

# **A Situation Analysis of Generational Transition in the Family-owned company JuBo s.r.o.**

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Bachelor Thesis  
2013



**Tomas Bata University in Zlín**  
Faculty of Humanities

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Univerzita Tomáše Bati ve Zlíně

Fakulta humanitních studií

Ústav anglistiky a amerikanistiky

akademický rok: 2012/2013

## ZADÁNÍ BAKALÁŘSKÉ PRÁCE

(PROJEKTU, UMĚLECKÉHO DÍLA, UMĚLECKÉHO VÝKONU)

Jméno a příjmení: **Radim POLÁK**

Osobní číslo: **H10464**

Studijní program: **B7310 Filologie**

Studijní obor: **Anglický jazyk pro manažerskou praxi**

Forma studia: **prezenční**

Téma práce: **Situační analýza generační obměny v rodinné firmě  
JuBo, s.r.o.**

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Rozsah bakalářské práce:

Rozsah příloh:

Forma zpracování bakalářské práce: **tištěná/elektronická**

Seznam odborné literatury:

**Aronoff, Craig E, Stephen L McClure, and John L Ward. Family business succession: The final test of greatness. New York: Palgrave Macmillan, 2011.**

**De Alwis, Adambarage Chamaru. Business succession in medium-size family companies: Firemní nástupnictví ve středně velkých rodinných podnicích. Doctoral thesis summary. Zlín: Tomas Bata University in Zlín, 2012.**

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**Ward, John L. Keeping the family business healthy: How to plan for continuing growth, profitability, and family leadership. New York: Palgrave Macmillan, 2011.**

Vedoucí bakalářské práce:

**Mgr. Milan Hnátek**

Ústav managementu a marketingu


Datum zadání bakalářské práce:

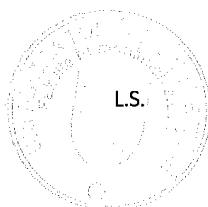
**30. listopadu 2012**

Termín odevzdání bakalářské práce:

**3. května 2013**

Ve Zlíně dne 7. února 2013

  
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## **ABSTRAKT**

Má bakalářská práce se zaměřuje na otázky následnictví u rodinných firem, především na téma předávání z generace zakladatelů, potažmo vlastníků firem, na mladší generaci v rámci rodiny. Pozornost byla soustředěna na definování rodinného podniku jako takového, na porovnání postavení těchto společností u nás a v EU a na definování specifik, která jsou s tímto typem podnikání spjata. Velká pozornost byla věnována problematice plánování a uskutečnění samotné generační obměny. Praktická část se věnuje analýze probíhajícího nástupnictví ve firmě JuBo s.r.o. za pomoci informací získaných v rámci polostrukturovaného rozhovoru.

Klíčová slova: rodinná firma, generační obměna, nástupnictví, řízení podniku, plánování

## **ABSTRACT**

My bachelor thesis focuses on the topic of succession in family-owned companies, mainly on the aspect of a company being transferred from the generation of company founders and owners to a younger generation from within the same family. Attention was paid to defining a family business as such, comparing the status of these companies in the Czech Republic and EU and determining specifics related to such type of entrepreneurship. Main focus was on the topic of planning and making generational transition happen. The practical part contains an analysis of ongoing succession in the family-owned company JuBo s.r.o. based on the data gathered through a semi-structured interview.

Keywords: family-owned business, generational transition, succession, company management, planning

## **ACKNOWLEDGEMENTS**

All my gratitude belongs to Mgr. Milan Hnátek for his time, useful information and scholar opinion he was kindly willing to give me throughout the process of writing my bachelor thesis.

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## INTRODUCTION

However important role family-owned companies play in the European economy, there is not much attention this type of entrepreneurship gets in the Czech Republic. Moreover, the legislation is not supportive either and family businesses are mostly viewed as any other kind of entrepreneurship, even though they are very specific in certain aspects. In the Czech Republic there is a lack of both the research and the awareness that such companies have in the Western Europe where they make up for a very significant part of GDP.

