although, there is still some room for improvement compared to 69 % of successors at external companies who have leading experience before taking over the top management position. However, the most significant difference is still in age between generations as it can be seen in *Table 1*. The table shows that the resigning general partner of family businesses is in average nine years older than compared to non-family enterprises. Conversely the junior is eight years younger. Therefore, it is not surprising that the age difference is much higher between the generations. While family-businesses have to wait for the next generation to rise it is common for non-family enterprises to change management every eight years. This also correlates with *Figure 4* which shows the age distribution of the top management. (Freund 2000)

	Family business	Non-family business	Difference	Unit
Age of the predecessor	62.28	53.45	+ 8.83	Years
Age of the successor	36.84	45.22	- 8.38	Years
Age difference in between those two groups	25.44	8.23	+ 17.21	Years

n = 224 companies

Table 1: Average age of transferor and transferee (Freund 2000, adapted)

The different ages in which the seniors finally hand over their companies is given in *Figure 5*. The shape is just like presumed similar to a bell curve with its center at 51 to 55 years. More than 60 % of the involved entrepreneurs are between 46 and 60 years in age. Summing up the average senior is around 54 years old during the start of the succession process and owns a company with an annual revenue between EUR 2.1 and EUR 10 million. He also employs between 10 to 50 people and operates a limited company (GmbH) in the manufacturing sector. Furthermore, the succession is planned in eight years and a binding succession is not confirmed yet. (Wiesehahn 2015)

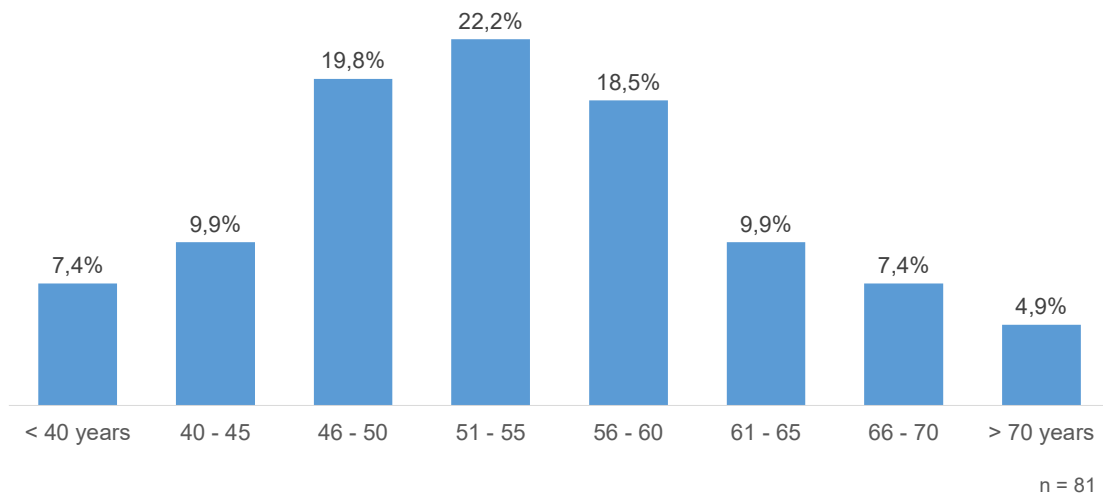


Figure 5: Age diversification of transferor (Wieseahn 2015, adapted)

Comparing these figures with the given case of Johann Bartak KG similarities can be seen like the operating field and the annual revenues even though it is already at the lower limit. Moreover, it seems that a GmbH is more common which is analyzed in more detail in *chapter 2.6*. Higher attention catches the average age of the senior at the begin of the business succession process because it differs most. Johann Bartak KG seems to start much later with the succession process than the average as the current general manager and owner Erik Eder is already older than 65.

2.3. The Succession Process

The business succession process for sure is an exciting and certainly nerve-wracking challenge for all its stakeholders. There are many different scenarios and drivers to consider and at least as many stumbling blocks that have to be overcome. In their literature Bossek and Letter (2015) define four players/fields which are involved during the process. There are the senior, the junior (successor), the employees as well as the corporate culture, whose psychological aspects are all intertwined. Most of the common literature about company succession concentrates on the first three players. Regarding the research in the fields of **family businesses**, attention is especially paid to the senior and the junior of course. Therefore, this paper also deals with the potential problems that can arise between these two protagonists during the succession process. Certainly there is no patent solution for successful business succession because every company and every player is different. (Bossek and Letter 2015)

However, there are several aspects that can be considered to make the success of the company transfer more likely. The remaining pages in *chapter 2* focus on these aspects.

Existing literature about succession covers a wide spectrum and includes many rough guidelines published by the Austrian Federal Economic Chamber as well as similar organizations around the world. As a consequence, the subsequent chapters are oriented on a guideline for family businesses published by Wolfgang Lust (2015):

- Deal with your succession at an early stage. Initial considerations should be made around the age of 55 to have enough time for preparing a transfer with 60 or 65.
- Carefully check the possible successor alternatives. A family-internal succession is probably not the ideal solution and not always available.
- The first objective engagement with the succession process could be in cooperation with your tax advisor.
- It is very important to give your children the freedom to do their own life planning. Do not put them under pressure in order to take one's inheritance.
- Even if there is visible interest, show them potential external experiences first.
- Clear and transparent communication about everyone's vision.
- Consequent exit of the senior from operational responsibility. It is essential to comply with the upon agreed schedule.
- Create clear responsibilities if there are several children in the company.
- One must take responsibility in the company.
- Avoid stalemate at partner level.

2.3.1. Modes of Company Succession

Due to the fact that there are many distinctive companies and players, it is not surprising to be confronted with a whole bunch of various solutions for the succession process. To gain a better picture these variants can be categorized into modes of company succession shown in this chapter. First of all, the process can be simplified to a basic process shown in *Figure 6*. The only aim of the whole mechanism is to shift a company between the senior and the successor (junior). These can be either handled in form of compensation or for free.

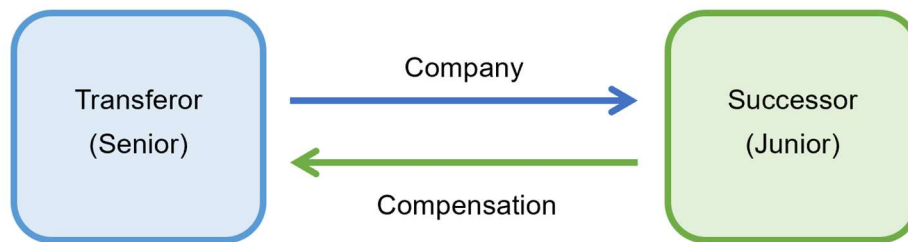


Figure 6: Simplified process of business succession (Jung 2015, adapted)

Nevertheless, as pointed out before the whole succession process cannot be taken for easy with all its complex interconnections and subsequent aspects. Its fields range from economic, fiscal, corporate, inheritance and especially psychological factors. Starting from the basic problem shown in *Figure 6* that the senior transfers a company to the successor either with or without compensation, the following seven categories shown in *Table 2 to Table 5* were developed using classification criteria. The system originates from Herbert Jung (2015) and gives an orientation in the field of business succession. Moreover, the seven categories can also be used as a first checklist that shows the different possibilities that have to be considered (Jung 2015):

1. Forms of Compensation
2. Forms regarding the Transferor
3. Forms regarding the Successor
4. Forms of Companies
5. Forms regarding the Scope of the Transfer
6. Forms regarding the dominant Drivers
7. Forms regarding the Transfer/Succession Strategy

Table 2 shows the different forms of compensation in a succession process. In an event of paid transfer, a successor provides compensation with the value of the company and the tax advisor must analyze the effects of income tax. In the case of free transfers, no compensation is given to the senior. This form is most common in family-internal solutions. In this case the effects of inheritance and gift tax must be considered. In the partial payment compensation less than the value of the business is provided and can therefore trigger both income tax effects as well as inheritance tax effects. (Jung 2015)

- | |
|--|
| <p>1) <u>Forms of Compensation</u></p> <ul style="list-style-type: none">a) Paid transfer (sale or purchase)<ul style="list-style-type: none">i) One-time paymentii) Instalment paymentiii) Pension paymentb) Free transfer<ul style="list-style-type: none">i) Giftii) Inheritancec) Partial paid transfer |
|--|

Table 2: Forms of compensation (Jung 2015, adapted)

Table 3 shows two different categorizations. On the one hand the forms regarding the transferor and on the other hand forms regarding the successor. These two categories show very well what kind of possibilities of transferor and transferee do exist. Especially considering the transferor it can be very crucial if he has the full decision-making. Regarding the categorization of the successor it is to mention that at the beginning of a succession process entrepreneurs of SMEs are most likely to seek their successor within the family. Afterwards they normally start looking in the circle of employees and only if they find no reasonable solution there, they think of a transfer to strangers or so-called “third parties”. (Jung 2015)

- | |
|--|
| <p>2) <u>Forms regarding the Transferor</u></p> <ul style="list-style-type: none"> a) One transferor/senior b) Several transferors <ul style="list-style-type: none"> i) Family internal persons ii) External persons <p>3) <u>Forms regarding the Successor</u></p> <ul style="list-style-type: none"> a) Relatives b) Employees c) Third parties <ul style="list-style-type: none"> i) Industrial sector related transferees ii) Non-sector transferees |
|--|

Table 3: Forms regarding transferor and successor (Jung 2015, adapted)

A family internal succession process is most likely preferred because the senior wants to sustain his entrepreneurial life`s work. But in that situation, it is of importance that the succession process and the legal order of succession are well designed. If there is the desire for an early regulation then an anticipated succession is most common. However, a solution within the family depends on whether there are any children at all. Otherwise, even if there are children the question still arises if they are willing and adequate for succession. Especially in young age situations like the regular work of the parents on weekends can develop a negative attitude towards the company over the years. Furthermore, young people of the so-called generation Y sometimes hesitate when it comes to regular work on weekends and few holidays calling for a better work-life balance. It would not be the first time that someone decides for a position with a more fixed timetable. Nevertheless, the hardest fact for seniors seems to be when they have to realize that their children are not suitable for continuing the business. (Jung 2015)

In the Johann Bartak case the current general partner has no children. That is why he decided to take someone he is familiar with in the expanded family circle. Considering the education and technical knowledge two nephews of his live partner came into consideration. Therefore, this case does not deal with a family internal solution in a narrower sense (no blood relation) but at least Erik Eder had two potential candidates within the broader family to rely on. In the end one of them (the author of this thesis) decided to accept the legacy. Consequently, one of the most important prerequisites for the senior of Johann Bartak KG are already fulfilled.

- 4) Forms of Companies
- a) Industry sector
 - i) Sector with profession regulation
 - ii) Freelancers
 - iii) Other industries
 - b) Legal form
 - i) Sole proprietorship
 - ii) Partnership
 - iii) Corporation
 - c) Ownership structure
 - i) One owner
 - ii) Several partners
 - (1) Only family internal shareholders
 - (2) Also, non-family partners

Table 4: Forms of companies (Jung 2015, adapted)

The different forms of companies regarding industry sector, legal form and ownership structure are shown in *Table 4*. These aspects are to be thoroughly analyzed by the successor because the takeover is going to influence his future life significantly. The potential of the company highly depends on the industry and therefore the transferee should know and also understand the particular sector. (Jung 2015)

The foundry industry for example has been a regimented business field until some years ago. Due to the small number of new registrations it then became a sector without profession.

The legal form of an enterprise has significant influence regarding the corporate design as well as tax structure for the succession process. Depending on the ownership structure, conflicts of interest and goals may arise for the design of the company succession. Cases with just one owner are only possible with either a sole proprietorship or a corporation if all the shares are held in one hand. In these cases, the succession processes have shown to be much easier because there are no conflicting goals, as the transferor side is only staffed by one person. The opposite is the participation of several partners in one company which exists in partnerships or corporations. (Jung 2015)

Even though Johann Bartak KG is a limited partnership it cannot be put into the same pot. This can be explained by the full authorization Erik Eder holds. He alone is the person to decide for this succession process and is not held back by any conflicts of interest.

- | |
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| <p>5) <u>Forms regarding the Scope of the Transfer</u></p> <ul style="list-style-type: none">a) Simultaneous transfer of general partnership and propertyb) Gradual transfer of management and property <p>6) <u>Forms regarding the dominant Drivers</u></p> <ul style="list-style-type: none">a) Dominated by economic designb) Dominated by corporate designc) Dominated by inheritance lawd) Dominated by tax lawe) Dominated by psychological aspects <p>7) <u>Forms regarding the Transfer/Succession Strategy</u></p> <ul style="list-style-type: none">a) Family internal solutionb) Salec) MBO and MBI (Management buy -Out/-In)d) Foundatione) Liquidation |
|--|

Table 5: Other forms of categorization (Jung 2015, adapted)

In *Table 5* it is possible to see the remaining categories. Regarding the scope of transfer the practice has shown that the gradual transfer is especially common in family internal succession processes. Then often the general partnership is transferred first and then later in a second step the property rights. However, for the transfer of the property there are again several ways to design and handle the process. In the seventh and last category forms regarding the transfer/succession strategy it is basically decided which way the senior wants to go and determines the future of the company. Therefore, it is one of the first and most important questions to the transferor. (Jung 2015)

Even though Liquidation is also listed it cannot be seen as a real succession strategy because it means the shutdown of the company. However, sometimes after a failed succession even the sale does not work out. This can be on the one hand due to the fact that there is no prospective customer at the desired time or on the other hand, the expectations of the purchase price cannot be met. Another struggle can arise during the transfer process when the point of views between the two generations regarding corporate strategy and the lived culture are just too different. (Wegmann 2015)

However, it has to be recalled that Liquidation due to missing potential for success of the company causes a natural cleaning of the market. Furthermore, it should be always considered at the beginning of the succession process before it happens in an unexpected way and bears risks for the family. After all it is already the most frequent solution for SMEs after the family internal transfer. However, plenty of those cases are due to missing successors or a failed succession and therefore undesirable.

After getting a broad picture of the whole succession process and its different modes it is not surprising that many guidebooks – especially those published by federal organizations – recommend the use of special transfer consultants. This external help can be in form of supervision within the family, the search of transferees and all the way up to highly professional mergers & acquisitions (M&A) transactions. Therefore, the task of the transfer consultants is not only to accompany and support the entrepreneur during the entire takeover process, but if desired even beyond. These special expert groups bring together consultants with excellent know-how in the highly complex field of business transfer. They should be certified and prove experience in reference projects (Hödlmayr-Gammer and Reischauer 2017)

2.3.2. Different Strokes for different Folks

While membership in a family is tied to a lifetime, membership in a company is functional. Employees perform a certain position which is usually formally defined and interchangeable. For family members there are neither roles nor functions which are formally fixed, and furthermore family relationships are expected to change in the course of time. In contrast to the family member, the value of an employee does not result from the wholeness of his person, but primarily from the functions to be performed. While the recruitment in a company is based on factual considerations, the access to a family happens fatefully through birth. (Heider 2017)

Here the question arises whether it is still reasonable to stick to the traditions with a family internal solution or if there are any other common modes around the globe.

2.3.2.1. Company Succession in Japan

For sure most of the people in Europe have not heard of adult adoption. However, in Japan, the adoption of adults is seen as a form of social mobility and is considered as honor for the adoptees as well as their real biological parents. Surprising for western people is the fact that it became so common in Japan that adult adoption accounted for 98 % of the more than 80,000 adoptions in 2000. The adoptees are in average more than twenty years old and must be at least one day younger than their adoptive parents. This system is also used to regulate company succession if the entrepreneur does not have children. In that case the adoptee acquires the name of his adoptive parents and takes care of them. However, this type of transfer is by no means limited to childless directors of family businesses at all. In fact, entrepreneurs use this opportunity when their own sons are not considered capable of leading the family-owned business. Furthermore, it is still not customary to hand over the family business to a daughter. In this case, the daughter is then usually married to the adopted son. (Gottschalk et al. 2010)

At the beginning this might sound very unfamiliar but in an economic aspect as well as considering the struggles during family internal successions it seems to be a very rational solution.

In their book Mehrotra et al. (2010) a research has been conducted about the performance of Japanese enterprises using this form of adult adoption. It seems that this uniquely Japanese custom allows family firms in Japan to overcome the constraints of sub-optimal succession faced by family businesses elsewhere. The results show that companies that have been handed over through an adult adoption program are developing significantly better than others. This success can be explained by a double selection: On the one hand, adoption-willing men try to ascend in Japanese society. On the other hand, the adoptive father in turn seeks a promising successor with qualities he can check beforehand like his previous experience including the visits of elite schools and universities. The match is therefore perfect. Due to the fact that this system has become a lived Japanese culture additional advantages can be pointed out. While non-family managers are making special efforts to obtain the honor of adoption, the biological sons

are under particular pressure in fear of being replaced by adopted sons and try hard not to rest on the inheritance. After all, in the end untalented sons are denied for the succession. Therefore, it is not surprising that adopted heirs only display marginally superior performance compared with direct descendants. In the end both groups outperform non-family firms in Japan. (Mehrotra et al. 2010)

Therefore, the importance of family businesses seems to be similar to the German speaking countries. Additional correlations are that both successor groups are better educated than the founders and that the average tenure of adopted heirs as well as descended heirs is 20 years in the top executive management what is significantly longer than the tenure of professional CEOs (6 – 8 years). (Gottschalk et al. 2010)

2.3.2.2. Germany and Switzerland

The system of adult adoption is a very interesting culture and might find a place in other countries around the globe as well. After all it seems that Austrian and German entrepreneurs have a lot of trouble with the succession process as underlined before. A similar situation can be found in Switzerland.

In that small Alpine country around 75 % of all SMEs are family businesses what sums up to 375,000 enterprises with 1.6 million employees. Compared to the data collected by Credit Suisse in 2004 and 2013 these figures are decreasing. The Credit Suisse group explains that by two possible drivers. On the one hand there is the economic aspect due to the fact that especially industry sectors have been improved which are not shaped by family businesses like health care. On the other hand, they are also fighting with the social changes in recent decades that have led to more and more descendants of entrepreneurs who seek a career outside the family business. In other words, children nowadays are less willing to take over the enterprise of their parents. It is already so critical that more than half of the companies are performing a family external succession. Just 34 % of the SMEs are still seeking for a family only solution. In 2013 it was exactly the other way around. Most common forms for the external variant have been MBOs (25 %) and MBIs (17 %) over the last years. Especially the latter one happens currently more often than originally planned by the seniors. Moreover, according to trends, the problems of finding a suitable succession are still going to increase in the near future. More than half of the SME managing directors are between 50 and 65 years old and belong to the Baby Boomer generation. Therefore, the retirement of this generation over the next 15 years will likely lead to significantly more company successions. At the same time the next generation is growing at a much slower rate. As a consequence, there is going to be an increasing shortage of potential successors over the next 15 years. One possible strategy to fill this emerging gap could be the greater consideration of female managers. Even though the proportion of women at the top of swiss SMEs has been increasing in recent decades they still account for just under 10 %. (Andric et al. 2016)

2.4. Phases of Succession

While dealing with the modes of company succession in *chapter 2.3.1* it was already shown in *Table 5* that the succession processes can be characterized by Forms regarding the Scope of the Transfer and is divided into Simultaneous transfer of general partnership and property as well as Gradual transfer of management and property.