It is only a third of family-owned companies that live to their second generation and then only half of them make it to the third. Successful generational transition is therefore one of the most crucial moments during any company' existence and has to be planned well in advance. Starting with answering basic questions such as who will be the successor? Will it be someone from the family? If so, are they skilled enough? Do we share the same values?

And then, when the successor is chosen there often comes a moment when the older generation refuses to leave the company because they think that the mission they devoted their life to could be damaged by letting their descendants take over control. This can be, however, avoided if certain steps are taken. Planning for a generational transition is a lengthy process that starts well before the successor takes on a job in a family-owned company. The aim of this thesis is to analyze the process of generational transition and explore its most crucial parts.

## **I. THEORY**

# 1 FAMILY ENTREPRENEURSHIP

## 1.1 Importance of family-owned businesses

Although family businesses are the foundations of European economics there is not much attention focused on this type of entrepreneurship in the Czech Republic.

However family-owned businesses are often put in the same category as other types of companies, they are characterized by a few essential differences in specific areas, these are mainly personal, psychological and economical (Rodinné firmy, 2010).

In the Czech Republic, there were not many researches done in the area of family entrepreneurship. Most of such studies were carried out in the US and Western Europe opposed to Eastern Europe where such studies are mostly sporadic. Moreover, relevant legislation that would offer certain order for entrepreneuring families is missing completely. According to Czech entrepreneurs, legislative formulations as they are right now are inaccurate and complicated to comprehend. So it happens that family-owned companies often use external services for specific activities because they can not carry out certain activities by themselves, e.g. accounting or matters of tax return (Rodinné firmy, 2010).

Professor Korainen, who is a leading European expert in matters of family entrepreneurship stated that family-owned companies are the backbone of European economics. His statement is further supported by International Enterprise Research Academy and their studies showing that family businesses make up for 95% of all companies in the EU. The biggest share belongs to Italy where 95% of all companies are managed by families.

Though it is usually true that family-owned companies are in the category of small and medium enterprises, there are many that have grown into multinational companies as shown in the following tables.

Rank	Company	Country	Revenue (bn)
1	Volkswagen	Germany	£159.34
2	Fiat and fiat Industrial	Italy	£83.86
3	ArcelorMittal	Luxembourg	£71.85
4	BMW	Germany	£68.82
5	Metro Group	Germany	£66.70
6	Schwarz Group	Germany	£64.00
7	PSA Peugeot Citroën	France	£56.06
8	Louis Dreyfus	The Netherlands	£57.00
9	Aldi	Germany	£56.00
10	Robert Bosch	Germany	£51.40

*Figure 1. 10 most successful family-owned companies in Europe in 2011. Source: <http://www.campdenfb.com/article/top-100-family-businesses-europe-1>*

Not only in Europe are family businesses a successful kind of entrepreneurship but also in America such companies are very well rooted. One of the most thriving companies worldwide Wal-Mart is an illustrious example. The top 10 US companies generated total revenue of nearly \$1 trillion.

Rank	Company	Revenue (bn)
1	Wal-Mart	\$421.85
2	Ford Motor Co.	\$128.95
3	Cargill	\$107.88
4	Koch Industries	\$100
5	Carlson Companies	\$38
6	Comcast	\$37.94
7	News Corp.	\$33.4
8	HCA Holdings	\$31.5
9	Bechtel Group	\$30.8
10	Mars	\$30

*Figure 2. 10 most successful family-owned companies in US in 2011. Source: <http://www.businessinsider.com/the-10-largest-family-businesses-in-america-2011>*

## 1.2 Defining family businesses

It is important to state that there is not a universal definition of a family business, there are many of them and they differ across countries. Koráb, Hanzelková and Mihalisko (2008) list three definitions of family businesses.

**A wide definition:** The family has a strategic influence in directing the business and they plan on keeping the business. They, however, do not have to own a major stake of shares.

**A moderately wide definition:** The family is in control of the business and owns a major stake of shares.

**A narrow definition:** More generations of family are involved in controlling and owning the business and at least one family member is an influential manager in such company.

### 1.3 Characteristics of family businesses

In general, family business is such a company that is in a relationship with the institution of marriage and family. Strážovská (2002) claims that family business can not be defined according to its size or number of employees and that special criteria need to be defined. In 1997, Massachusetts Mutual Life Company ran a research of American family businesses. They established following criteria of determination:

- 1) The owner considers his company a family business
- 2) The owner intends to pass his company to a close relative
- 3) Aside from the owner himself there are other members of family involved and they are proper participants in business' processes.

Another characteristics come from Koráb and Klouda (1998) from their publication focused on family businesses. They borrowed a definition created by The Institute for Family Business in Spain in 1991 which basically says that family businesses are companies with highest or at least most important capital held by several people or companies from one family, provided they take part in managing and leading the company no matter which sector the company operates in. Observant reader may question why the author uses a Spanish definition. The reason is simple though, family businesses have got long-lasting tradition in Spain and they make up for the biggest part of small enterprises in their country.

### 1.4 Inner relationships

Family as a whole is a reflection of its inner relationships. It influences the way it is perceived by its surroundings, the way members of the family appear to their friends, neighbors or other subjects in their vicinity. Thus, it is no wonder that such relationships inside any family take a big part in how the family business prospers. It is often very difficult to part a personal life from the professional one. It is a problem concerning this type of entrepreneurship in particular, and it is also often that the inability to part these lives leads to the company's end. Hanzelková (2004) lists four basic problems connected to family entrepreneurship.

These are

- Protection
- Syndrome of a spoiled child
- Autocratic leadership
- Exploitation of business

#### *Protection*

In connection with family business, this term occurs very often when a succession of a business takes place; when a new generation enters the business. The older generation of owners introduces the younger generation to their jobs with the tendency to overlook their inabilities, which can have a demotivating influence on other employees. Another problem that can occur with inexperienced boss is being disrespectful to subordinate employees. Consequences of such behavior may result in problems concerning both the environment and intention of experienced and valuable employees to leave the company. Again, both can lead to the questions of company's existence.

#### *Syndrome of a spoiled child*

This concerns mainly those parents that are both involved in company's life and are unable to find free time for their children. The lack of time they would dedicate to upbringing their children and the lack of their concern is often compensated by material benefits. Subsequently, these children have trouble with recognizing true value of things that others earn after their own hard work. Such children accept things automatically. Their self-esteem is often excessive, which can lead to substantial problems while working in a family business. These people usually stand their ground no matter whether their opinion is the right one and they tend to overlook any comments or criticism of their colleagues.

*Autocratic leadership*

This type of business management is the essence in many family-owned companies. The situation occurs when the head of a family takes on his role even in the business environment, especially concerning smaller businesses. Many entrepreneurs have the autocratic tendency, which can be useful in the beginnings but it may lead to many more problems later on. Such company usually struggles with creative individuals leaving because they do not have enough space for their innovative ideas.

*Exploitation of business*

The last problem is exploiting a business as a bottomless source of finances. There are cases of family members that would come to their job just for their monetary resources, which, of course, has no positive contribution to the business' environment. This can result in working refusal of other hard-working employees. If this behavior is not intervened in its beginnings and no important precautions are taken, such family-owned company is usually on its way to declension. According to the chairman of the Association of Czech entrepreneurs Bedřich Danda, another problem that occurs very often is caused by the fact that one member of a family starts having a feeling of profit being divided in an unfair way and assuming that another person is beneficial. Some studies and researches from the area of family business show that it's the conflicts that is one of the main causes why family-owned companies usually have a short life. Statistics further show that it's only 5-15% of family businesses that make it to the third generation of founders' descendants.

## **1.5 Advantages of family businesses**

Up to this point I was rather concentrating on the negative aspects that are connected with this type of entrepreneurship. However, it was not my intention to suggest that family companies are problematic and have no place in national economics all over the world. Now, I would like to continue with stating the advantages that go hand in hand with running a family-owned business.