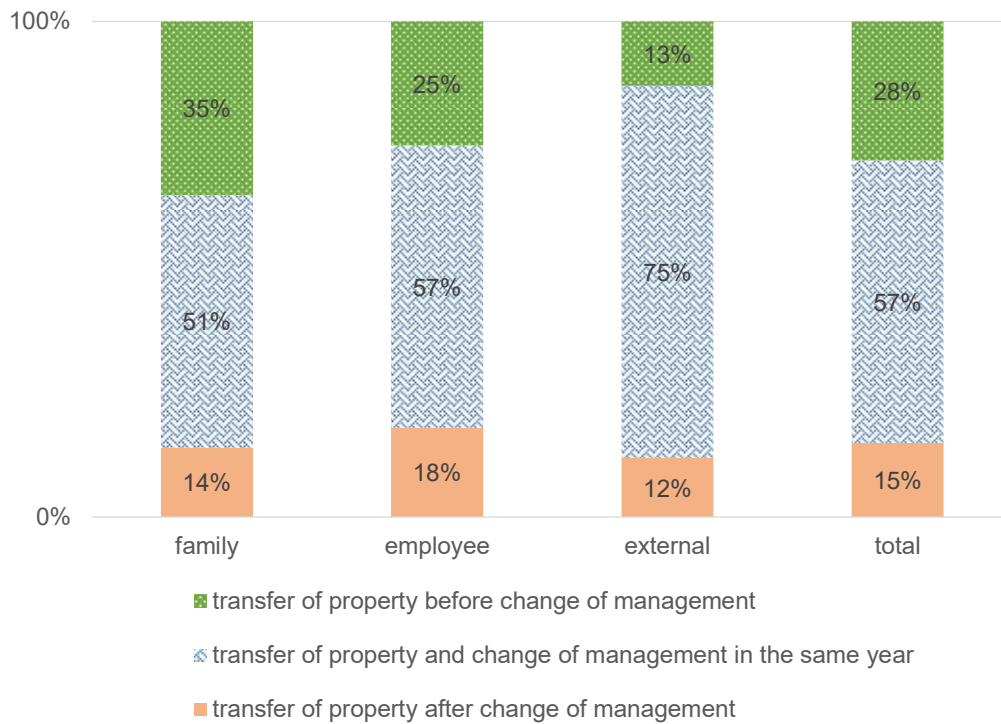


Figure 7: Sequential arrangement of business transfer (Gottschalk et al. 2010, adapted)

Figure 7 shows the sequential arrangement of business transfers regarding the change of management and property. Furthermore, it points out the difference of sequencing between the origins of the successors (family/employee/external). As it can be seen in the last column, 57 % of all the owner-managed medium-sized family businesses perform the change of management and the transfer of property to the successors in one year. For the remaining 43 % of the companies these events take place at different times. In the figure it is also distinguished between a family internal, a company internal (employee) and a company external succession. In the case of a succession within the family, about half of the businesses are transferring both general partnership and property within one year. For enterprise internal transfers this counts for 57 % and for external companies it is even much more common to become managing director and owner within one year with 75 %. Nevertheless, with at least 13 % in the case of an external takeover, a transfer of ownership takes place even before changing into the position as general partner. (Gottschalk et al. 2010)

In *Figure 7* it can also be seen that nearly half of all family internal transfers take more than one year until full completion. At this point it is necessary to take a look at the classical picture of a family business. At young age the successor begins as an apprentice in his father's company and gradually rises through hard work side by side with his coworker in the leadership hierarchy of the family-owned company. Finally, very early or just after the end of his training he becomes general partner of the family business. At the end of the process within or even after one year he holds the sole or shared management of the enterprise. (Gottschalk et al. 2010)

Nowadays this classical stereotype is kind of old-fashioned due to the fact that it became more and more important to go for a higher and time consuming academic degree. For sure successful entrepreneurs enable these possibilities to their children with the downside that with a possible additional external experience the successors do not have that much knowledge about their own family business anymore. Therefore, the traditional way of rising up within the own company became quite rare nowadays. Contrariwise it is more common to enter the company directly at a higher position.

After visiting plenty of small sized businesses around Austria the question arises if it is convenient for the entrepreneurial families to invest into a high academic degree of their children even if they in return miss the experience as blue-collar worker at the very low shop floor level getting to know the production as well as the properties of the product first hand. After all the family holds a successful enterprise which ensures a good living and therefore to be honest no title of an academic degree is needed at all. Many practical examples have shown that more and more successors are entering the family business at a higher management level right away and that therefore the transfer of ownership as well as preparation for the general partnership usually takes several years (Gottschalk et al. 2010).

That brings up a whole succession process with different phases which are presented on the following pages. In their paper Wandl and Habenicht (2013) enhance the importance to start early. The common literature generally recommends starting at least five years before the planned transfer. This long-time horizon is explained by the opportunity for all stakeholders to design various options in time and then join the path of generational change together. Basically, the succession process can be divided into three big phases where each one includes different tasks that have to be tackled (Wandl and Habenicht 2013):

Phase I:	Before handover/takeover
Phase II:	During handover/takeover
Phase III:	After handover/takeover.

A planned and orderly process is an essential prerequisite for successful business succession. For the senior, it ensures that the best way is found to achieve his goals and minimize the risks which come along by just overlooking essential aspects. But also, for the other stakeholders involved either directly or indirectly like the successor, other family members, employees or even banks are provided with a higher security when the follow-up process is well planned, and all its phases are considered. Therefore, after having the resolve to deal with the topic of succession one of the first steps for the senior must be to communicate early with all participants. Via this way the entrepreneur is able to concretize his goals and to recognize the needs, sensitivities as well as expectations of the other stakeholders. (Brass 2015)

Dealing with the **phase I** it is also a very important step for the senior to define the goals himself. Probably he already has rough ideas in his mind regarding what he wants but at this point he should definitely start to bring them down on paper. For this purpose, the categories shown in *chapter 2.3.1* already give a great guideline and point out the different opportunities. Even though there is one certain favorite solution to each senior they should also draw different scenarios because there are many practical examples where it did not turn out as planned. Afterwards the best three schemes have to be described in more detail. Especially if the first scenario is the common and admired way of family internal succession the senior must be certain about his own expectations regarding the transfer conditions. On the one hand this process can serve for the good of the family business and the ultimate goal is to keep it running. Therefore, the senior hands it down for free. On the other hand, the successor can also be charged to some one-time or even long-time compensation by the former owner. Questions taking place in the phase I: Before handover/takeover are (Wandl and Habenicht 2013):

- Who should (wants, can) take over and when?
- What are the expectations of the transferor and the transferee?
- Who is not interested and how do you deal with them?
- What is the economic situation of the company?
- What has to be preserved, what is there to renew, what visions are there?

When the senior has gathered promising solutions, he would like to aim for, then he can finally start putting them into action. Depending on the preferred scenario he gets into contact with the already informed transferee or with an expert who helps him. In the first case he must explain that chosen person that his final solution includes him as successor and they should start with the planning period together. Coming so far, the first phase of the succession process which is more senior oriented is already fulfilled. (Wandl and Habenicht 2013)

Sooner or later in **phase II** “*During handover/takeover*” all the different scenarios will need external help. This can be in form of the already mentioned specialized transfer consultants or for example the tax advisor of the family business who should be familiar with the company and the senior. A lot of SMEs are going for the second option because they think they are too small for an experts’ group. However, the anecdote in *Table 6* should make some people rethink this particular mindset.

During my preparations I visited different events regarding the succession process as well as the founder fair in Graz. At one enjoyable evening I got to know a very interesting and enthusiastic man. I have to admit that back then I as a mechanical engineer had no idea what his company (one of the “*Big Four*”) was like and just knew that he is a tax advisor. After his presentation I explained him my current situation and wanted to get some small feedback as well as some inspiration if I should go for the succession of Johann Bartak KG or not. Even though his presentation at that evening was one of that type which underlined to be cautious he said right away “YES” and invited me to call him once I need an advice. I am still grateful for the information he gave me that evening. Especially after finding out that this person was no other than one of the partners of his enterprise. At the end I asked him if his company also guides a small company like Johann Bartak KG through the process of succession and how this would be handled. I was not only surprised that it seems to be common but also by the fair price. The only downside of such a professional company might be the fact that they want to work with the customer for a longer period of time in form of accounting tasks which are more expensive than the average market. Nevertheless, the outcome showed that small companies do not have to be afraid of going to the big players asking for an experts’ group and in many cases it is recommended to do so. In the end Johann Bartak KG decided to go for our tax advisor due to the good relationship and a clear plan we would like to go for.

Table 6: Anecdote to choose external help (own design)

At this point the senior either has its successor or an external expert by his side. Now they can go through their expectations together and start with the real planning period. Federal organizations recommend especially in cases of step-by-step transfers to create a timetable with a horizon of two to five years. The schedule should be generated in cooperation of the senior and successor with different milestones in a binding manner. (JW OÖ and WKO 2017a)

Additionally, phase II includes following questions (Wandl and Habenicht 2013):

- Which different roles does everyone have?
- Which experts for legal form, company evaluation and shares are to be integrated?
- Who coordinates and moderates the whole process?
- How should risk factors be evaluated and inherited?
- Has been taken care of the financial security of the senior?
- How is the resignation designed?
- How should the transfer process be communicated in-house and to the outside?

Thrown in at the Deep End

In the Johann Bartak case I think it can be literally said that I was thrown in at the deep end. After my uncle asked me in December 2017 during my last academic year to take over Johann Bartak KG as his successor, I answered that I would need some time to think about it. I suggested that I should definitely do an internship in February and that I could write my thesis about the whole process. He was keen with that right away and so the whole process started.

Especially at the beginning of the practical training I was completely overwhelmed. The first day it started as expected with a tour around the company and a small introduction to certain employees. After some hours we called it a day and I went back home to prepare for the first real workday. My uncle is not in-house at fixed times and therefore he gave me full rein over the internship myself. I decided to start early at 6 a.m. with the blue-collar workers to show them that I would handle things differently compared to my uncle.

The first blow did not wait for long and came just right after entering the old building. A worker was standing at the entrance, looked at me and formally said "Good morning boss". I completely surprised took it with a sense of humor and explained that I am not the CEO yet and that they should not use the formal form speaking to me. The second blow came right away when I realized that there will not be anyone telling me what to do at all and that I have to define my work myself.

Therefore, I went to the foreman to ask where I could help but instead of working we started a very interesting and long conversation about the current situation of the company as well as the different problems. One aspect stood out and dealt with the lack of real leadership. Unfortunately, some years ago a group of very important people left the family business one after the other. Among them was the former COO who actually managed the whole operative part of the enterprise over years. Two hours later the foreman gave me one more tour through his area of responsibility explaining the process in more detail. Afterwards I decided to meet the other division manager on the second site which can be reached by a five minutes' drive. Once again instead of working we started a long and detailed conversation. Confirming the problems of the first foreman I realized that there will be plenty of things to do beside the missing investments.

Luckily it was Fat Tuesday and it was tradition to have a small carnival dinner with Leberkäse and beer after work. This occasion was ideal to let my uncle formally introduce me one more time in front of all the employees and both of us hold a small speech. A real surprise against all my expectations on that day was the circumstance that I had the feeling that the workers were glad to see me. Normally as I have experienced it before on different construction sites in different countries there is the fact that "youngsters" get a hard time at the beginning. Especially in rough hard-working fields as a so-called "newbie". Nevertheless, this time it could have been a result of relieve as there has been rumors that the company would shut down. Although this has actually never been an option to my uncle. Furthermore, the workers have been craving for leadership after the resignation of the former COO.

The rest of the internship I have spent right away in the executive chair confronted with all kind of tasks. During this period, I used every single chance to meet collaborating companies as well as our customers to introduce myself. Therefore, the communication in-house and to the outside was done the unconventional way but it seems that I was able to prove myself in the first instance.

Table 7: Anecdote of the first days (own design)

The short episode in *Table 7* shall underline how crucial it is to inform all the stakeholders about the status of the succession process as well as the importance of introduction. Furthermore, the anecdote points out very well that this might not be the ideal way to handover a business without a CEO nor COO who trains you for the daily business for a longer period of time. Nevertheless, even though there are not always the ideal circumstances the story points out to gather as much information as possible right at the beginning to achieve a rough but complete overview of the current state of the enterprise.

In the end the start of the internship might have been very tough and maybe it is not the traditional solution, but it was definitely not too bad at all. Summing up it laid the first foundation towards a positive succession process. Furthermore, during this thesis it has already been decided that the author takes over the family business and a meeting with the tax advisor has taken place to initiate the next steps. Therefore, the succession process of Johann Bartak KG exactly fits into phase II. The next important milestones for the company include the change of the legal form and to complete the business transfer after graduation of the author in 2019. Additionally, it will still take several months more to understand every single process step in detail and to further improve the knowledge about the casting industry. Every week there is something new and as it is like everywhere else, *you live and learn*.

Accordingly until the next milestones **phase III** of the succession process “*After handover/takeover*” is still some way to go for Johann Bartak KG. There are also questions regarding the final phase but some of them should be considered already in an earlier stage (Wandl and Habenicht 2013):

- Which questions/topics are still open from phase I and II? (Readjustment)
- How can the power of newness and change be best utilized?
- Are there still conflicts and how can they be addressed/solved?
- How well is the transferor doing within his new tasks and roles?
- What kind of support is needed?
- What challenges are there for internal transferees as well as external ones?

Basically, the three phases mentioned above give a perfect overview about the different stages which have to be undergone by the entrepreneurs during the succession process. Nevertheless, in the common literature there are plenty of other descriptions of the succession process and often with a higher grade of detail including more than three phases. To present a broad and clear picture two of them are mentioned shortly in the following two figures.

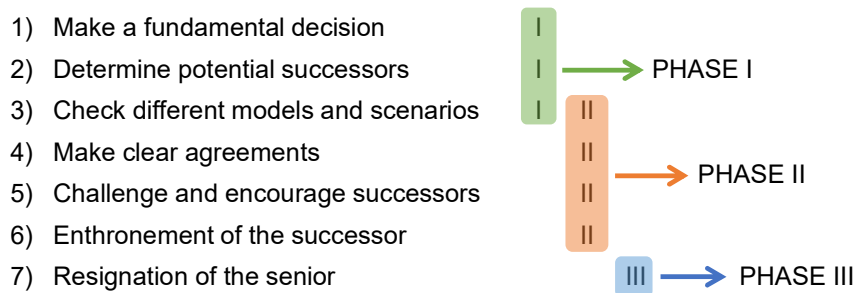


Figure 8: Seven golden rules (Hahn-Oberthaler and Obermüller 2017, adapted)

In *Figure 8* the seven golden rules of transferring a company by Hahn-Oberthaler and Obermüller (2017) are shown. As it can be seen all of the seven rules are covered by the three phases. The first two rules have already been discussed in the previous chapters. The third one “check different models and scenarios” also includes checking the status-quo of the company like in *chapter 3*. That part is very supportive to answer important questions like if there is potential for success with the current business model. Therefore, the examination of the status-quo can already lead to crucial decisions that ensure sustainable success. The fourth rule “make clear agreements” is mentioned more often in this paper because it plays an essential role in family successions and stood out as one of the key drivers during the overall study in this thesis. This rule also finds a more detailed passage together with the remaining ones when it comes to the psychological aspects in *chapter 2.5* that deals with challenges and recommendations. The fifth rule can be a very difficult and crucial task nowadays to keep the successor trying as well as interested. Therefore, it demands a very instinctive and caring sense of the senior.

Hödlmayr-Gammer and Reischauer (2017) also published seven scenes of company succession which are more senior oriented. Most bullet points focus on phase I referring to the senior's point of view even though they should be reviewed in phase II together with the successor:

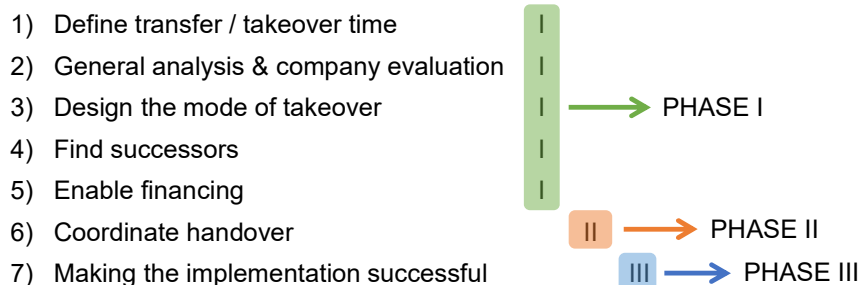


Figure 9: Seven scenes (Hödlmayr-Gammer and Reischauer 2017, adapted)

As it can be seen in *Figure 9* even though these scenes have been looked at from another point of view they are showing similarities with the other two structures shown before. Nevertheless, Hödlmayr-Gammer and Reischauer (2017) are writing about the legal form and aspects in more detail than the common literature. Therefore, some of these scenes can be found again in *chapter 2.6* that deals with the basics of legal and tax aspects. In their last point “making the implementation successful” they show similarities to rule six and seven from Hahn-Oberthaler and Obermüller (2017) but even go one step further with the consideration of other stakeholders and mention facts like (Hödlmayr-Gammer and Reischauer 2017):

- The formal takeover in front of customers, employees, suppliers and other partners.
- The introduction of a control system for the planned transfer and a monthly evaluation.
- Regular implementation of strategic decisions in management meetings and the integration of important employees.
- Active and personal communication with employees and other collaborators to keep them informed.

These bullet points refer to the time when the successor has taken over and counts for both situations either he is new to the company or not. In the first case it is crucial that the transferee allows and accepts the accompaniment by the senior especially in owner-centered family businesses even though he cannot await to take over. For the sake of clarity, both entrepreneurs should fix duration and roles of the succession process together. That also ensures that there is still enough time for the transferee to find orientation within the company. Furthermore, it must be in round terms that making mistakes is allowed. (JW OÖ and WKO 2017b)

However, this is only possible after the takeover when the junior has to show his skills in the final position. Unfortunately, if it then turns out that the successor does not want to take over the management task or is not suitable for it then a crisis arises. In case that a sale is still possible the senior might not mind but the company suffers under this situation. For an alternative successor solution, it is usually too late. Thus, there is an enormous pressure that the transfer succeeds right away. Therefore, a correspondingly timely and carefully planned succession process is crucial for a sustainable business. (Freund 2000)

Finally, in *Table 8* it is shown how long the average succession process takes from the selection of candidates until complete takeover by the transferee and the resignation of the senior. Moreover, it is differentiated again between family businesses and non-family enterprises. Not surprisingly it can be observed that the time taken for the latter ones is much shorter considering the fact that the average tenure of CEOs with six years is also much shorter than the tenure of a general partner in a family business. (Freund 2000)

Average time taken	Family business	Non-family business	Difference	Unit
Choosing and recruiting the successor	7.19	3.22	+ 3.97	Months
Orientation of the successor	17.39	5.20	+ 12.19	Months
Complete resignation of the senior	24.06	6.55	+ 17.51	Months

n = 224 companies

Table 8: Required time for business succession (Freund 2000)

2.5. Challenges and Recommendations

In order to solve an economic problem, the traditional common knowledge of business economics says that someone must think in different scenarios and that the best one must be selected from a financial point of view. A good picture about the solutions that can be used and that there are many possibilities with sometimes just gradual differences has been shown in the previous chapters. The ideal scenarios have to be cleverly selected and combined. Moreover, it should be noted that in the course of the process originally pursued alternatives are sometimes no longer prove to be realistic or even fail for certain reasons but there will also be new possibilities open up. In that case there is no sense in blindly sticking to the old plan. Especially when it comes to the business succession within family companies sometimes all the theoretical knowledge about economics gets thrown overboard. After all there are a lot of feelings mixed into the relationships of the stakeholders and that is not to be underestimated. (Lutz 2015)

In the following chapter it will be highlighted that this is one of the biggest challenges in business succession. First of all, different challenges are pointed out in short paragraphs and categorized regarding the different phases shown in *2.4 Phases of Succession*.

Phase I

Medium-sized family companies are particularly often confronted with so-called 'risk cases'. These special situations happen in person centered processes which often all run together at the entrepreneur himself. In case of absence or resignation of the senior it is common that a significant leadership vacuum is created in the company. Therefore, a separate risk management system next to the planned succession can be implemented. (Freund 2000)

The problem of leadership vacuum has also happened at Johann Bartak KG over the past years. However, not due to the resignation of the senior but the absence of the former COO. As a result, there have been losses in both performance and acquisition. That also lead to a decrease of the annual revenues. Nevertheless, in many family businesses it is also partly caused by the senior himself who is willing to let this happen. After all it is one of the most important rules at larger companies that everyone is replaceable with no exception.

Particularly at such person-centered enterprises it is important that the senior is willing to guide the transferee into his position. For this purpose make sure to fix the roles as well as the schedule of the succession process. Making mistakes must be allowed. (JW OÖ and WKO 2017b)

It is also reasonable that even family successors are not receiving any financial surpluses presented on the silver plate and that they are going to start in a very time intensive position. Therefore, it is not only to be considered what is "possible", but also what is "wanted". For sure the family successor gains some source of income but this usually does not come without alternatives as he could also work somewhere else. (Lutz 2015)

Another challenge in this context is the assessment for the right company value. Normally the transferee tries to determine the worth of assets and the potential for success in an objective and professional way. However, it is not unusual that the transferor values the company's assets and future prospects differently. Both perspectives must be sensitively combined in the process of negotiation for the compensation. (Wieseahn 2015)

Golden rule number 2: “*determining the potential successor*”

Only when the senior has overcome the mental and emotional hurdle of the fundamental decision to hand over the business the succession process starts. Then the definition and screening of the successor's technical as well as human competencies have to be done. Keep in mind that an objective point of view within the family is most probably difficult to obtain. Therefore, following recommendations can be underlined (Hahn-Oberthaler and Obermüller 2017):

- A critical opinion from the outside can be quite helpful.
- Motives of all those involved should be discussed as open as possible. Especially during family succession there are often a variety of unspoken expectations. This can be caused either unconsciously or by the fact that they are assumed as "*family laws*" which have to be followed anyways.
- It is very important that the successor is not just entering the family business due to sense of duty towards the transferor.
- A family culture based on trust should not have any unspoken expectations between senior and junior at all.

Beside the fact that the traditional way of family succession with a start as trainee and the rise within the company has proved to be successful it can be seen in praxis that the new generation is going for other possibilities like an academic degree and/or external experience first.

Federal organizations advise to gain acknowledgement at external institutions first before standing up for the succession. That would be the only way to go through the process with confidence. Otherwise, there could be the fear of missing out another possibility and it is difficult to claim the position within the family business without external awards. (JW OÖ and WKO 2017b)

Phase II

In the common literature it is possible to find plenty of problems and advices regarding the phase II of the succession process. However, in the paper of Freund (2000) it is possible to find a broad collection of these drivers which are adapted in the following bullet points:

Problems:

- Psychological aspects regarding the affinity or distance between the junior and the parents/family business.
- Huge age gap between two generations and the therefore required acceleration of the maturing process of the junior plus the time pressure.
- Mixing up family and business sphere.
- Expectations and additional conflict potentials during succession process.
- Difficulties to keep up the business itself.

Advices:

- Gradual increase in tasks and areas of responsibility of the successor.
- Clear definition of the areas of responsibility of the successor and the senior.
- Planning the optimization of financial and fiscal aspects as well as the partnership agreement.
- Mixing of generations within the company.
- Assistance of the successor at the beginning, making sure he has an experienced supervisor by his side.
- Taking measures for the upcoming succession.
- Making changes step by step and explaining them.
- Extracting the private assets of the senior from the loan security of the company.
- The senior should prepare actively for his retirement to avoid helplessness.
- Involvement of an advisory council during the succession.
- Clarifying rights of inheritance by other family members.

Keeping an eye on at least some of these different aspects can already simplify the succession process to an high degree and make it more likely to be successful.

Phase III

Finally, when the successor has taken his position as managing director he must prove to the stakeholders (senior, family, employees, customers and suppliers) that he is a successful entrepreneur and that he was not chosen exclusively through birth. It is important that the junior overcomes the "handicap of birth reputation" to assure the acceptance of the whole enterprise and to win the constructive co-operation of all stakeholders. (Freund 2000)

After mentioning all these obstacles which can occur during the succession process there is one more reminder regarding the use of professional externals like transfer consultants or the tax advisor. A survey of Wieseahn (2015) showed that 78.6 % of transferees and 95.5 % of the transferors are planning to include external consultation. This underlines the importance of professionals and that they are widely accepted. (Wieseahn 2015)

2.5.1. Psychological Aspects

The succession process bears a lot of challenges. Most of them are quite obviously but some are hidden and cannot be realized right away. Those are the psychological challenges which have a crucial influence on the generation change. There are whole books just examining this single topic and they are still not able to catch every single aspect. (Bossek and Letter 2015)

Nevertheless, the most important components are considered in this chapter and underline how crucial they are.

The most important opposing interests are present between (Freund 2000):

- The transferor and the transferee.
- The transferee and the family.
- The transferee and the executive personnel.

Between these different players it is not only the difference in interest and perspectives but also the age gap which leads to conflicts. Generations can be so alternating regarding the experience, likelihood of taking risks or the imaginative power for different futures for the company. Often the senior expects the juniors to use their know-how and dedication to direct the company the same way as he did. Yet especially successors with a strong sense of entrepreneurship will even though they appreciate the ancestor go their own way giving a personal note to the enterprise. (Freund 2000)

Psychological Aspects in point of view of the Transferor:

The senior who sometimes also is the founder has spent his whole lifetime to build up his family business. Usually he is the one who shaped the company culture with all its values. Nevertheless, the point will arrive where he has to realize that it is time to hand over the executive chair. Often it is the case that a succession fails because the senior does not accept to give up his beloved lifework. Sometimes it is also the fear of losing the single thing who made him the man he was. After all there are lot of executives who had to experience it the hard way that in the economy it is not the person but the position who is important. Therefore, it is crucial that the senior becomes aware of his wishes and goals. Furthermore, he needs to define tasks he would like to fulfil after resignation. Therefore, in a psychological point of view his main focus must be on setting new impulses and searching activities far away from the entrepreneur's everyday life. (Freund 2000)

Psychological Aspects in point of view of the Transferee:

With the company handover the transferee does not only take responsibility for financial and strategic aspects but also for all the employees. It is the soft drivers like human relations, communication, job satisfaction and corporate identity which have a significant influence to the business (Bossek and Letter 2015). Due to interconnections between the family and business sphere, it sometimes also plays a critical role for the junior to separate from his parents first before he can take real responsibility and show personality within the family business (Freund 2000).

Nevertheless, the biggest fear can be the fact of being responsible for the employees' future. In that case any future entrepreneur should remember that he is not alone. In some cases, there is no senior behind him but there are employees who are working hard as well to secure their own future and maybe even the companies one due to identification. In the case of Johann Bartak KG it was also possible to see that the staff is willing to keep the family business running even though some of them are always complaining. However, for sure the responsibility is huge and will always stay in mind. Additionally, it can always be a relief to have a family believing in someone as backing.

Another task is the positioning in the public. Questions are arising regarding how the successor wants to present himself as well as the whole company. Furthermore, the leadership style plays a quite important role and has to be consistent. It cannot be changed frequently and will have a significant influence on the employees as well as the future working culture. Moreover, the previous leading style must be considered but cannot be copied. (Bossek and Letter 2015)

Psychological Aspects in point of view of the Corporate Culture:

It is generally difficult to grasp the idea of a corporate culture and often the official one does not fit to the actual lived one. Additionally, most of the employees will not be able to put their own companies' corporate culture into words or even know the official statement of it.

Nevertheless, this is the driver which is responsible for the thinking patterns, behavior structures, moral concepts and expectations which are actively performed within an enterprise. Therefore, it is not only the hard facts like strategies and structures but psychological aspects also called soft drivers which influence the performance of the company. (Berkel and Herzog 1997)

Additional recommendations to make the implementation successful regarding the psychological aspects are presented by different authors like for example Hödlmayr-Gammer and Reischauer (2017):

- Communicate the trust into the successor.
- After having your mind set hand over the business without hesitation.
- Enthronement has to be done by the senior personally and especially in front of customers and employees during different kinds of events.
- Show openly the appreciation for the senior and be grateful for the work he has done so far.

as well as Homma and Bauschke (2010):

- Explain the reasons for changes and make the meaning behind the different steps transparent to everyone.
- Open communication to all stakeholders and get rid of any rumors immediately.
- Accept criticism! Especially critical questions give hints what can be changed in a productive way.
- Do not expect everyone to be on the same page as you right from the beginning and sharing the same visions after working for ages in the usual way. Transfer yourself into the position of others and then bring them to your point of view in an understandable way.
- Find the employees who identify themselves with the company and include them into the change. They are one of the most valuable resources in a company.

or Hahn-Oberthaler and Obermüller (2017):

- Clear and transparent agreements between transferor and transferee! This will significantly simplify the process especially for the time of period while both entrepreneurs are still performing.

- Written agreements can go from a A4 paper in a small company as far as a whole codex of rules in a large enterprise avoiding or more likely trying to solve all kinds of discrepancies.
- Challenging and boosting the successor! This includes unrestricted trust into the transferee. The senior should incorporate the successor in all crucial decisions to give him more confidence and responsibility already in an early stage of the process.
- Finally, the senior should see the resignation as a successful opportunity to enjoy a different but more light-hearted period of life. Take care to find a purpose for your sunset years. However, there are also some 60+ entrepreneurs who are happy finding back to their old founding spirit and start over again.

2.5.2. Relationship Expertise

This chapter describes a powerful tool against the psychological related problems which often exist within family businesses. The wording “*relational expertise*” is more common in the sector of education in German speaking countries but actually finds place all around the globe in the field of leadership competencies. Basically, relational expertise means the capability to understand people and the relationship between them.

In their book Wandl and Habenicht (2013) are discussing this topic and show how important it is to foster good communication as well as healthy bonds within family businesses for a successful succession. Therefore, they are defining the following requirements to achieve relational expertise:

- People want to be noticed, so do it
- Show interest in other people
- Be able to see things in the same mood as your opponent (empathize with him)
- Working together
- Mutual understanding

Following these recommendations, it is possible to bring conversations on a more motivating and constructive level even if there are feelings involved. Nevertheless, it even takes professionals years of training to practice these rules. Moreover, it is most unlikely to stay calm and remember these principles in hot-blooded situations. However these simple rules are also helpful during harmonizing moments. (Wandl and Habenicht 2013)

On basis of relational expertise, it is possible to conduct much better family meetings which are essential for a successful succession. After the decision to go for a family internal solution it is advisable to call for one first session with all members involved. During this meeting the senior should give a broad picture of his idea but there also has to be room for everyone else to bring up their expectations and concerns.

At the beginning of the succession process at Johann Bartak KG there has also been a small family meeting with the directly concerned persons. The general purpose of this get together was to talk about the current situation and what the next steps should be. The short anecdote in Table 9 shows how this evening looked like and how the project of business succession was officially started.

I would not have expected that anyone would have planned an agenda for this discussion. Luckily, it was my father who moderated that evening and for sure he was well prepared as always. When he introduced the meeting and pulled out some nicely printed tables shown in *Appendix 1: Material for the first family meeting* which had to be filled out at a later moment the rest of us first started to chuckle. Nevertheless, at the end of the evening we were surprised by how crucial these simple questions have been. Thanks to that session we were able to start on the same page and unconsciously we have been following the rules of relational expertise. This can be explained by the excellent relationship we always had as well as the general rule to talk frankly with everyone. After doing so much research on this topic and seeing how many succession processes brought ill feeling into harmonizing families my absolute goal is that whatever happens during the succession at Johann Bartak KG it will not influence our family bonds.

Table 9: Anecdote of the first family meeting (own design)

2.5.3. Freedom

The autonomy of decision of the transferee must be ensured at all costs. After all it is his choice of career which is most likely going to influence the rest of his life. Furthermore, it will not be any good if the successor realizes short after the enthronement that this is not his own wish. In that case the family business would find itself in an critical situation.

Recommendations for the successor to avoid these kind of situations are (JW OÖ and WKO 2017b):

- If you realize your interest in entrepreneurship early then build up your expertise and social skills. Therefore, short-, middle-, long-term and even continuing training programs have to be considered and planned.
- Insist on gaining leadership experience at external companies first before taking over the family business.

- Compare your personal goals with the aims of the company and question yourself if they can go hand in hand. The definition has to be based on what you WANT to do and not what you SHOULD do.
- Decide for yourself if you definitely want to enter the business and if you have the support of your close ones like partner or family.

Even though this might be the optimal situation it must be said that people need some kind of edge and ambition to be an entrepreneur as it is described in the anecdote in *Table 10*.

Johann Bartak KG made me worry quite often at the beginning and for sure I wanted to work abroad first after graduation. Furthermore, I never had a long-time employment previous to this position to collect any external experience. However, everyone must have a vision of the future him and basically that is where I have seen myself. The whole situation just happened to come some years early but after all it is most likely a one timer to get such an offer. That is the point where someone has to be flexible. Therefore, in my opinion it is fine because at a young age (24) there are still all possibilities open at a later stage as well. Moreover, if someone is heading for a successful career life there will most probably also be some kind of trade-offs. Finally, it was my very own decision to take that step of succession and that is a crucial one. In the end each person has to be aware what he wants to do in five to ten years. Otherwise it is going to cause losses within the family as well as the business. There is this really suiting saying:

“If one does not know to which port he is sailing,

no wind is favorable.” - Lucius Annaeus Seneca

Table 10: Anecdote to have the resolve to become an entrepreneur (own design)

On the other hand, the seniors have to consider that if they don't hand over the business in time – Freund (2000) sets the limit around the age of 65 – the risk rises that the transferees are more and more disinterested in the succession. Especially when young people are ambitious and bring along high qualifications of self-employment combined with an excellent education they have all doors open to make career themselves. With these capabilities most probably even with a higher income at a global corporation due to the current high market demand of determined trainees for the future top management. (Freund 2000)

Another crucial task for the senior must be to ensure the autonomy of decision for the junior. *Table 11* includes the Kneidinger Case which shows an optimal designed succession process regarding this important point of decision freedom.

Absolute autonomy of decision as foundation for successful succession

- a story about the company *Kneidinger*

One of two daughters has studied international economics in Vienna because she always wanted to experience the vibe of a big city after living in the very rural area of Rohrbach. In an interview she underlines how important it was that their parents never restricted her choice of work. Although the business has always been present in daily life as both parents have been working in-house when she was young. After graduation her father only noted once that it would be conveniently to take over the family owned company but back then the daughter had completely different plans in mind. After working a decade in Vienna and when her father became little by little ready for retirement he started to promote entrepreneurship showing the advantages as well as disadvantages. After reviewing her work experience so far she realized that being still a small gear in the huge mechanism of large scale enterprises does not fulfil her and the suggestion of succession became more and more interesting. After all the experience in a big corporation has been essential to her for both knowledge as well as reputation coming back into the family business and not being seen as the small daughter. This fact has been very important to her in a psychological way. Finally, in 2010 she took over the company with her sister as well as their cousin. Therefore, it has been a very long and well-considered succession process with all the freedom she needed.

Table 11: Kneidinger Case (Hahn-Oberthaler and Obermüller 2017, adapted)

An essential problem comparing this case with other ones is the difference in age between the generations. Often there is just not enough time to still gain ten years of external experience after an academic degree. In the Johann Bartak case the succession process is already at a very late stage with the current general partner older than 65 years in age and the successor is just about to graduate. Therefore, if the transferee is going for an academic degree it is recommended to use internships during the summer breaks very wisely and the senior has to prepare the succession process even more wisely beforehand.

Closing this chapter one more case is shown in *Table 12* about Wilhelm Schmidt the late head of Schmidt GmbH & Co. KG. This anecdote shall remember that sometimes preparation is not everything to the succession process and what really counts in the end.

The first and the last thing in life is family

Wilhelm Schmidt took over his father's company right after graduation and always thought that he would continue working as long as possible. Nevertheless, already quite at the beginning of his career as general partner he realized that one of his entrepreneurial tasks was to perform a successful hand over process of the family business as well. Therefore, he started very early planning and designing his succession. With several kids including three interested and well-educated sons someone might expect that he had the perfect foundation. However, even in this case have been considerable problems due to different expectations which had to be solved by external help. One of the sons had serious issues by the schedule of the succession process as it was in his point of view way to slow and he rushed for a quicker solution. Even though different views are common in operative decisions it happened that the formal argumentation became mixed up with more and more feelings in this normally harmonizing family. In the end it also affected their private lives and they had to call for external help. Out of this experience Schmidt defined three recommendations:

- The first and foremost important one in his point of view is the great fortune of family. Therefore, he referred to one quotation of Adolph Kolping which should never be forgotten during any discussion. Translated it would mean as much as:

*“The first, what human will stumble upon,
the last, to which he holds out his hand,
the most precious he possess – is family.” - Adolph Kolping*

- External help should be used during the succession process as it is a singular and emotional event for entrepreneurs. Therefore, professional transfer consultants actually exist.
- Develop a well-defined succession plan including schedules as well as milestones that ensure a step by step change between senior and junior.

Table 12: Schmidt Case (Wegmann and Wieseahn 2015, adapted)

2.6. Legal Basics and Taxes

If legal and tax aspects are not taken into consideration it can cause the failure of handing over the family business including the threat to personal existence (Schackmann 2003).

Any living entrepreneur basically has two options to deal with the succession. On the one hand he is able to set up regulations in case of death via the last will as well as testamentary contract. On the other hand, and most probably more convenient is the possibility of transferring the company while being still alive. Next to different kinds of advantages like the introduction of a successor, it is also more beneficial due to the better coordination of legal obstacles. (Müller 2015)

Nevertheless, while planning the form of the transfer it is important to especially examine the aspects of tax, social and pension law effects for the transferor. This is already possible in an early phase because useful information regarding the timing of the retirement, the retention of certain assets or the step-by-step transfer of different companies is already available. (JW OÖ and WKO 2017a)

The succession *inter vivos* (between two living people) can be performed by sale contract via company's shares, barter agreement (exchange), contract without compensation (gift) or anticipated inheritance. However, the anticipated inheritance is more than a contract without compensation as it includes additional arrangements like reclaim rights, legal portions or usage rights. Further benefits compared to the event of death are the better possibility of scheduling, setting the design according civil and tax-based legislation as well as the psychological aspect of donating with warm hands. (Hübner 2015)

The next two paragraphs are showing the basic legal obstacles regarding the legal form of companies:

Partnerships

Company's shares of a partnership are basically not possible to be transferred randomly. In case of no sole proprietorship it is obligatory to get the acceptance of the remaining partners. Often this is regulated by the articles of association. Even if this paper contains a retention then the partners still have to be informed. By the way a partnership with only one natural person just exists in a special form of a limited partnership called "*GmbH & Co. KG*" (Limited Company & Compagnie Limited Partnership). Often at the beginning while founding or entering a partnership the entrepreneurs place the condition that they are allowed to transfer their shares to descendants without approval of the remaining partners. (Müller 2015)

Corporations

The transfer of shares within the form of GmbH (limited company) or AG (public company) is relatively easy because the law says that they can be transferred randomly without any agreement of remaining shareholders. Nevertheless, there are possibilities to set certain regulations in the articles of association. For example, an agreement of the partners, the shareholders' general meeting or the board of directors. Considering their rights, it is necessary to plan the succession process accordingly and inform them at an early stage. (Müller 2015)

Legitimate Portion in Family Businesses

Over and over again problems are arising in family internal successions regarding the inheritance. Since 1st January 2017 there is a new legislation concerning the legitimate portion. Nevertheless, the law still says that usually 50 % of the allowance including the family business have to be given in certain shares to the husband and the children. Due to this legislation many transferred companies get heavily burdened. After clarifying how the non-company involved relatives are going to be paid out it is recommended to let them sign an abdication of their legitimate portion which has to be notarial certified. In the case of a partnership with relatives it must be clarified which rights to vote they should have. Moreover, it must be defined what are the modes and schedules if one of them drops out. Summing up the senior must think about his allowance at an early stage even though he does not want to deal with his demise. (JW OÖ and WKO 2017a)

Tax Aspects

Similarly, to all the other topics of the succession process there are several variants how a company transfer can be handled in a fiscal point of view. No case is identically to the one before. For finding an optimal solution a lot of different questions must be answered and all kinds of taxes must be considered, e.g. (Schmitz 2015):

- income tax
- local business tax
- corporate tax
- value added tax (sales tax)
- real estate transfer tax

The considerations of taxes are also influenced by the fact if a transfer happens while the senior is alive or due to his death. Both scenarios are using different tax calculation methods. However, the succession while the senior is still alive should definitely be the preferred way and will therefore be further discussed. (Schmitz 2015)

In *chapter 2.3.1* the different forms of company transfer regarding the compensation have been mentioned. There is the paid transfer, the partial paid transfer as well as the free transfer and for each of them different subcategories. (Jung 2015)

Consequential for each situation different taxes have to be used and even mixed forms are common where the different parts of one company are taxed accordingly. Especially regarding hidden reserves there are extreme differences in the final sum that has to be paid to the government. For example in certain scenarios it is possible that the hidden reserves do not have to be realized at all and the assets are transferred at book value. (Schmitz 2015)

Summing up different aspects regarding the transfer have to be considered (Hödlmayr-Gammer and Reischauer 2017):

- It has to be decided if the actual legal form of the company is either kept or changed.
- Tax, liability and social law aspects have to be optimized.
- Possibilities regarding additional income for the senior.
- Defining the main features of the future Business Plan.
- Clarity regarding the total or partial transfer of power.
In many cases it is very important to the successors to gain the majority of ownership and the associated power of decision. Sometimes siblings are also holding shares without any voting rights.
- Irrevocable solution regarding later demands of inheritance by others.
- Drawing the Acquisition agreement in coordination of the different experts (tax advisor, lawyer, notary and public authorities).
- Early application and securing of financing and possible furtherance.
- Showing all the chances and risks transparently. Therefore, the successor has to clarify with the senior that all important decisions are being laid open.
- Coordinate to what extent the different structures within the company can be changed. E.g. contracts of employment, rent, partnership, leasing as well as the hierarchy, company policy, culture and strategy.

2.7. Consistency within the Company

All kinds of succession processes can fail and even well-planned ones as it was shown in the anecdote “*The first and the last thing in life is family*” of the Schmidt Case in *Table 12* .