It is without doubts that the institution of family businesses is characterized by high flexibility. They can react to the market changes much better which is caused by the fact that these companies do not suffer from bureaucratic stiffness and also because family members often devote much more of their time to their entrepreneurship. Also, they are usually highly familiar with local markets and therefore are able to react promptly. In the Czech Republic family businesses are rather small companies. Their production is oriented



mainly on quality, which represents another advantage. Entrepreneurs are often existentially dependent on their customers and therefore can not afford any hesitation from their side. Goodwill of any company goes hand in hand with a satisfied customer, which pays off twice as much with these small companies. Family members themselves usually care about their own personal reputation, take pride in it and know very well that their reputation is in a direct correlation with the company itself. Other than that, family-owned companies are usually a reliable part of the production process of their customers (Koráb and Klouda 1998).

Family members are often more motivated which is due to the fact that they work on their own for themselves. A psychological effect takes place and parents are motivated to provide for their children's future, thus they are trying to build as strong business as possible. These entrepreneurs also feel more socially responsible and are characterized by long-term objectives which are often much more successful than those of non-family businesses. This happens because they are trying to ensure the profitability of their projects via investments they take care of. Moreover, employees in such companies feel more secure in keeping their job because parents, as I have mentioned, are motivated in keeping the business alive (Koráb and Klouda 1998).

Another advantage is that the children of company owners are related to the business since their early childhood. This can prove itself a big advantage once they start working for their company. There is less time and other resources needed for them to be trained in company's internal processes. Young entrepreneurs often fluently enter corporate system. Basically, they live along the businesses from a very young age (Poza 2010).

Mentioning strong aspects we should not forget about effectivity and productivity. Koráb and Klouda (1998) mention that family businesses are more productive for two reasons:

- 1) Less divergent objectives, more flexibility and a higher ability to react to changes on the market
- 2) Family businesses are better in managing their factors of production so that the biggest possible profitability is ensured. Such effectivity is to be seen in all industry sectors including branches with high capital intensity and demanding technologies.

Based on the aforementioned characteristics we can conclude that while family businesses are often smaller than those of non-family members, their livelihood can be

compared, moreover they often come out as better regarding effectivity, productivity and interpersonal relationships. Though, it is apparent that some business branches are more specific and suitable for such companies. They often do better in retailing and tertiary sphere in general.

## 2 FAMILY BUSINESS SUCCESSION

According to researches oriented on succession only a third of family-owned companies live to their second generation and only half of them makes it to the third. As Aronoff (2001) says, one of the most critical causes is related to the matters of generational transition. Therefore, it is essential to plan what the actual transition has to be like well in advance and also plan the whole procedure step by step; mainly how the competences will be handled both in managing and administrating the business. We have to, of course, approach the succession from both aspects because they are mutually knitted. Very often this process is underestimated. Transferring the business onto another generation is considered a short-term process, however, it is one of the most key matters in the life-span of a company that requires a lengthy and thorough preparation - 10 or more years. According to available sources more than a half of family companies can not get through even the first transition and only every twentieth business can cope with a second transition. In the countries where family businesses are fully developed, many companies use the services of specialized advisory agencies, which concentrate just on the topic of generational transition.

According to the author of the article *Management nástupnictví* (2004) the biggest focus should be on choosing and cultivating a future successor. However, in real life such matter is usually underestimated. If the company founder decides to retire he has to determine what path is the company going to take. The options are:

- Stop the entrepreneurship
- Sell the company
- Replace himself with a professional manager and keep the business in his ownership
- Pass the company to his descendant

According to Gersick (1997), succession belongs to one of the most discussed issues related to family businesses in specialized publications. The most typical example connected to passing a company to another generation is a conflict of two contradictory elements; the difficulties of a retiring generation and expectations of younger generation. If there was a formula that would exactly determine when there is a moment when both generations are ready the biggest dilemma of family businesses would be solved.

Lukeš and Nový (2005) say that succession is the far most complicated topic as it involves dealing with both concerns organizational and psychological. The company's founder usually care very much about who will be the successor and the further development of a company he started.

The first question that needs to be dealt with is whether there is someone who is interested in continuing the business. If no such person exists founder starts looking for someone. He starts with his family first and then goes on with his most loyal employees. If nobody is found at this stage he starts questioning whether he should keep on managing the business himself until a successor is found, whether to sell the company or whether he should hire professional management (Lukeš and Nový 2005).