Normally the focus during takeover lies on fiscal and legal matters. *Figure 10* shows an approach which additionally emphasizes on the dimensions of personal continuity (capability of the senior and successor) as well as strategic continuity (securing essential drivers within the company). Therefore, this system also considers soft drivers which cannot be put into figures. Often those are important aspects which find no place during the planning period of a succession process. However, in the end the consistency within the company must be ensured to keep operating and that is exactly on what these drivers are building on. (Hofmann 1996)

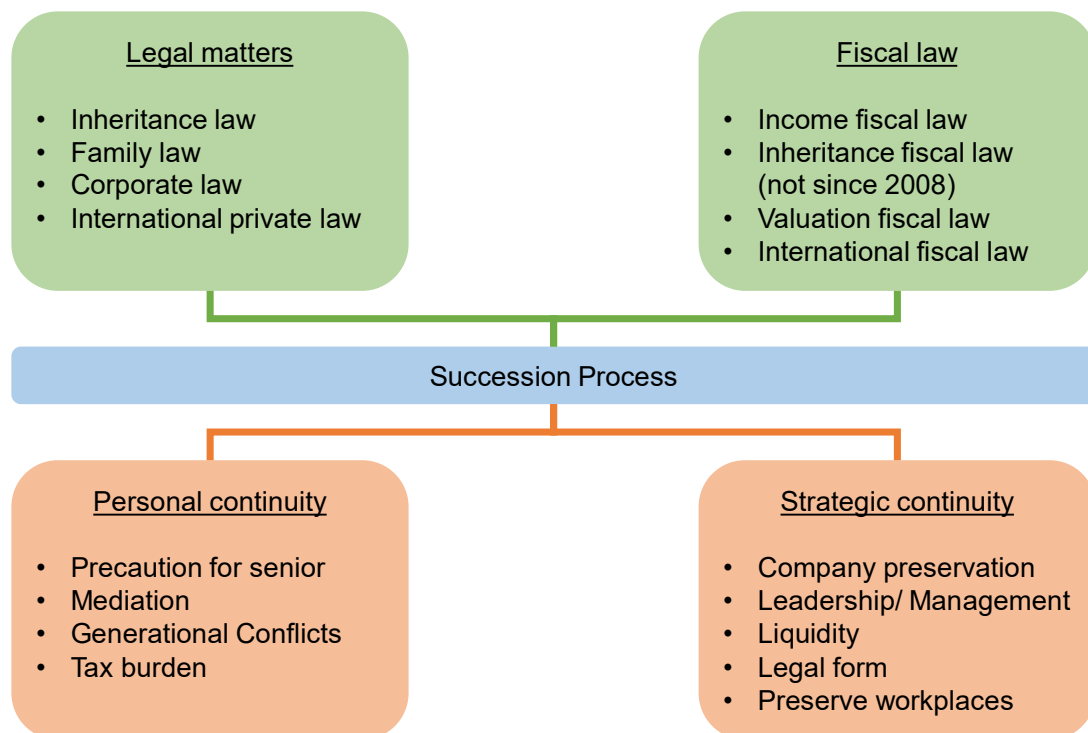


Figure 10: Aspects of the succession process (Hofmann 1996, adapted)

In terms of consistency within the company another attribute of family businesses arises called “the temporary dispensability of the managing director”. A research by Freund (2000) asked different enterprises what effect the absence of the general partner would have over a longer period of time on operational procedures. With an absence of the CEO which lasts longer than five weeks almost every second family business expects to have a medium to very high impact compared to just one in five cases at non-family companies. (Freund 2000)

Especially at risk are companies whose economics are changing for the worse already during the preparation phase of the succession process. Therefore, the assurance of continuity in the family business forms one of the most important prerequisite for a successful handover. (Freund 2000)

In order to maintain the continuity of a family business, there are three objectives that have to be pursued:

- Liquidity, constant maintenance of the capability to pay
- Success, reasonable relation between benefits and costs
- Potential for success

The first two objectives are essential prerequisites that an enterprise can even operate, and they have more of a short- and medium-term character. In terms of a succession the third one is the critical question as it defines the potential success of the family company and is more long-term oriented. Therefore, the current state of the enterprise with its strengths and weaknesses as well as market opportunities and risks that determine success in the future have to be completely disclosed. After all a company that cannot perform against its competition and fulfil the market needs in long-term are going to disappear anyways. (Schackmann 2003)

In many small family businesses the analyzation of the current state has been neglected or has not even been performed for a longer period of time even though it can be so crucial. During the succession process the gained data most likely points out new information for both the senior as well as the successor. Especially for the transferee it is one of the most important parts during handover as it uncovers the potential for success of the family business. After all it is not only the aim to find a suitable successor but to identify a sustainable company as it is going to influence his future life significantly. Furthermore, in a time where young entrepreneurs have a good chance for a well-paid career at a global player it has to be thought about twice in case the company seems not to be in a strong position.

For this reason, the practical part of this thesis deals with the analysis of the current state of Johann Bartak KG and can be found in the following *chapter 3*. At the beginning it is often difficult to define the areas or fields within a company that have to be considered during such a research. Therefore, to get a broad picture of the family business and to understand the most essential elements within it, this thesis analyzes the current business model of Johann Bartak KG.

3. Current Business Model

In the last chapter it was underlined how crucial it is to ensure the objective of potential success as it describes the long-term prosperity of a company (Schackmann 2003). Therefore, a business analysis is conducted in this practical chapter. For a visualization of the status-quo as well as foundation for the further analyzation of Johann Bartak KG a Business Model Canvas (BMC) is used. It is a great and simple tool developed by Osterwalder and Pigneur (2013) that enables to gain an overview over a company's most important assets as well as revenue streams. Afterwards this collected data is used to further derive the strengths and weaknesses of the business model. In many small sized family companies tools like this have never been used in written form and in that detail before. The systematic analyzation of the current state of the model is going to uncover how serious the lacks of investment are as well as other critical aspects.

Therefore, this chapter tackles all the hard facts which are crucial for an evaluation of the whole company. Plenty of questions will be answered regarding internal as well as external topics like the product range, the infrastructure, labor force, market characteristics, customers and so on. Moreover, someone should always keep at the back of his mind to think about how this drivers are most probably developing over the next period of time and where the enterprise should be in five years. This brings along an additional benefit as it lays the foundation for developing a corporate strategy in the future. In the end there is a clear picture of the family company and the main question if Johann Bartak KG still has the potential for success with the current business model or not is going to be answered. The analyzation of the status-quo also leads to important decisions by reconsidering and adapting existing structures.

In *Figure 11* on the next page it is shown how investors are rating the importance of different challenges during the succession process rated from 1 (very low importance) to 5 (very high importance). The figure further emphasizes how crucial the *potential for success* (4.8) is. Other important challenges are *securing the financing* (4.7), *evaluation of the current competitive situation* (4.6) and the *relationship to important employees* (4.5). These aspects underline the predominant knowledge that someone does not just buy the assets but most likely the market position as well as the potential for success.

Basically, all the common financial valuation tools like Entity-/Equity- or APV (Adjusted Present Value)-Approach should consider these drivers to a certain degree as they all use the *planned future* Free Cash Flow (FCF) as starting point for further calculation (Grbenic 2018). Nevertheless, prognoses of future Cash Flows are always difficult to determine and afflicted with uncertainty to a high degree. However, there is a significant correlation between the potential for success in the future and the assessment of the current competitive situation. (Wieseahn 2015)

Therefore, an intensive research of the current state which also includes intangible values like name recognition, customer base and the image of a company are essential. However, often these important intangible drivers are not used in the common financial valuation approaches mentioned before because the basic calculation formula for the FCF does not include them directly. The person who forecasts the future figures must consider them by himself and that is not so easy to bring them into a monetary size. In this thesis the assessment of the status-quo plays a crucial role and builds on the BMC. Therefore, much more drivers are considered that can be used for better forecasting of the future figures including the future FCF.



Figure 11: Challenges in point of view of the investors (Wiesehahn 2015, adapted)

All together the analysis, evaluation and structured description of a company are a very time consuming project. What scope has to be considered and how far someone has to look into detail differs in every case. After all it strongly depends on what kind of business analysis as well as controlling instruments are already existing and in use. Especially at

Johann Bartak KG there has been a great lack of data in the first instance. In this case the tax advisor has been of great help to provide useful information including the annual financial statement. Moreover, it is always interesting to figure out how much data is actually collected by the employees themselves using different excel sheets or still handwritten paper.

Regarding the business plan it is often the case that the senior has a clear picture in mind but there is no written form. Most of the time this image only resembles the tip of the iceberg and that describes as everyone knows just 10 %. Moreover, after years of experience there will be different perceptions between senior and junior regarding the importance of the various tasks. In that case the successor sees challenges which the older generation does not even realize anymore or does not care for. However, it does not mean that the junior is worrying for free, but it can also be that the senior just adjourned the topic due to the fact that he never had to take accountability. In the end an image as realistic as possible without any wishes or beliefs has to be created. After all it does not make any sense to lie to oneself. (Schackmann 2003)

The senior should be aware of all necessary figures and information or should at least know where to get them from. However, the praxis shows that often no up-to-date data is available right away. In this situation it is advisable as one of the first tasks of the successor to develop different real time controlling instruments if he is versed with economics. This ensures that he learns the most important facts about the family business. In the fields of controlling there is a lot of confidential data and information. Therefore, it might be reasonable to let project members sign a confidentiality undertaking. (Schackmann 2003)

Another possibility is to write the master thesis about the succession process like in the Johann Bartak scenario. A thesis for example can also be restrained for five years until publication in Austria. Furthermore, it should be added that even if the junior is more of the engineering type of person then he should still be part of the implementation team for the controlling instruments.

There are two famous business model tools which won recognition around the world. On the one hand there is Gassmann et al. (2014) who looks at the four different aspects: Who, What, Value, How. On the other hand, there are Osterwalder and Pigneur (2013) who also created a great tool to generate business models called "*Business Model Canvas*". The framework is currently the most popular one in the fields of business model creation and is therefore chosen as the main tool in this chapter.

At the beginning of their book Osterwalder and Pigneur (2013) name seven different faces of business model innovators: "The Senior Executive", "The Intrapreneur", "The Entrepreneur", "The investigator", "The consultant", "The Designer" and "The Conscientious Entrepreneur". This might be just secondary for the business model generation itself but can be helpful to point out the situation someone is in and to identify with such an important role. For this thesis two possible characters suit very well. On the one hand there is "The Senior Executive" who focuses on establishing a new business model in an old industry just like Jean-Pierre Cuoni - a chairman of the private bank EFG International - did. On the other hand, "The Consultant" plays an important role as well. With the habit to question the business model of the client it is exactly the same perspective as this thesis takes place in. After all it is the same aim to envision as well as to build a new and innovative business model. (Osterwalder and Pigneur 2013)

People who are familiar with the BMC might have already recognized by reading the content carefully that a lot of the headlines in this chapter are similar to the nine main aspects in the BMC:

- Customer Segments
- Value Proposition
- Channels
- Customer Relationships
- Revenue Streams
- Key Resources
- Key Activities
- Key Partnerships
- Cost Structure

Those who are not familiar with these so-called nine building blocks can see them in *Figure 12* including a small description. Each one will be discussed in more detail in the subsequent chapters and some additional factors are added.

The 9 Building Blocks



Figure 12: The nine building blocks of the BMC (Osterwalder and Pigneur 2013)

However, this paper is not oriented on the typical sequence of the Business Model Canvas that is used by Osterwalder and Pigneur (2013) but regarding the categorization which is common in market research that uses an internal as well as an external analysis. Additionally, for further convenience the nine building blocks are allocated to four categories as it can be seen in Figure 13. The illustration also shows the empty template of the BMC. In this thesis first it will be dealt with the internal aspects like *Product*, *Infrastructure Management* and the *Financial Analysis*. Afterwards the final factor of *Customer Interface* will be described by the external point of view.

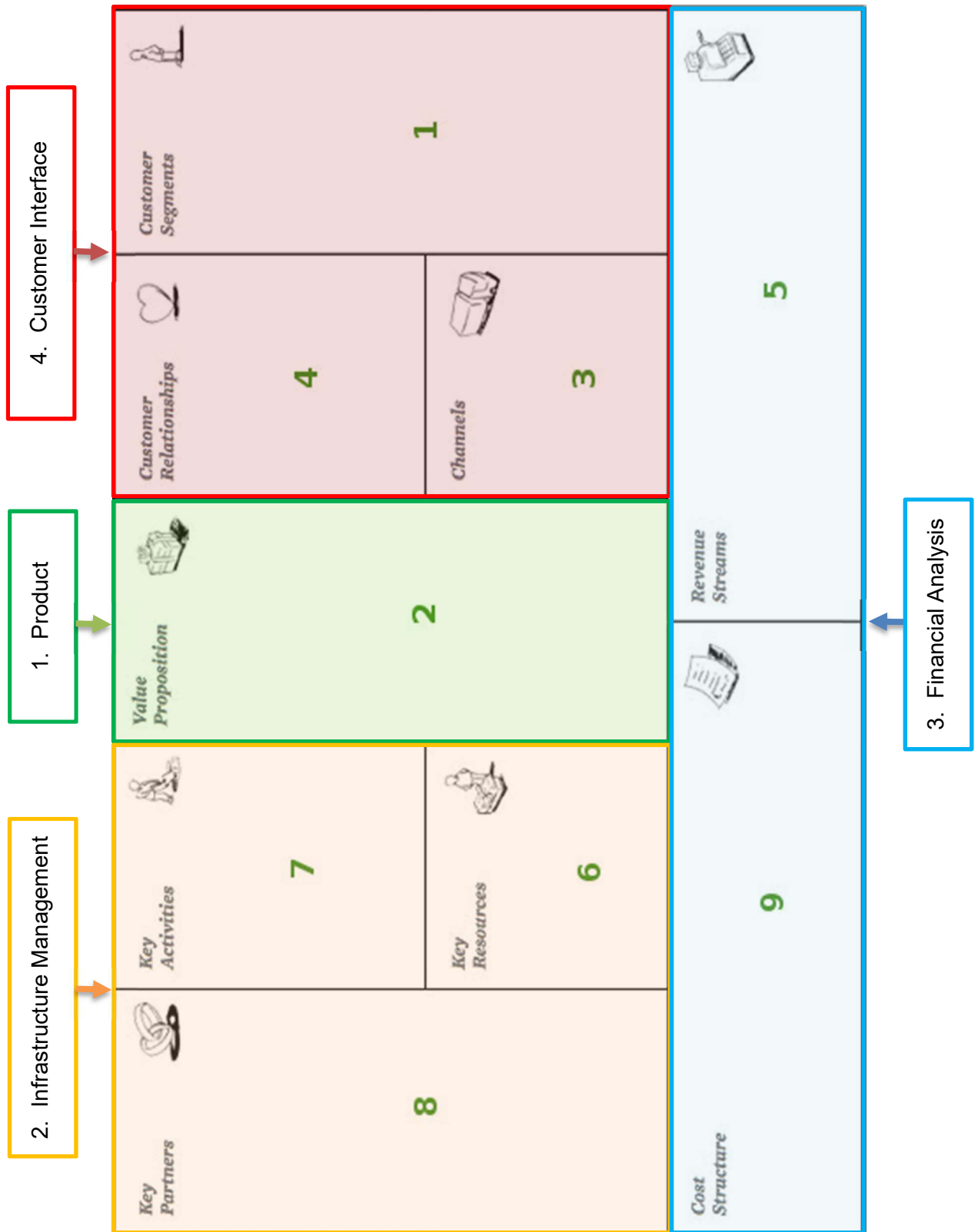


Figure 13: Four blocks within the BMC (Osterwalder and Pigneur 2013, adapted)

3.1. The Business Model Canvas of Johann Bartak KG

The BMC is a helpful tool to show the concept how an enterprise intends to make money in a very simple way. In *Figure 14* it is possible to see a short overview as well as further descriptions of each building block. With just nine fields which fit on one page it is possible to show the essentials of a business idea and to lay the foundation for further development. Fitting to the template Osterwalder and Pigneur (2013) see the business model as a blueprint for a corporate strategy.

Therefore, to provide a broad picture about the business model before the detailed analyzation is started, the BMC of the current state of Johann Bartak KG is shown in *Figure 15*. Orange colored boxes are showing the current state and the red ones are indicating attributes who have suffered under deficits in the last years after the former COO left the family business. Especially the latter ones are aspects that have to be considered quickly to bring them back to the old standard. At the end of this thesis in *chapter 4* that contains the conclusion there will be a possible future BMC where Johann Bartak KG is planning to aim for.

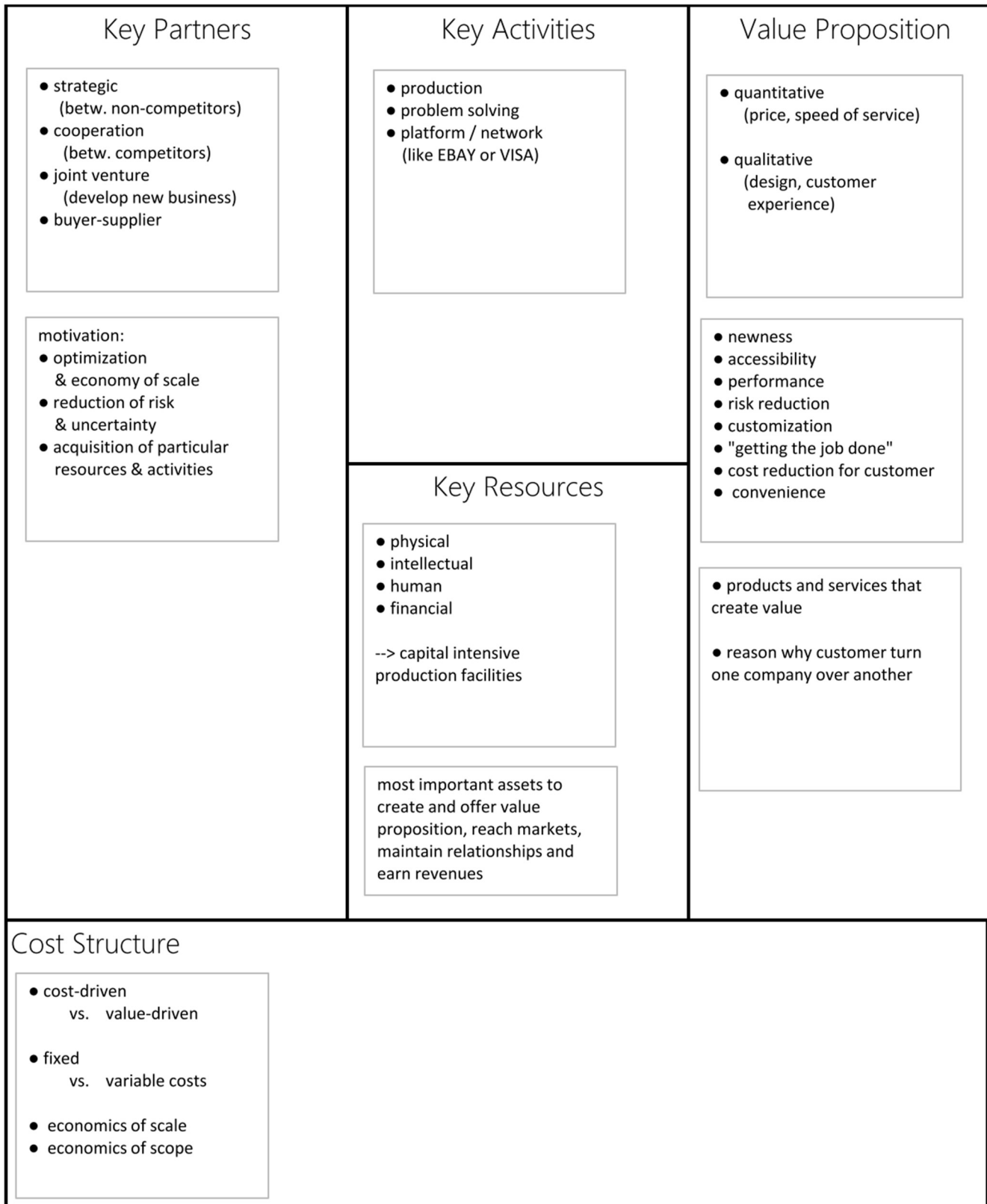
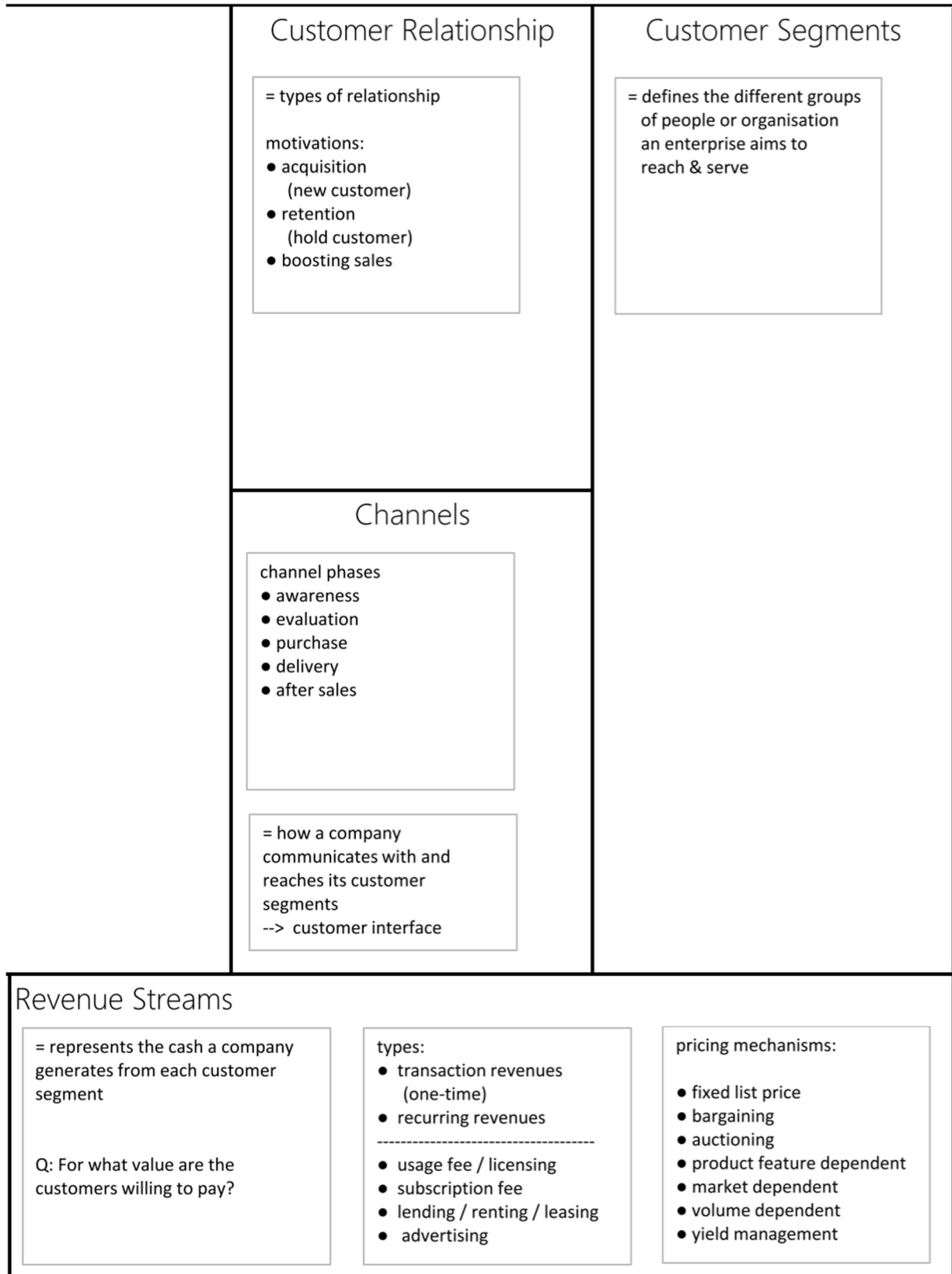


Figure 14: BMC building blocks description (Osterwalder and Pigneur 2013, adapted)



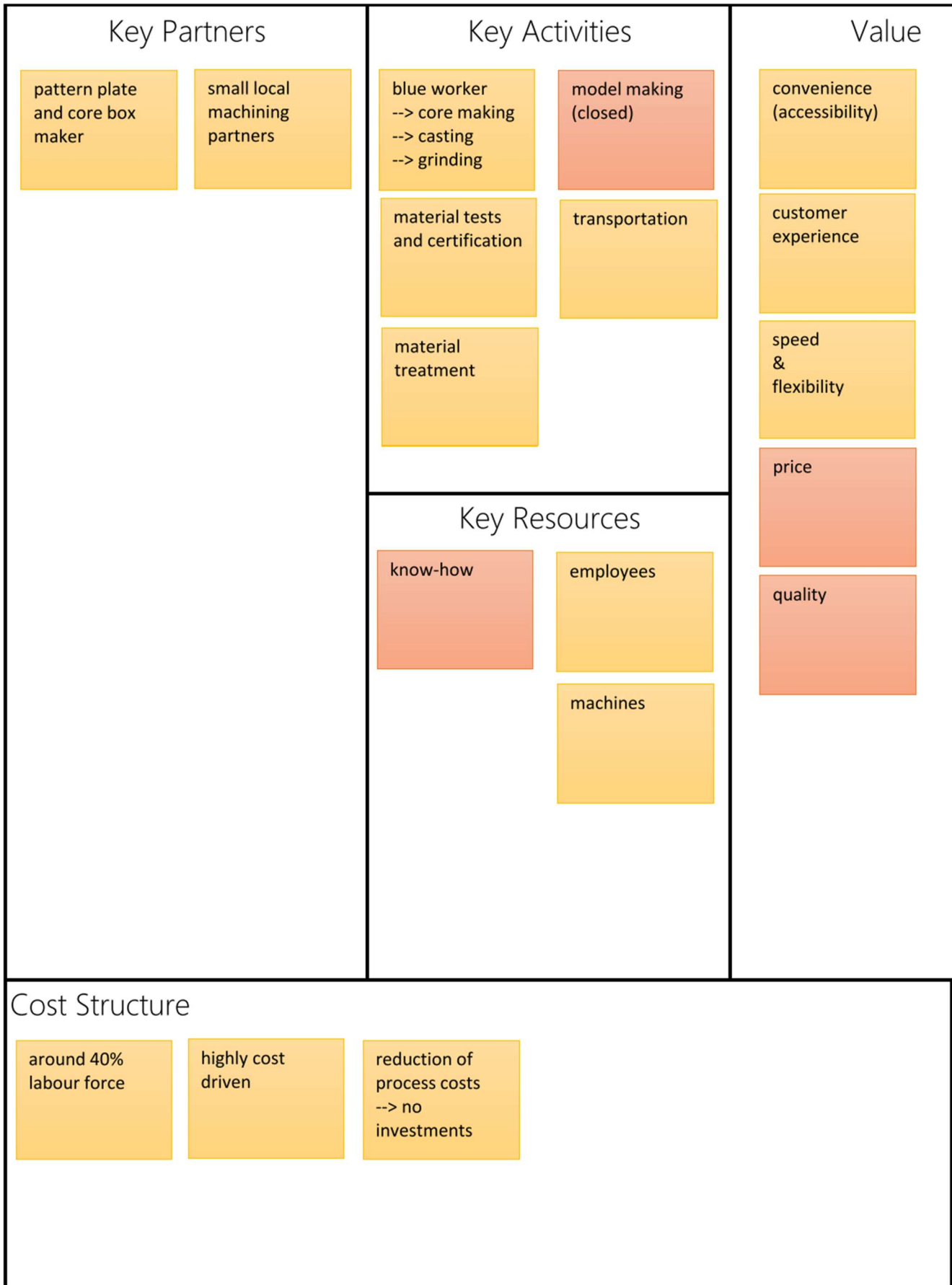
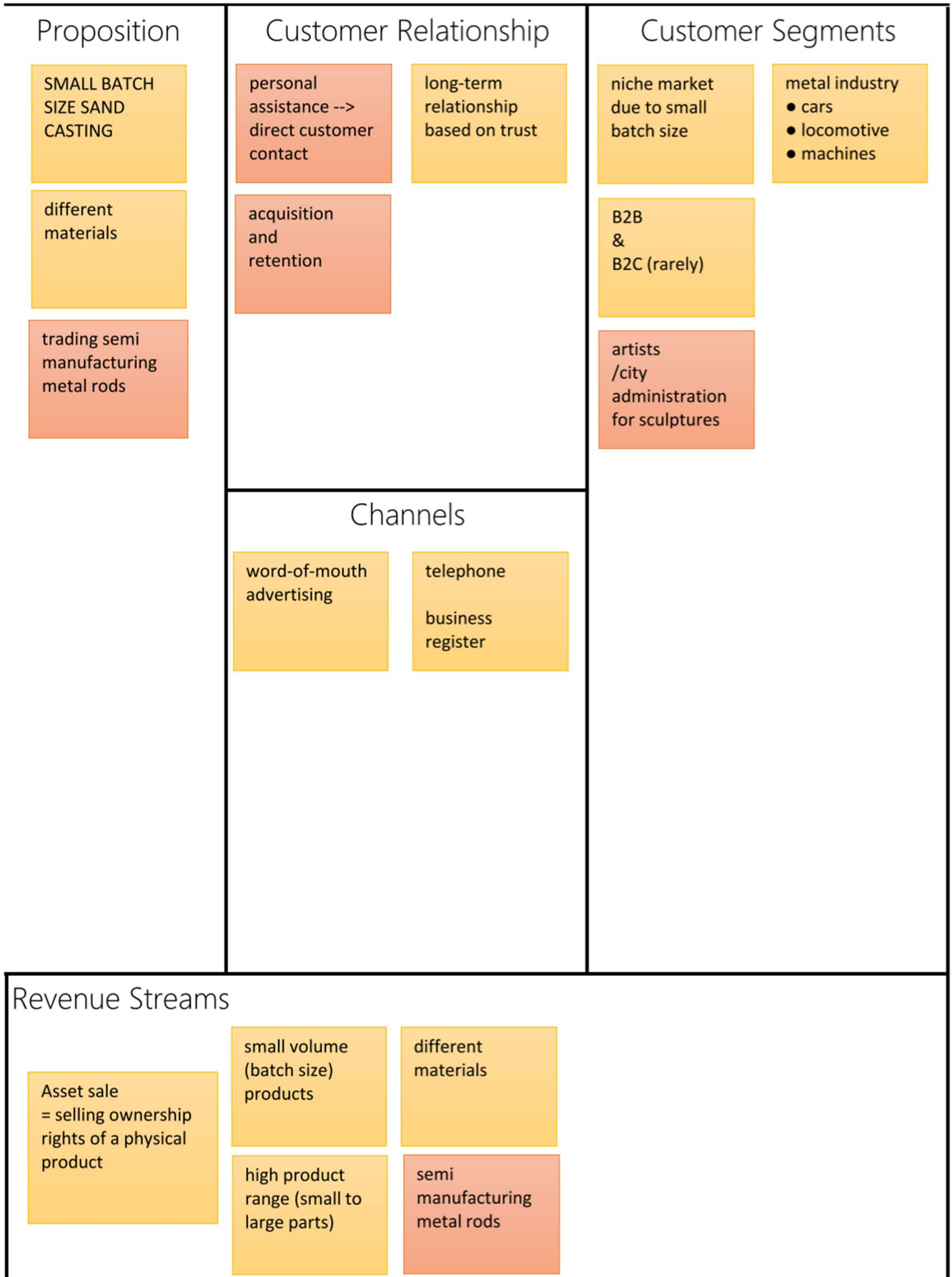


Figure 15: BMC of the current business model (Osterwalder and Pigneur 2013, adapted) 56



3.2. Internal Analysis

The categorization in this chapter is oriented on market researches with its internal and external analysis as it has not such a fixed template like the BMC and can therefore be used more flexible. Moreover, is the aim of market research to provide information about how up-to-date and realistic the insights are (Schackmann 2003). In *chapter 2.5* that dealt with challenges and recommendations during the succession process it was pointed out that in many SMEs and at Johann Bartak KG as well it is hard to gain any real time data due to the fact that there are little to no controlling instruments. Nevertheless, for the most basic analysis the revenue can already provide plenty of information and it is always available at your tax advisor or the part-time accounting staff if existing. At this point it should already be clear that the more data available to choose from the better.

Therefore, the first thoughts about implementing controlling tools or at least the infrastructure for it should arise. This can go from complex automated ERP (Enterprise Resource Planning) systems connected with MES (Manufacturing Execution System) to a basic MIS (Management Information System) without a high grade of digitalization using Excel or Access for most of the data processing. To get the real time data there is the need for a PDA (Process Data Management) System. This tool includes fields like (Hafner 2018):

- MDA Machine Data Acquisition
- QDA Quality Data Acquisition
- WTR Work Time Registration

Nevertheless, on the following pages it will be shown that there are many other basic aspects which do not need any fancy figures even though that they might be helpful from time to time. Furthermore, different drivers which are recommended to have a look at during the evaluation of the status-quo will be explained and filled with information about Johann Bartak KG.

3.2.1. Products – Value Proposition and USP

The building block “*Value Proposition*” is the core of the BMC and describes the various products as well as services that create value for each of the different Customer Segments. Therefore, it deals with the reasons why customers are choosing your business over another. This can either be by satisfying one of their needs or for example solving a problem. The decision can be influenced by qualitative (e.g. design, service) or quantitative (e.g. price, time) drivers. Other values for the customers can be of the innovative type which means to offer something new or it is already existing on the market but stands out by adding certain features. After all it depends on the USP (Unique Selling Proposition) that distinguishes your product or service from the plenty other ones. The most important properties in this block are (Osterwalder and Pigneur 2013):

- Newness
- Performance
- Customization
- “Getting the job done”
- Design
- Brand/status
- Price
- Cost reduction
- Risk reduction
- Accessibility
- Convenience/usability

Questions that are interesting to deal with in the “*Value Proposition*” building block are as follows (Osterwalder and Pigneur 2013):

- What range of products/services are we currently offering?
- What does the customer want?
- What are the customer problems and which needs are satisfied?
- What is the value of my product?

Johann Bartak Case:

- What range of products/services are we currently offering?

In the Johann Bartak case it has to be differentiated between two different segments. On the one hand there is the retailing with metal bars which is almost gone and on the other hand there is the main business as foundry. Therefore, the main focus lies on the sand casting at Johann Bartak KG. In *chapter 3.3.1* these two different fields are distinguished in more detail. Within the sand casting a wide variety of products is offered regarding the size, quantity, shape as well as material.

- What does the customer want?

The customer wants either aluminum or other nonferrous metal casting parts in small batch sizes. Important is on the one hand the quality and on the other hand the reliability as well as short/flexible delivery times. One additional crucial prerequisite for some customers is the provision of a manufacturer's certificate. Furthermore, there are requests for both just the casted parts as well as machined ones. However, in the end all customers want all these aspects to be considered and combined with a low price which indicates a very price-driven industry.

Regarding the retailing of metal bars, the price and the delivery time are the most crucial factors. Beside that other drivers are services like cutting, necessary order volume and mode of delivery.

- What are the customer problems and which needs are satisfied?

Basically, there is the saying that there is nothing we cannot do especially in the field of art casting. Nevertheless, every rationalist is going to laugh out loud listening to this sentence. In the end Johann Bartak KG offers the whole package from receiving a CAD file or prototype and delivering the finished part to the customer. Therefore, different production steps are outsourced working together with different partners. Especially problems concerning changes to earlier delivery dates are most likely to be solved by the flexibility of Johann Bartak KG. Fields to improve are the handling of customer problems regarding technical changes by using state-of-the-art software.

- What is the value of my product?

The value of Johann Bartak KG products definitely lies in the quality. This comes combined with the availability for small batch sizes as well as reliability regarding delivery dates.

3.2.2. Infrastructure Management

This chapter consists of three building blocks from the BMC which deal with the following question: *What key elements do I need to produce the value that my customer wants?*

3.2.2.1. Key Partners

This building block describes the network of all the important suppliers and partners who are necessary to make your business model run. The purpose for forging alliances can have many facets like the reduction of risk, optimization or acquisition of specific resources. Whatever reason it might be, one is for sure they are becoming a cornerstone to many different business models. Summing up it can be differentiated between four different kinds of partnership (Osterwalder and Pigneur 2013):

- Strategic partnership for non-competitors
- Coopetition: strategic alliance between competitors
- Joint ventures to create new businesses by combining other ones
- Buyer-supplier relationship to safeguard special supplies and reliability

Considering these different ways of alliances, it can be helpful to look at the three drivers which stay behind these types of partnership. On the one hand it can be reasonable due to optimization and economy of scale. On the other hand, it can also make sense to establish such a Key Partnership as it either supports the reduction of risk and uncertainty or the acquisition of particular resources and activities. Already realizing some correlations to your own business model? Then important questions arise like the following (Osterwalder and Pigneur 2013):

- Who are the Key Partners/Suppliers?
- What key activities are fulfilled by the partners?
- What kind of Key Resources are provided from the supplier?

Johann Bartak Case:

Two categories can be identified that suit to Johann Bartak KG very well. On the one hand there is the strategic partnership for non-competitors and on the other hand competition which defines the strategic alliance between competitors. The first one includes all the partners who are doing necessary tasks like the machining for the casting parts as well as those who use special treatments like consolidation.

However, the importance of cooperations should not be underestimated as well. There are two reasons for this kind of partnership. On the one hand due to the lack of investment for special machines which the competition might already have and on the other hand due to missing or lost know how. For example, in the first case there can be mentioned the equipment to perform a strength analyzation of test bars which is sometimes necessary for the material quality certificate. Currently this is done by a competitor who is operating in the same field but concentrates more on die casting instead of sand casting like Johann Bartak KG. Furthermore, it can be seen as an additional external control.

Another very important key partner is our former chief operating officer who quit his job three years ago to spend more time for his own projects. Already before his resignation he started his own small machining company which he operates now fulltime. Nowadays, he is definitely a key partner as he supplies the Johann Bartak KG with the pattern plates and also orders small quantity parts for some of his customers. Furthermore, he knows a lot about this segment of the casting industry and also supported me at the beginning.

3.2.2.2. Key Resources

In order to ensure that a business model works there is a need of certain assets. The most important ones are mapped in the building block of “*Key Resources*”. It is thanks to those resources that the company is able to create and offer its Value Proposition. Moreover, it enables the market accessibility as well as the maintenance of Customer relationship which is discussed in more detail in the building block “*Channels*”. Without the Key Resources an enterprise would not be able to fulfil its most fundamental task to generate revenues. How many Key Resources a company has can vary from each business model and industry. For example, a manufacturer requires capital intensive production lines whereas a designing company has to focus on a capable and creative labor force. Therefore, the key resources can vary from know-how to financial or physical aspects and do not have to be owned by the company itself but can also be leased or acquired from another Key Partner. In the end one crucial questions has to be answered in this field (Osterwalder and Pigneur 2013):

- What key resources do I need to generate my offered value/product/service?

Johann Bartak Case:

In the case of Johann Bartak KG there is both, knowledge and capital-intensive equipment. Furthermore, there are also services which can be identified as key resources that are even outsourced like the before mentioned strength analyzation machine of test bars which is necessary for the bigger material quality certificate.

However, especially the know-how is a great deal. Nowadays the small batch size hand forming casting industry is slowly becoming extinct and there are hardly any schools in this field left. Therefore, the education has to be provided by the companies most likely themselves. For many small family businesses this aspect can be a financial strain assumed they even find new interested employees for a hard and dirty job like this. Due to the fact that these two topics are very crucial to the potential success of a company they are analyzed in more detail in the following two subsequent chapters.

3.2.2.2.1. Infrastructure (land/facilities/machines)

In this chapter most of the assets are going to be discussed. There are plenty of question which should be asked by a young entrepreneur when he plans to take over a company (Schackmann 2003):

- Have there been any changes in the last years?
After all it is common that seniors stop investing in their last years within the company.
- Has there been successfully completed development work which for example lead to product improvement? Is there any Innovation at all?
- Have there been any process improvements?
- Are there any research projects running? (Even small family businesses!)
- Is there any usage of furtherance?

Particularly important is also the examination of the current land utilization plan as well as the LtO (License to Operate, permission for the factory equipment). These two factors are crucial to ensure the continuity of a manufacturing enterprise as well as for future expansion plans which have to be approved by the building authority. (JW OÖ and WKO 2017b)

These aspects are all very important to know for the new entrepreneur. After all he should have some ideas for the future state of the company. Nevertheless, some time should pass by before the juniors start investing and turning the whole family business inside out. This time is necessary to understand the whole business first. Nonetheless, it is important to have visions and it does not harm at all to examine the future possibilities at an early stage. This includes for example the check of all the existing authority decisions. That also ensures to get a better picture of the current state. Furthermore, it can take a long period of time to find new building grounds and it makes sense to know the few possibilities that exist.

Johann Bartak Case:

In the Johann Bartak case it has been the same as I thought right at the beginning that I have to change everything at once and as soon as possible. After some time, I realized that especially for investments there have to be done plenty of considerations and therefore we decided to go for a no invest for the first 12 months. Within that time, it is important to learn all the processes and to get to know all the existing assets. In old companies like Johann Bartak KG it is cleverer to get rid of all the unnecessary things first that have been kept over decades.

Johann Bartak KG operates on two small sites which are both in the inner city of Wels and about 1km apart. The buildings exist already since decades and over the years more and more private housings grew around the manufacturing halls. Nowadays, the land utilization plan states M ("*mixed used area*") on the lands of Johann Bartak KG as it can be seen in the *Figure 16* and *Figure 17*. The maps also show some residential zones as well as a kinder garden and a school around it. Considering that a new foundry needs a plant building area with "B" notation on its lands it makes sense that the current state is not optimal. Nevertheless, after checking the existing authority decisions and talking with the local authorities the outcome showed that everything is approved and that there are no threats for the close future. Furthermore, there have never been any complaints by the neighbors.

However, if there are any plans of crucial changes or expansion then there would be still enough space on the existing grounds but it has to be considered to build a completely new plant on the greenfield. Furthermore, it is normally cheaper to operate one site than two in an economic point of view. Checking this possibility, it turned out that the authorities are willing to help out in situations like this and that there are also furtherances for such projects. Currently there are two appropriate grounds left in Wels which are both going to be connected with a motorway exit ramp. Nevertheless, with a square meter prices of 130 €/m² for a triangular piece of land and about 180 €/m² for a rectangular one it is questionable if it is still reasonable for a family business like Johann Bartak KG to stay that close to the city. After all, just seven minutes by car there are ideal rectangular building grounds with "B" notation for just 80 €/m².

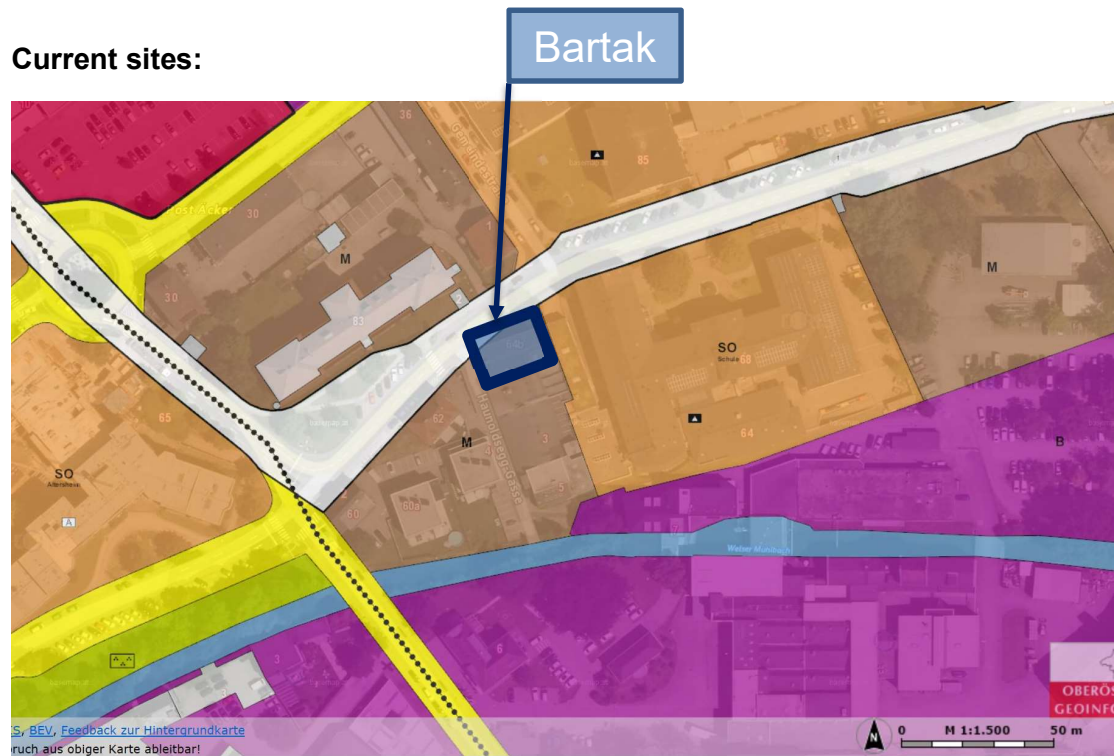


Figure 16: Linzerstraße, office & non-ferrous foundry (DORIS 2000, adapted)

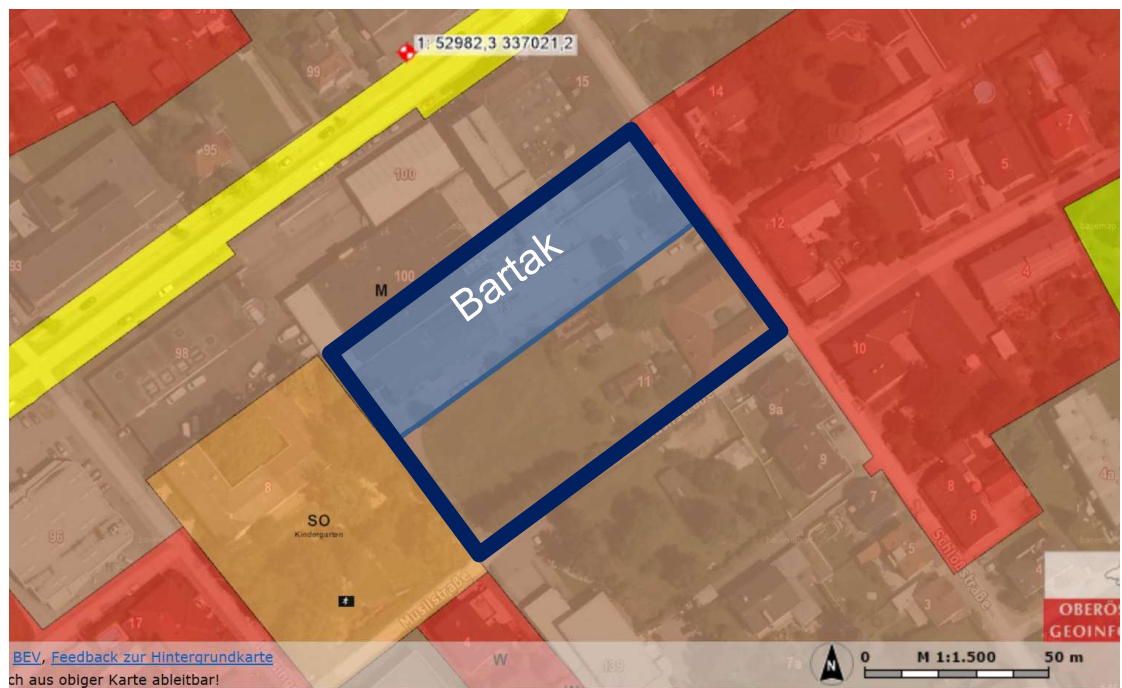


Figure 17: Schloßstraße, aluminum foundry (DORIS 2000, adapted)

- Have there been any changes in the last years?

As mentioned before in *chapter 2.3* the practice shows that most of the seniors stop the investments within the company in their last years as entrepreneur. Unfortunately, the same goes for Johann Bartak KG where it happened two times in a short period of time as the second succession process kind of failed because the former senior stayed too long within the company. Therefore, intensive investments except the necessary ones have not been done for years. This includes new machines or developments into new departments. As a consequence, today the pattern plates are produced externally by the former COO. Back then there have been ideas to invest into new machines to bring the workshop on state-of-the-art. In the end the investment was not done and the pattern making got outsourced. Only the maintenance and small changes are still done within the own manufacturing halls. On the other hand, there have been investments for example into the improvement of Quality assurance when a spectrometer for material analysis was bought or the infrastructure of the buildings.

- Have there been successfully completed development work which for example lead to product improvement? Is there any Innovation at all?
- Have there been any process improvements?
- Are there any research projects running?

These questions can be answered quick and easy with almost a 100 % "NO" but for sure there have been small improvements at Johann Bartak KG as well. Nevertheless, most of the innovation has to come with a new lead. After all, even in small family businesses it is important to keep improving and make use of research projects. Actually, it is common that new technologies are developed by small Austrian companies.

- Is there any usage of furtherances?

Until now there has not been any use of furtherances at all beside the employment of long-time jobless persons. However, especially in the case of building a new production hall on the greenfield there should be used some kind of funding in the future.

3.2.2.2.2. Knowledge/Know-how

Human resources are a big topic for small family businesses as they do not have as much resources as a global player. Furthermore, it is often a problem that they are not able to provide fulltime employees for every single position like accounting and so on. Therefore, it is also important that employees have to do their resort reliable because there is no substitution. Furthermore, it is preferable if they are capable to do several different tasks to be able to support other departments in case of illness or holidays. Sometimes it can happen that open requests in that period are not answered and will be only replied on after return of the employee. (Märk and Situm 2018)

Johann Bartak Case:

At Johann Bartak KG there is even one more hurdle due to the fact that the education in this industry became really rare. Actually, it is most likely done via learning by doing within the company itself. Finding young interested people for hard work who are not changing the jobs after just some years can be a real strain for businesses operating in such special niche markets.

Nevertheless, the literature states that family businesses are more capable to retain employees. As a reason therefore is mentioned the higher sense of job security, trust, identification as well as motivation. As a result the fluctuation seems to be lower. (Haushofer 2013)

However, the analysis of Johann Bartak KG has shown that it is quite important to have enough and well trained personal. Especially when excellent and important workers left the business just some years ago. Already illness, holidays and the resignation of employees are causing fluctuation that is hard to cope with. A good source for capable new trainees could be the higher technical college in Wels. Often young men are struggling with the education system even though they are capable and then try to find a job. Otherwise it can also be very interesting to start training new apprentices again as it has been done years ago.

3.2.2.2.3. Labor/Work culture

The relationship to important employees must not be underestimated at all. Investors put this topic to one of the most important drivers during a succession process as it was shown in *Figure 11* (Wieseahn 2015).

There are crucial differences between family businesses and non-family enterprises. As it was already pointed out there is usually a higher workload on the management of the former group. Another aspect would be the non-practiced meetings which are well known from non-family companies. Normally this can be explained by the flat hierarchy which enables the management to be closer to operation and gain a clear up-to-date picture themselves. Additionally, employees in family businesses are not anonymous at management level. Therefore, they are often called by name and questioned directly. Ideally, if well maintained, this close contact creates friendly bonds even though some distance has to be preserved for authority purpose. In family businesses every employee has to take his place. Normally this comes along with a higher workload but also a higher degree of identification towards the company as well as the family. This awareness can build trust which is very crucial for the employer-employee-relationship. Nevertheless, practice shows that the decision making is still concentrated on the family led management, but trusted employees are also involved. (Märk and Situm 2018)

The young federal economic chamber in Upper Austria further recommends implementing your personal leadership style right away when starting your new position. However, it is important to have a good feeling for situations and make the style time and place dependent. They also state that some workers might quit due to the changes, but they also hold the opinion that no worker is irreplaceable. Nevertheless, for a smooth succession process it is advisable to verify if the leading personal is going to stay within the company. A helpful tool is also a job performance check to point out the current applicability of the personnel which has to be taken over. The aim of this tool is to check if all the employees are placed on the right position or if there is even more potential. Additional questions are (JW OÖ and WKO 2017b):

- How much legal severance payments following the old legislation are still open?
- Is there a period of withdrawal notice for all the staff (six months?)
- Are there any employees who are interested to hold a share of the company or to take over?

Johann Bartak Case:

The current situation regarding the labor force and the work culture are definitive crucial at Johann Bartak KG. After the resignation of several important employees about three years ago a certain degree of slack became daily routine due to the missing authority. When the workers realized that they can organize themselves without supervision they started to take everything a little bit easier and fill the ovens just that much that they are finished earlier. Therefore, the aim should be to gain respect by the workers but also show strictness.

Accordingly one important task at Johann Bartak KG is to show presence and get rid of this kind of slack which came along over the last years. On the one hand there is the possibility to track parts via a MES system and digitalization but for sure this is not available in such an old family enterprise. On the other hand, there is the simple possibility to use a chalk board where the workers have to write down their daily performance. This board already existed but was unrigged the very first day when the former foreman of this production area left the company. Now it is installed again and I check it myself on my daily walk through production. However, there are also other possibilities to track the production rate like using forms that have to be filled in by the workers.

Surprising is the fact that the slack had enough place to grow even though the workers have a bonus system on produced parts. Coming to reward systems there is nearly an infinity number of variants. A very interesting and success promising option for additional bonuses is an award for improvement suggestions which is already common in large enterprises. Via this system employees are motivated to keep their eyes open and to think about problems on their own. Additional benefits come along when the workers realize that their ideas are implemented, and their jobs gets easier due to the changes.

As already mentioned in *chapter 2.5* it is also important to get rid of any rumors and fears. Those are coming along in both cases either the workers do not know if the company is still going to operate after the senior retires or if they are not aware how the successor is going to lead in the future. Therefore, it was one of the very first tasks to introduce myself to everyone. Right away at the beginning I decided to get rid of the formal form when the employees talk to me. Furthermore, I spend as much time as possible on the shop floor to get closer to the workers and to better understand the production. Unfortunately, it is much less time than planned because the workload at the office increased extremely fast. However, after finishing this thesis there will be more time for that as well.

3.2.2.3. Key Activities

This building block deals with all the tasks an enterprise must perform to make its revenue and therefore its business model run. Without a certain amount of Key Activities, the company would not be able to operate at all. Different categories are (Osterwalder and Pigneur 2013):

- Production (designing/making/delivering in a certain quantity or quality)
 - most likely business models of manufacturing firms
- Problem solving (generating new solution for individual customers)
 - most likely business models of consulting agencies
- Platform/networking (depends on a certain usage/allocation of a platform)
 - e.g. *eBay* has to develop/maintain its platform
 - e.g. *Visa* requires merchants, customers and banks who provide/use the transaction platform of its *Visa®* credit card.

As it can be seen Key activities are varying depending on different business models just like the Key Resources do. The question arising in this field:

- What activities are necessary to generate my Value Proposition?

For better understanding of the following pages there are some basic casting vocabularies and information provided in *Appendix 2*. The second row shows the two main material sectors *Johann Bartak KG* is operating in. On the one hand there is the aluminum and on the other hand there are different copper – tin – zinc – alloys.

Johann Bartak Case:

Comparing the Key Activities mentioned above with Johann Bartak KG it is easy to point out that the company is operating in the Production category with a “making” business model. After all the main business deals with the manufacturing of aluminum as well as other non-ferrous casting parts. There is also a department for retailing metal bars but it got really small over the past years with just one person keeping the daily business running. In this field it has to be considered if the business can still be reactivated or if it should be discarded.

Concentrating on the manufacturing of casting parts several Key Activities can be uncovered as it can be seen in *Figure 18*. The start event that initiates the whole casting process at Johann Bartak KG is the 1st customer order which is then continued by the Key Activities. As the legend of the figure indicates it can be also seen by the coloring of the boxes which production steps are done inhouse and which are performed externally at the Key Partners.

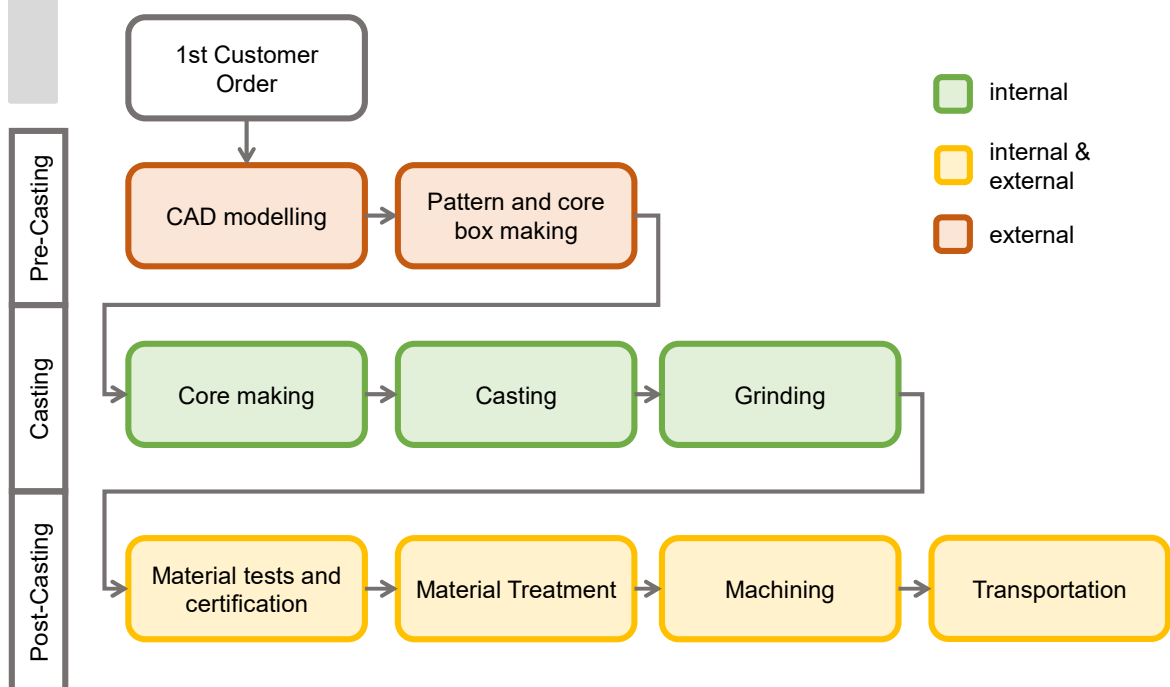


Figure 18: Key Activities at Johann Bartak KG (own design)

In total *Figure 18* shows nine Key Activities, which are further explained on the following pages:

1.) CAD modelling

Nowadays, in almost all technical branches CAD modelling is a crucial step and implemented in the daily business process. The same goes for the casting industry. Before a part can be casted there is a need for a model of the wanted product. In the case of one timers like huge art pieces there might not be CAD software involved but even there it becomes more common due to additive manufacturing processes or CNC machines which cut the model for example out of polyurethane foam in a scale of 1:1. For industry parts like in the automotive, locomotive or machine building sector each part has to be the same and in a much higher quantity. Therefore, pattern plates are produced which can be used on so-called vibratory presses to create the negative forms in the greensand filled molding boxes.

Especially in this step of designing the right pattern plate there is the need of years of know-how. Already at this point it is decided of what quality the produced parts are going to be. Furthermore, it essentially influences the degree of rejected parts due to casting defects. Therefore, there is on the one hand the need for a well-educated CAD designing engineer because there are highly complex shapes and on the other hand it must be a very experienced foundryman to see the parting line, position of risers as well as the core elements right away.

Currently this and the next Key Activity are done externally at a special pattern maker who is a professional in the casting industry. There are actually still other companies offering this service, but they do not know the machines of Johann Bartak KG that well and as just mentioned the pattern plate influences the part to a very high degree. Normally at this step also the cooperation with the customer is exercised as the foundry gives advices to them how they could change the design of their products in a more casting friendly way. Therefore, it might be good idea to bring this crucial production step back inhouse to Johann Bartak KG. Thanks to a technical education and the capability of visual thinking it should be possible to do the CAD designing on my own, but it will still take some years of experience for designing perfect casting solutions. Basically, there are already software packages available who simulate the whole casting and improve the design automatically. However, these require very expensive licenses. However, if there is enough time it is also possible to learn via trials as many other entrepreneurs so. In the end failures are the best teacher and everything is a learning process. Nevertheless, even for the self-learning case there are also coming along investments which have to be considered if they are reasonable. On the one hand there is the need of new basic CAD software licenses and on the other hand the machines which are capable to produce the pattern plate. That brings us to the next key activity.

2.) Pattern plate and core box making

This step is usually done by the same company who designs the digital pattern plate based on CAD. In the old days this step has been done by the pattern making shop by using several parts made of wood and resins. Nowadays, resistant plastic blocks are used which can be easily machined at a CNC machine. However, for many of the old family managed foundries this investment is too high. Furthermore, there is the need of a person who is capable to operate the machine as well as the software and all that just for a few pattern plates per year. Due to all these circumstances combined with the need of several years of experience in pattern design it is the best solution for Johann Bartak KG to keep going with the current state by outsourcing the first two Key Activities until they can be brought back inhouse again.

3.) Core making

Core making is also an essential step which enables the production of hollow parts. Therefore, many products would not be possible to be manufactured by casting without the correct core. An additional important aspect is that if the workshop does not produce enough cores it also effects the whole production process down the line. At Johann Bartak KG different kinds of sand mixtures are used for this step. Nevertheless, the most common ones like in many other foundries as well, are the cold box or CO2 method. These approaches exist already since decades and uses chemical binders. The mixture is then pressed into the core box either by hand or air pressure via a machine. Before taking out the finished core it is fumigated for hardening purpose. This key activity is also highly influenced by the predefined design of the core box because the gas must be able to circulate through the whole part via ventilation slots and should be usable on the production machine.

4.) Casting

At Johann Bartak KG gas driven furnaces are used. In the aluminum shop ingots (bars) are used for melting which already consist of the final alloy. At the non-ferrous casting shop this process is a little bit more difficult because the alloys have to be mixed together by the foreman himself. At this step as well, knowledge and experience are crucial factors to guarantee high-quality. Simultaneously to melting the material the molding boxes which show the negative form of the final product are already formed with greensand on a jolt squeeze molding machine. This also includes the preparation of the greensand. When the material is melted the exhausting process step of pouring takes place. At this point it should be recommended to everyone to see this once in person. The liquid metal poured into the molding box is one of the purest primary shaping processes and holds its own kind of fascination. Afterwards the mold is opened and the greensand as well as the core sand are removed.

5.) Grinding and Cleaning

In this step leftovers from the casting process like the rising gates or small flaws are removed. Many foundries have outsourced this work step already to eastern countries due to the high wages in Austria. Nevertheless, Johann Bartak KG is still performing this Key Activity inhouse.

6.) Material tests/certificates

Some of the material tests are done inhouse like analyzing the configuration of the material via spectrometer. The strength test of casted testing bars on the other hand is done externally. This is actually not bad due to additional external supervision. Nowadays, this Key Activity of testing and writing certificates is crucial for most of the industries due to the always increasing performance as well as liability requirements on the market. In this context many customers are asking for ISO9001 certification which is not hold by Johann Bartak KG yet. However, it is one of the most important points on the agenda 2019 to achieve this company certification.

7.) Material treatment

One of the most important treatments after casting is curing. This process is done both inhouse as well as externally because the oven at Johann Bartak KG is limited and does not hold the capacity for the production output. Other treatments like consolidation or anodization are completely outsourced due to the high acquisition costs of the necessary machines as well as the small need.

8.) Machining

The same as for material treatments goes for this Key Activity. Only a very small number of simple products are machined inhouse in the fitter`s shop. This can be explained by both the missing skilled workers as well as the high investment costs for new CNC machines. Therefore, a lot of partnerships are kept with several small family businesses who have specialized in machining. One competitor who concentrates on die casting built up a whole new independent company just for this Key Activity. The small fitter`s shop at Johann Bartak KG is also used for maintenance tasks.

9.) Transportation

Basically, in step one to eight all the Value Proposition of the Product itself is generated. Nevertheless, to connect Johann Bartak KG with all its partners as well as customers there is one driver who is also the mason of the company (to maintain the ovens). Without a chauffeur the business model would not run that fluently and can therefore be identified as additional Key Activity.

3.2.3. Financial Analysis

This chapter deals with the third category within the BMC and is the last one that deals with the internal analysis. The Financial Analysis basically considers all the monetary drivers of the business model including the revenue stream as well as the cost structure.

3.2.3.1. Revenue Streams

Representing the generation of revenue within an enterprise the building block of Revenue Streams is one of the most important ones. It lays the foundation for earnings [earnings = revenues – costs] as long as the costs are not higher. For this building block it is important to differentiate between every single customer segment and question yourself for what value each client is truly willing to pay. Thanks to this point of view it is possible to discover one or sometimes more revenue streams per customer group. Therefore, crucial questions are arising, and every entrepreneur should be aware of the answers regarding his own business model (Osterwalder and Pigneur 2013):

- How do I generate my revenue (selling , leasing, etc.)?
- For what is my customer ready to pay and how much?
- Does the price depend on product properties, segment or for example batch size?
- How are my customers currently paying and how do they actually want to pay?
- What are my most important revenue streams and how do they contribute to the overall ones?

The Revenue streams of a business model can basically be differentiated into two main forms: one-time customer payments which form Transaction Revenues and ongoing payments which generate Recurring Revenues. Additionally, it is possible to point out several different subsequent categories (Osterwalder and Pigneur 2013):

- Asset sale most common → selling ownership rights of a physical product
e.g. Amazon.com, automobile manufacturer, etc.
- Usage fee generated by the usage of a certain service
→ the more it is used, the more it costs
e.g. telecom operator, hotels, etc.
- Subscription fees selling continuous access of a service for a recurrent payment
e.g. gym, web-based computer games, etc.
- Leasing/Renting temporarily granting exclusive rights to the customer
- Licensing payment for the usage of protected intellectual property
- Brokerage fees due to intermediation services
e.g. Credit card providers, brokers, real estate agents
- Advertising

Johann Bartak Case:

- How do I generate my revenue (selling , leasing, etc.)?

Normally the same order is placed by a customer several times or sometimes even blanket orders are negotiated for a period of about one year. However, Johann Bartak KG generates its revenues definitely via one-time payments and finds itself in the field of Transaction Revenues. These revenues are not falling into ongoing payments and therefore Recurring Revenues in a broader sense because they are not repeating in a certain pattern like the monthly invoice of a mobile provider. In the end it is still up to the client when he places the order.

Defining the subsequent category, it would be an asset sale. After all the casting parts are a physical product and the ownership rights are given to the customer. An additional revenue stream could be to charge for the storing service of pattern plates. Basically, those are the source of value for the company because they make it more likely that the customer places the order again at the same enterprise and that the product can still be produced. Nevertheless, sometimes products are not ordered for years until they come back again. For the whole period of time there are currently no storage fees and that is common in the casting industry. Instead it could be a possibility to charge for storing the pattern plates as long as the product is not ordered within three calendar years in a certain amount.

- For what is my customer ready to pay and how much?

The customer is paying for the finished part according to the technical drawing in a certain quality as well as for in time delivery. However, currently there is an economic boom and it is not just the Austrian market that is flourishing. For non-critical parts the customers are more and more outsourcing to low-wage countries which are far cheaper. The price difference can be explained by the fact that the casting industry still needs a lot of physical labor work. In branches with about 40 % of labor costs there is a high possibility for savings. On the other hand, for highly critical parts there is the need for certifications as well as state-of-the-art high-end quality facilities like X-Ray and so on. Therefore, both segments are not suited for the current Johann Bartak KG. Furthermore, it is thanks to digitalization that it became easier for large foundries to produce smaller batch sizes even with expensive automatization lines. This also influences the price landscape within the niche to a considerable degree.

- Does the price depend on product properties, segment or for example batch size?

The product properties are mostly defined by the material configuration and that is specified by the customer. Therefore, the product properties are not influencing the price that much. A big difference between the different foundries lies in the

casting capability as well as the possibility of treatment, machining and quality control. Like mentioned before there is still room for improvement at Johann Bartak KG in the different fields. Nevertheless, there is one quality feature at Johann Bartak KG which is well known and that is the high casting quality itself. Additional important drivers are the delivery time as well as the batch size. In these two fields Johann Bartak KG is able to shine due to its flexibility combined with reasonable prices.

- How are my customers currently paying and how do they actually want to pay?

Via bank transfer only.

- What are my most important revenue streams and how do they contribute to the overall ones?

In *Figure 19* the most important revenues streams of Johann Bartak KG between 2009 and 2016 are shown. The blue line shows the revenue of non-ferrous casting (n-f), the red one of aluminum casting, the green one of semi bar retailing and the dotted line represents the overall revenue of the company including other revenues as well. The metal bar retailing collapsed over the last years and even though there is a downwards trend at the casting departments as well there are indicators for stability. Furthermore, the company got smaller and does not hold as much employees as five years ago. Therefore, it was able to continue operation in a reasonable way without making large losses. Nevertheless, the aim should be to push sales considerably as well as profit to justify future investments. Interesting to see is the circumstance that the company makes quite the same revenues as ten years ago.

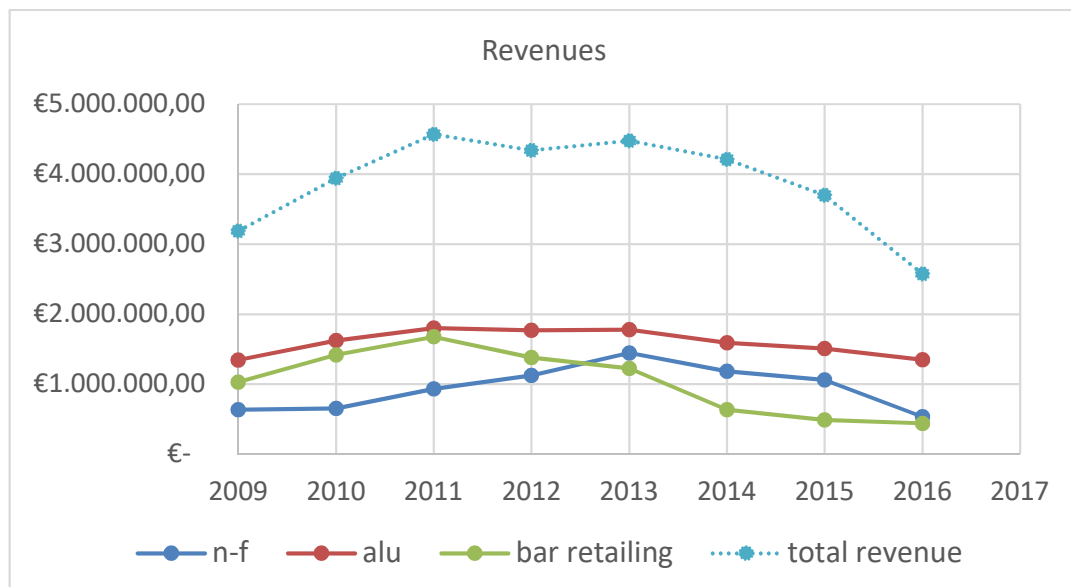


Figure 19: Revenues of Johann Bartak KG 2009 - 2016 (own design)

Revenues are an important key figure for companies. Therefore, it is recommended to always have a rough picture of the current revenue as well as the number of unfilled orders and the incoming ones. Additional helpful analysis considering the revenues are achieved by assigning the figures to the single customers or their segments as it has been done in the *Figure 19*.

Often it is then realized that there is only one key account. The analyzation of the customer structure combined with the revenues makes it possible to point out risks as well as potentials. Therefore, the common software tools already include ABC-analysis and so on. This kind of categorization can be also done regarding products or regions to gain further crucial information. All that gained data should be tracked continuously and compared with previous periods. The results of a continuous observation enable to point out the loss as well as acquisition of customers. Afterwards the analysis can be continued by follow up questions like why there have been changes and so on. (Schackmann 2003)

3.2.3.2. Cost Structure

This building block points out all the important costs incurred while operating the company under the current business model. Basically, all costs are related to a certain task and can be easily derived from the Key Resources, Key Activities and Key Partners. The basic understanding says that lowering the costs are one of the most important things to a company but depending on the business model for some more than for others. For example, so-called “no frills” airlines have developed a strategy that is built entirely around low budget. Therefore, it can be distinguished between business models that are very cost-driven like the “no frills” or on the other hand those who are value driven. A Company that belongs to the latter one concentrates on the value proposition and cares less for the cost structure. This would be for example the case in high-end hotels with a high degree of personalized services. Nevertheless, most of the companies fall in between these two extremes. The different cost structures can be further distinguished between (Osterwalder and Pigneur 2013):

- Fixed costs always remain the same
- Variable Costs vary proportionally with the change in volume or service
- Economies of Scale advantages that come along with an increased output
- Economies of Scope advantages that come along with a larger scope of work

Question arising in this chapter are (Osterwalder and Pigneur 2013):

- What are the most important costs in my current business model?
- What key activities/resources are most expensive and how do they influence my cost structure?
- Is my business model cost- or value-driven?

Johann Bartak Case:

- What are the most important costs in my current business model?
- What key activities/resources are most expensive and how do they influence my cost structure?

The by far biggest positions in the cost structure of Johann Bartak KG are the materials that are processed as well as the salaries. Following the definition material costs are definitely variable costs. Regarding the salary it is a little bit more complex. In one of my university courses there was once a discussion with the lecturer as he would allocate them to variable costs. Nevertheless, following the definition they have to be divided. On the one hand, there is the share of wages that must be seen as fixed costs like normal working hours because they do not vary with an increase or decrease in production. On the other hand, there are variable salary costs like extra time that has to be consumed for the job or bonuses. Basically, fixed costs should be kept at a minimum. The benefit of variable cost is that if there are less orders there are also less costs. Thanks to the old facilities at Johann Bartak KG one typical large position of fixed cost is small and that is the one of depreciation. Even though that's not the idea behind it and should not be a place to save fixed costs. After all a company is getting "smaller" when there are less investments than depreciation. Another position in the cost structure that is not to be underestimated at Johann Bartak KG is the one of purchased services like external processing. Nevertheless, these costs are passed on to the customer.

- Is my business model cost- or value-driven?

The casting industry is definitely and foremost a cost-driven sector. Even though there is still a lived supplier-customer relationship it is possible to observe that it is getting less value driven within the new generation. Many young purchasing managers nowadays have an economic degree and get rated internally via KPI's. Therefore, it happens more and more often that just the cost factor counts as long as all requirements are all fulfilled. However, it is always nice to realize from time to time that also the opposite is the case and that there are still some young partners who try to keep years of partnership going.

Pricing and Accounts Receivable Management

Pricing mechanisms can be categorized as follows (Osterwalder and Pigneur 2013):

Fixed Pricing

predefined prices that are based on static variables

- List price fixed price for individual products/services
- Feature price depends on the number or quality of product features
- Customer segment price depends on the type of customer segment
- Volume price depends on the quantity purchased

<u>Dynamic Pricing</u>	prices are changing in correlation to market conditions
• Negotiation	“bargaining” between two or more parties
• Yield management	price depends on inventory and time of purchase → perishable goods such as airline seats or festival passes
• Real time market	price is based on dynamic changes of supply and demand
• Auctions	price depends on the outcome of competitive bidding → there are normal and reverse auctions

Regarding the pricing mechanism intuitive questions are arising like (Osterwalder and Pigneur 2013):

- Have there been any changes in the last years?
- How are the prices determined and how do they get calculated?

Johann Bartak Case:

Johann Bartak KG is actually using both pricing mechanisms like it is common in the casting industry. Basically, there are fixed prices which are arranged with the customer when a new product is launched based on the quantity purchased. Once a year there is an increase of prices to a certain percentage due to rising costs. Additionally, there is another kind of dynamic pricing mechanism. There are surcharges for material (German: MTZ ... Materialteuerungszuschlag) which are adopted every day. This material extra charge with the unit [€/kg] depends on the alloy and has to be multiplied with the total weight of the order. Years ago, this system has already been stopped for aluminum parts but for other non-ferrous alloys there are still changing surcharges. However, there are already customers who are asking for totally fixed prices aside from the annual increase due to accounting purposes.

In the case of Johann Bartak KG, it was very surprising to realize at the beginning of this thesis that there was actually no one capable to determine the price of a new product. Therefore, it was one of the first tasks to generate an excel sheet with all cost positions. This way also helped a lot to get a clearer picture about the company. In the end the excel sheet became quite complex and that was when I asked the former COO for advice. When he explained how it was calculated over the past years it was quite surprising how simple the calculation was kept. However, one of the biggest hurdles for both calculation methods is the need of experience to estimate the production time needed. Moreover, it is fact that there are parts which fit into one foundry perfectly but not at all for the next one and therefore the prices between competitors vary from a wide range.

3.3. External Analysis

After going through all the internal building blocks, now the external ones of Johann Bartak KG are analyzed. Therefore, aspects regarding the customer segments, the customer relationships as well as the channels are presented in more detail.

A very interesting concept to categorize markets is discussed in the Blue Ocean Strategy published by Chan Kim and Renée Mauborgne (2005) at the INSEAD business school. Their book includes research data that was collected over a period of 15 years and describes more than 100 companies which were able to open up new markets. Those enterprises were able to secure a position with no competition. The unserved markets or industries are the so-called “Blue Oceans” and show little to no business competitors. On the opposite there are the “Red Oceans” that refer to saturated fields which are characterized by hard competition. The different markets show following characteristics (Kim and Mauborgne 2005):

Red Ocean Strategy

- Competition on the existing market
- Fighting rivals
- Using the existing demand
- Direct relationship between gains and costs

Blue Ocean Strategy

- Developing new markets
- Avoiding competition
- Using new demands
- Cancelling the direct relationship between gains and costs
- Orientation of the whole corporate strategy towards differentiation and low costs

Summing up, the Blue Ocean strategy points out that successful companies are not orientating on existing companies but that they are going their own innovative ways. Often successful innovation does not rely just on new technological inventions but on a new design of the whole product line. This can then be seen as a new definition of the market or the customer. (Kim and Mauborgne 2005)

This concept is really interesting for old family companies like Johann Bartak KG which have always concentrated just on their existing core business. Nowadays, there are coming up so many new technologies that not even an academic degree in mechanical engineering is able to cover them all and even more market needs do exist. Therefore, it is completely reasonable to keep developing new markets like new innovative start-ups or modern family businesses do. In the end there might be some minor failures on the road but it will further enhance the potential for success in the future.

3.3.1. Customer Segments

The Customer Segments building block defines the different target groups a company wants to reach for and to provide with its services. Without knowing the customers no business model is going to keep a company running. For better understanding and service, it makes sense to categorize the customers into distinctive groups with common characteristics. Those are for example (Osterwalder and Pigneur 2013):

- Common needs
- Common distribution channels
- Common way of customer relationship
- Common profitability
- Common value proposition (aspects they are willing to pay for)

After defining one or more segments it has to be decided which ones are going to be served and which ones should be ignored. Only with this prerequisite it is possible for an entrepreneur to achieve a specific understanding of his customer needs and is able to carefully design a solid business model. After categorizing the customers, it can be decided what type of customer segment the business model is reaching for (Osterwalder and Pigneur 2013):

- Mass market
→ business model does not distinguish between customer segments.
- Niche market
→ serving specific, individual customer segments.
(often found in supplier-buyer relationships like OEMs)
- Segmented
→ just small differences between the needs of customer segments.
- Diversified
→ one company serves at least two completely unrelated customer segments.
- Multi-sided platforms/markets
→ in this case there are at least two independent customer segments in the same business field. E.g. credit card companies have to ensure both a high number of card holders and plenty of merchants who are accepting their payment method.

Questions arising are similar to the other building blocks when they have been investigated into more detail (Osterwalder and Pigneur 2013):

- Who are my customers?
- Who are my most important customers/is there only one?
- How do I fulfil the wishes and requirements?

During the valuation of customers and their segments it is important to keep an eye on the age distribution of the partnership, company as well as the contact person. Ask yourself if there has been any changes in the last years and if the customer structure is still well balanced. (JW OÖ and WKO 2017b)

Johann Bartak Case:

Johann Bartak KG is in the typical supplier-buyer position delivering parts for the automotive, locomotive as well as machine assembling sectors. Especially parts which are too critical for outsourcing to low-wage countries and too small in batch size for the bigger companies in Germany are often placed within the family company. Additionally, from time to time there are art castings for private or federal customers. The age distribution of the customer segments is actually not bad but also still has room for improvement as there could be more active acquisition.

3.3.2. Market Characteristics

For an entrepreneur especially, when he is planning to do acquisition on his own, it is important that he understands the market characteristics of the branch he is operating in. Regarding the casting industry it is possible to see future trends at national conferences, trade fairs as well as other industry related events. Particularly the reduction of contamination seems to be one of the biggest challenges nowadays. However, if the e-mobility is also opening new big markets within the casting industry will be shown in the following years. Beside that there have also been new technological improvements regarding the materials as well as machines in both ferrous and non-ferrous casting. Therefore, the foundry industry should be well prepared for the future and was able to record an increase of revenues in all fields. Unfortunately, the Austrian casting industry is not mentioned in any thesis of the WKÖ anymore even though the statistics are still generated. In 2016 this small branch was able to top the figures from the last peak in 2008. Nevertheless, even though the revenues went up it has turned out that the profit situation has shown just minor changes and did not follow proportionally. Compared to the several risks of a foundry the average profit is normally too low to make forward-looking investments. According to Adolf Kerbl (2017) this is not due to the missing ability to compete in technological aspects nor the lack of skilled workers but due to the developments on the global market. (Kerbl and Maiwald 2017)

Johann Bartak Case:

Realizing the current economic boom, it is alarming that revenues actually dropped at Johann Bartak KG over the last years. Nevertheless, as mentioned before the company got therefore smaller to a size where it is still able to operate sustainably.

3.3.3. Customer Relationship

After analyzing the customer segments, it might be already clear that not each one can be served the same way. Therefore, this chapter deals with the relationship an enterprise wants to establish with a certain customer group. It must be always considered what the customer wants and really needs. These requirements can range from personal to full automated assistance (Osterwalder and Pigneur 2013):

- Personal assistance
→ human interaction either on site, via E-Mail or phone
- Dedicated personal assistance
→ one customer representative for a specific client, most intimate type
- Self-service
→ no direct assistance, but providing all necessary instructions to help themselves
- Automated service
→ self-service with an automated process included
- Communities
→ providing an online community, knowledge exchange between community members
- Co-creation
→ creating value together with the customer
(e.g. YouTube, Amazon by receiving reviews)

Motivators for improving these customer relationships are:

- Acquisition
- Retention
- Upselling (boosting the sales)

All three motivators are a big topic for Johann Bartak KG which has to be improved in the future. Questions in this building block are (Osterwalder and Pigneur 2013):

- What different kinds of customer relationship do I implement, offer and sustain?
- What types are expected by our customers?
- Which ones are currently in use and how are they integrated?
- How costly are they and for what is the customer willing to pay for?
- Which way does the customer wish to be addressed and how do we fit into their routines?

Johann Bartak Case:

At Johann Bartak KG it is kept very simple because only personal assistance is used due to the customer specific wishes and orders. For sure it could be more automated for existing products, but the traditional way might have a better retention. Furthermore, right away at the beginning of this thesis the dedicated personal assistance was established for special requests. Now they are processed directly in the COO office to further underline the importance of the customer`s concerns.

3.3.4. Channels

The way an enterprise communicates with its customer segments is described in this last building block of the BMC. Nowadays a company has many interfaces with its environment that ranges from the obvious ones like webpages and advertisements all the way to private posts on social media like Facebook or LinkedIn. In the end it has to be distinguished between the wanted ones and those not. Therefore, it makes sense to consider one more time all kind of stakeholders at this point. Additionally, the channels are highly influencing customer experience and fulfil important functions like (Osterwalder and Pigneur 2013):

- Achieving product, service and company awareness
- Enable the purchase and evaluation
- Delivering value itself by providing better service
- Ensuring customer support (even after the purchase)

Questions arising are (Osterwalder and Pigneur 2013):

- How do I communicate as entrepreneur with the company`s environment?
- Via which Channels do I currently deliver my value or how do I provide it?
- Which Channel works best and is most efficient?
- How is it integrated into my process as well as the routines of my customers?
- Which way does my Customer Segments wish to be reached?
- Are there any trading fairs?

Johann Bartak Case:

At Johann Bartak KG there was most of the time only one channel and that was word-of-mouth advertising. Due to the long history as well as good quality a well-known image was created. Furthermore, if there have been capacities left it was the former COO who did acquisition. In the future it is important to develop a strategy to practice acquisition actively again. At the beginning of this thesis it was actually not even possible to find Johann Bartak KG in the internet. Therefore, one of the first actions was to add the company on Google. It is surprisingly easy to set up and the platform even offers a simple one-page website. It can be just recommended to everyone to do so as a first temporary solution.

Furthermore, to set a very visible change a new logo was designed for the family business which will officially be used after the change of the legal form of the company. Therefore, another hint is the website: www.freelancer.com where it is possible to start a worldwide contest to get different kinds of tasks done. In the Bartak case it was a design of the new and very first real logo of Johann Bartak KG including personal ideas. For example, it was a prerequisite to integrate the foundryman which can be seen in the final version in *Figure 20*. The character already exists for years as aluminum casted version on one of the factory halls. It was especially designed for Johann Bartak KG from a regional artist who worked together with the family business in the old days.



Figure 20: New Logo of Johann Bartak KG (own design)

Another very important driver to design a new logo was the need of a business card. As soon as there is weekly contact with business partners it turns out how crucial it is to exchange the contact information.

Finally, one additionally and very interesting Channel shall be mentioned that is used by the Gady Family who is a very famous retailer of agricultural machines in Styria. Years ago, they started with a small annual festival that became well-known and gigantic over the time offering all kinds of attraction. Nowadays people from all over the place are going to the event and the company is in everyone's mouth over this period of time. This is a very unique kind of communication and advertisement but very effective. What other ways can be utilized to promote your business model in a special way?

3.4. Improved Business Model

Closing the practical chapter of this thesis it is shortly shown that the collected current data can be used to derive a improved business model. An example for such a possible future BMC of Johann Bartak KG is given in *Figure 21*. The yellow boxes indicate attributes which can be kept, and all the green ones are indicating new potentials or improvements. It is also recommendable to always keep at the back of one`s mind to think about how the different drivers are most probably developing over the next period of time and where the enterprise should be in five years.

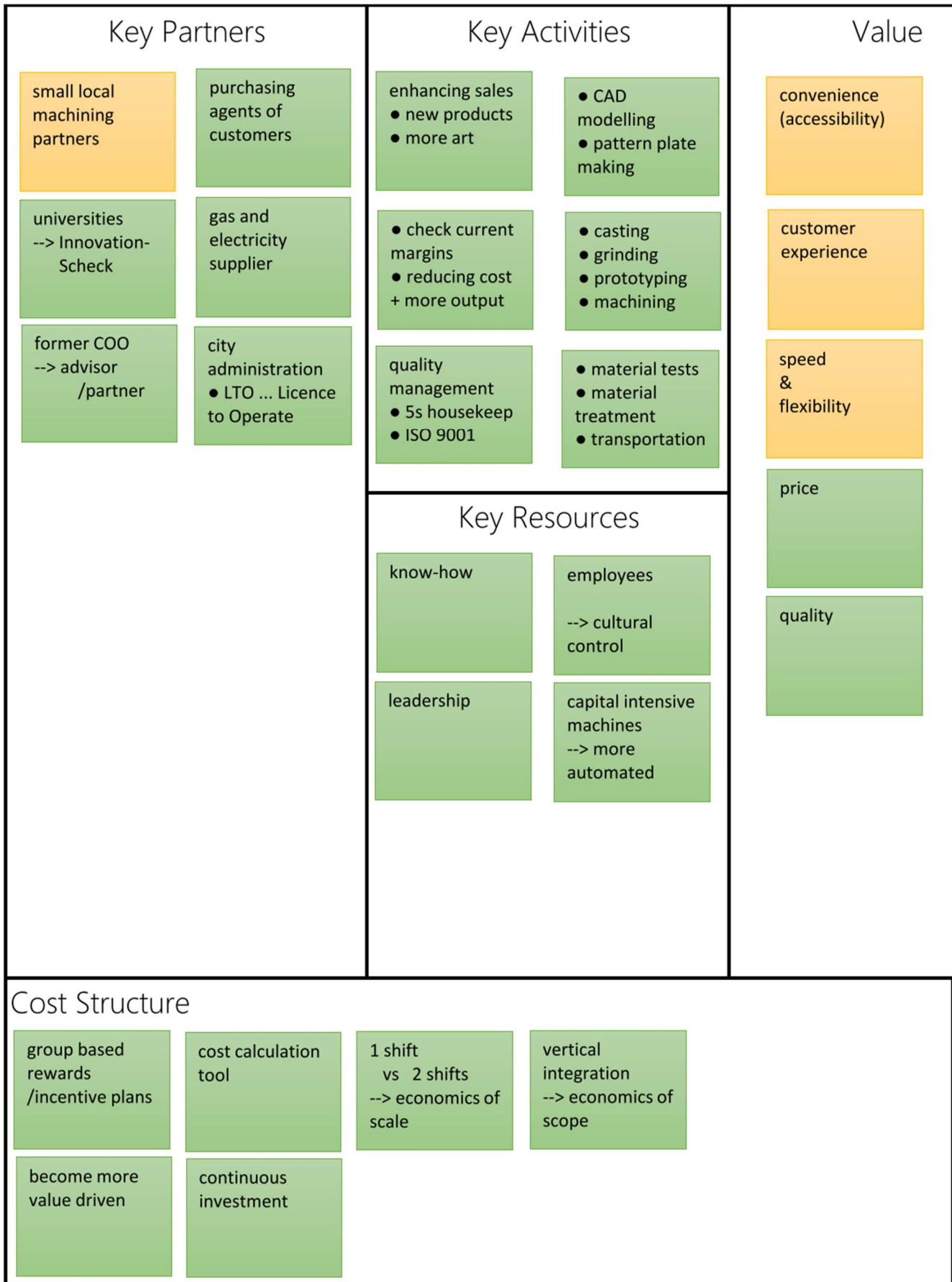
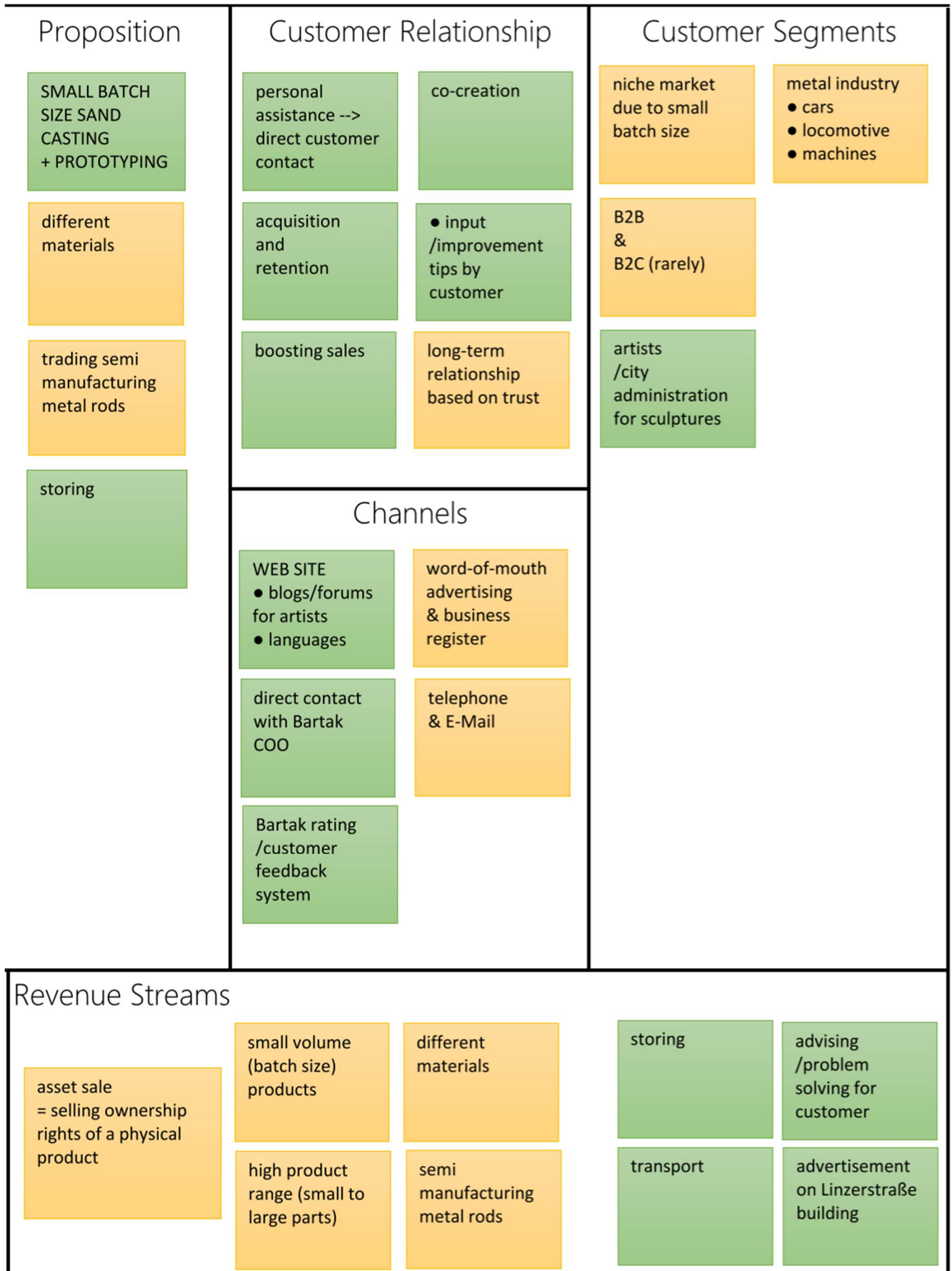


Figure 21: BMC of a future business model (Osterwalder and Pigneur 2013, adapted)



4. Discussion and Outlook

Finally, in this last chapter the results of the theoretical as well as the practical part of this thesis are condensed. Additionally, a short conclusion and an outlook are given.

4.1. Discussion of the Theoretical and Practical Part

Family Businesses

Summing up and answering the research question whether the model of family companies is still successful or if they are an outdated business model it can be said that it is not that simple for a straight forward decision. In *chapter 2* examples and reasons have been given for both a positive or negative answer. On the one hand, the huge and still increasing number of insolvencies due to the absence of top managers as well as the many failed succession processes every year underline the problems of family companies. Moreover, the question arises whether it still makes sense for successors to bear the risks of entrepreneurship with all the global opportunities at external corporations. An additional negative aspect of family businesses is the lack of supervisory authority as well as the patriarchy of the managing director.

On the other hand, family companies are justifying their existence already by the fact that an entrepreneur is willing to bring in his whole efforts and tying his existential basis on the business model. Since an increasing interest at the end of the New Economy family-owned companies are often seen as the “Hidden Champions”. Furthermore, there have been family businesses that performed above average and stayed sustainable during the worldwide economic crisis. Nevertheless, it becomes more and more unlikely to design a family company that lasts for several generations as they have been present during the last centuries.

In *chapter 2.3.2* that started with the saying “different strokes for different folks” it was shown that there are also other approaches for business succession around the globe like in Japan where adult adoption became custom to further ensure the wealth of the family business. Maybe one day this form can be found in Europe as well when we also start to define the sustainability of a company and therefore its work places as ultimate ambition.

Another important driver for the future success of family businesses is the development of the big enterprises in the market as it was mentioned in *chapter 2.1*. In the foundry industry for example especially new technology trends are leaving their marks. German companies in the casting sector have always been state-of-the-art competing with low-wage countries in quality terms. However, in mass production the difference became that small that they had to look for new opportunities. Thanks to new technology trends which

enhance flexibility and small batch sizes they are now able to go for new product groups. Due to the much smaller market it is possible to notice a tighter competition at the moment. Slowly they are expanding their range for smaller customers. Therefore, it can be seen at Johann Bartak KG as well that the price competition for new products became much rougher than the decades before.

Succession Process

The remaining theoretical research questions dealt with the topic of business succession. In *chapter 2.3* many different challenges and recommendations have been discussed. Summing up it can be said that essential factors for the success are the confidence to handover by the senior and to takeover by the junior. Moreover, it is important that there is mutual consent within the family and that all concerns can be discussed openly. Another prerequisite is the fact that the company is still wealthy without bigger threats of a crisis which further lead to the practical part of this thesis.

Additional awareness has been gained by the figures collected in this research. Currently around 20 % of all businesses are just before the succession process and all of them are individual. Furthermore, the interest of taking over the family business is decreasing in the German speaking countries. Therefore, the seniors should watch out early for suitable successors and in case they find one they must keep them interested. After all it is not certain that the transferors are able to find someone else in foreseeable time. Another important rule underlined in this thesis is to communicate the plans of succession to all the stakeholders in an early stage because it provides everyone with security.

Finally, throughout the whole *chapter 2* different recommendations for the senior and the junior regarding the succession process have been identified:

Senior

- The senior must be aware of his position as entrepreneur as well as father/family member and has to lead by example in both situations.
- The senior has to give his successor the freedom of career choice. Nevertheless, if he always provides them with a reasonable access to the company then it will increase their interest and identification with the family business.
- For an optimal tax structure, the senior should start early to design the succession process and to use external expertise. The expenses for the succession (e.g. taxes, compensation, etc.) are highly driven by the design of the whole transfer process and its modes. It is also wise to already include the successor into this kind of considerations. It is also wise to already include the successor into this kind of considerations.

- Family businesses with a strong market position are usually more capable to ensure the consistency during the succession process. Therefore, it is crucial that important investments are not adjourned.
- Independently of a well-planned family internal solution the senior has to take precautions for so-called “risk cases” when the successor changes his mind.
- In case of an age difference of more than 30 years between the entrepreneurs, the senior should ensure that after his resignation there will still be at least one experienced top manager left to support the junior.
- Next to his knowledge about the family business the senior has to bring along sensitiveness due to the high involvement of feelings during the succession process. Therefore, it is also recommended that the consensus of all participants is written down.
- Finally, the senior must take the initiative for resignation himself to ensure that the junior does not have to beg for it.

Junior

- The decision to continue the family business has to be made by the junior himself without any influence from the family.
- Education should be chosen by the junior himself as well, but it is recommended to include business and legal aspects combined with social skills.
- The junior should be able to gain external experience and achievements while studying abroad or working in another company before he joins the family business. During this period of time he will have to look for himself and get independent from his parents.
- For optimal development of the competence of the junior it is highly recommended that he has a partner for reflection as well as brainstorming. Here it has been proved of value to exchange one’s experience with friendly entrepreneurs, specialists or consultants who are capable to communicate on a same level.
- Successor should not just gladly accept the offer but put special attention on the current state of the company as well as the potential for success of the family business. After all the decision is going to influence the future life significantly.
- To get accepted by the employees it is beneficial for the junior if he visibly enhances the company.

Answering the practical research question about the status-quo of Johann Bartak KG and whether a company succession is reasonable in a sustainable way it can be said that the current state of the family business is not optimal for the succession process. However, it has been shown in the analyzation of the different building blocks of the Business Model Canvas that there is still potential for success. Especially the internal analysis pointed out that Johann Bartak KG has established itself in a certain niche market where it was able to collect assets as well as crucial casting know-how throughout the last century. Additionally, the small family business was able to build up a healthy customer base over this period of time. Nevertheless, the thesis also underlines that there is still plenty of room to grow in the different building blocks as well as the fact that it gets more and more difficult to preserve the existing know-how finding new ambitious employees who still identify themselves with the company.

A financial statement analysis that was also performed but which is not included in this thesis showed that there is no risk of insolvency due to appropriate cash assets. Nevertheless, it also turned out that the profitability is quite low which actually seems to be common in the current casting industry. However, one aim of Johann Bartak KG must be to boost sales including profits. After securing the continuity of the family business in a sustainable way further future bringing steps like investments can be considered. Therefore, an analysis of the currently available lands has already been performed and pointed out that it might be advisable to go out of the urban area for cheaper grounds.

4.2. Conclusion and Outlook

Summing up it can be underlined how supportive this thesis has been for both the succession process as well as the understanding of the current business model of Johann Bartak KG including the processes behind it. Thanks to the practical experience within the company combined with plenty of responsibilities in a leading position right from the beginning it was possible to analyze all those diverse fields with deep insights in a very limited period of time.

In the theoretical *chapter 2* it was pointed out how many scenarios for the succession process exist. Additionally, interesting cases as well as anecdotes from the business succession at Johann Bartak KG have been presented. Moreover, crucial prerequisites and recommendations to make the company transfer easier for both the senior as well as the successor have been underlined in the results. However, in the end every business succession is different and there is no guarantee for success.

The practical *chapter 3* further underlined how many aspects have to be considered within an enterprise to secure the continuity of a family business. Especially these insights combined with the current responsibilities within the company made it possible to give a good taste of the future entrepreneurial tasks and areas of influence. The external analysis in the practical part showed that Johann Bartak KG still has room for improvement regarding the channels including active acquisition as well as certification standards. Especially in this field additional research and practical implementation would have been very interesting but would have been too much to deal within this thesis.

Further steps in this research topic can also include the continuation of even more detailed analysis in all the different presented building blocks. Therefore, common management tools explained in additional literature can be used.

In the field of business succession there is a general opinion from both the succession participants as well as experts regarding the current education in German speaking countries. This also matches the results of the author's first publication. In that paper it was shown that at TU Austria there is still plenty of room for improvement in the field of entrepreneurship and especially in fostering the entrepreneurial spirit. If students would be confronted with education in entrepreneurship at an early stage then they would gain completely different point of views which would further broaden their minds enormously. (Sperrer et al. 2016)

At this stage it is also possible to conclude that it would ensure more successful succession processes in already existing companies as well as better prepared juniors for the broad spectrum of tasks they are going to face at the managing directors' position. In the case of TU Graz there are already plenty of helpful courses. However, those are still randomly distributed between the different schools and could be better promoted.

Even though this thesis pointed out that Johann Bartak KG is in a suboptimal position for the succession process it also showed positive aspects for the takeover. On the one hand, there is the potential for success with the still working but improvable business model. On the other hand, it is because of the timing. For sure it was explained that the author has not been able to collect enough external experience in his internships as well as the fact that he would have loved to go abroad for some years. However, he is just about to graduate and therefore he does not have any commitments regarding a family, a flat nor a company.

Therefore, in the end after the detailed analyzation of the current situation as well as participation within the company the author decided to take over the family business as he looks forward to a positive development of the company. Because the following statement applies to himself there is one more piece of advice for future entrepreneurs:

You must be able to identify yourself with your own business model.

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Appendix

A1. Material for first family meeting

Expectations between the participants of a succession process.

	Person 1 → to	Person 2 → to	Person 3 → to	Person 4 → to	Person 5 → to
Person 1					
Person 2					
Person 3					
Person 4					
Person 5					

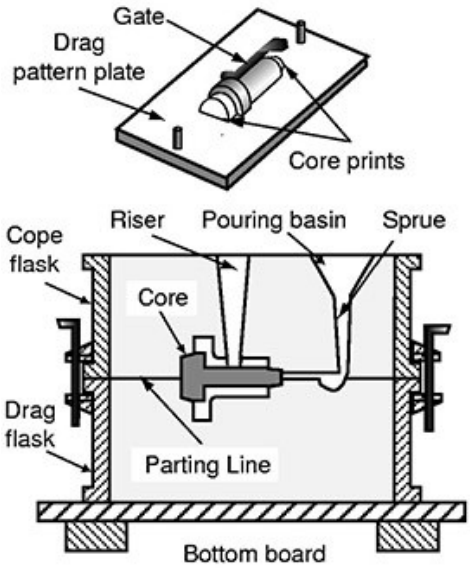

Why do we have confidence that the successor can handle this task.

	positive - negative Why ?
Person 1	
Person 2	
Person 3	
Person 4	
Person 5	

Appendix 1 Material for first family meeting

Both tables are kept simple and self-explaining in use. In the first one everyone has one column and can fill in his expectation towards all the other participants. Although both tables are so simple it is essential to take the necessary time and let each person explain all his aspects. This two sheets can easily take a whole evening.

A2. Basic casting vocabularies and information

 <p>Diagram illustrating the sand casting process. The top part shows a perspective view of a drag pattern plate with a gate, drag pattern plate, and core prints. The bottom part shows a cross-section of the casting setup, including the cope flask, riser, pouring basin, sprue, core, drag flask, parting line, and bottom board.</p> <p>source: https://www.mechanicatech.com/Casting/sandcasting.html</p>	 <p>joint – squeeze molding machine</p> <p>source: http://www.mgm-foundry.de/de/produkte/formerei/ruettel-press-formmaschinen/</p>
<p style="text-align: center;"><u>Aluminum</u></p> <p>Specific weight: 2.71 kg/dm³</p> <p>Melting point: 660 °C</p>	<p style="text-align: center;"><u>Copper – tin – zinc – Alloys</u></p> <p>Specific weight: ~ 8.9 kg/dm³</p> <p>Melting point: ~ 1080 °C</p> <p>e.g. Red Brass and Red Bronze (zinc ↑)</p>

Appendix 2: Casting vocabulary and material specification (own design)