Koráb (2008) says that the process of changing owners takes place in the field of different values, life experiences and personalities - a sense of responsibility on the side of founding generation and a need of self-realization and individuality on the other side. The founder is, according to the author, more of a pathfinder or a pioneer and the successor tends to solve problems in a rather diplomatic way. The process of generational transition has several stages.

- The founder has to understand and realize that it is necessary to pass the company to another generation so that his company could still exist and prosper. In the beginnings he is reluctant to do this.
- He is then starting to gain trust in his successor.
- Trusting in the successors abilities brings him to the another phase - transferring the business.
- As for the successor there are typical initial doubts and resistance towards taking over the company. He has to, however, get through his worries before the transition is completed.
- The successor is usually willing to take over the business once he finds out that the founder trusts him and wants the competences to be transferred to a successor.

Scholars also agree that the continuity is entrepreneurship is dependent on how well was transition planned. Nevertheless, despite the obvious importance of planning, results of researches are interpreted in favor of not-planning in the majority of family businesses (Aronoff 2001).

Statistics and researches published by Wendy C. Handler in Family Business Review confirm that succession is a problematic issue. Many claim that the responsibility for preparation of succession is in hands of the founder or owner. Others focused on the experiences of succeeding generations and their relationships with their parents. Lansberg in the review shows what kind of impact is inflicted by the "secret agreement of successorship" on both sides, throughout the system of a family business including family members, management, suppliers and customers. Scientists usually agree that succession is more of a process rather than an event. It is not a step of transferring competences and responsibilities by signing an official document, it is a multi-layered process constructed as time goes on long before the descendants take over a company of their parents.

## 2.1 Council agencies

As I have mentioned, there are specialized services offered by agencies that concentrate on helping family businesses being successfully transferred. They should:

- Go through every stage of a succession process, both with the founder and the successor.
- Point out new horizons for both the current and future owner.
- Serve as a moderator in negotiating about occurred problems.
- Help the successor during company's property evaluation.

Very often the objectives and future tasks are underestimated during the succession process. According to Koráb, Hanzelková and Mihalisko (2008), succession is considered to be successful if:

- The current existence and further growth are ensured while current positions are maintained
- A successor with appropriate technical and personal skills is found.
- Different interests of family were preserved during the process.

## 2.2 Generational Transition

Family issues usually arise when a business owner starts asking following questions:

- Who will be the successor?
- When to start planning a generational transition
- How to approach such transition

According to Gersick (1997) the process is much more complex than simply planning the right moment to transfer the company. It is reflected by two words that are often used as synonyms: succession (a sequence) and continuity. Such concepts consist of complementary processes, which make them contradictory and the concept becomes complicated and dynamic. Succession reflects aspects of a step-by-step transition while continuity relates more to a part that needs to be preserved in the future. Both of these terms have to be in balance so that they minimize the disruptive consequences of generational transition

For a senior generation their leadership is what gives them a status, meaning, power and more. According to Jeffrey Sonnenfeld, the leading researcher in the aforementioned review, the biggest obstacle connected to patriarchal leadership is when the retirement is about to happen and the senior feels as if he was losing his "heroic character" or a "heroic mission". A heroic character is a position of power and status, which distinguishes top leaders from everyone else. Heroic mission is a sense of exceptionality that comes with the senior's belief that he is exceptionally important and qualified to accomplish a mission.

Gersick (1997) further adds that the rest of the family often speculates about when they feel the transition should happen. There are cases where the younger generation is impatient and can not wait till their parents are gone from the company. However, there are also cases where younger generation tries to sympathise with seniors and the impacts of such behavior prevent further discussions and thoughts of the company owner towards his leaving.

Another aspect that leads to postponement of retirement is what we actually associate with such time of one's life. Sources of specialized literature suggest that many people are afraid of retiring because they associate this decision with negative aspects such as health issues or prevision of death. They might as well feel dissociated or feel afraid of being forgotten by other colleagues (Gersick 1997).

However, an aspect that is probably the most common cause of fastening ones retirement is strike of physical crisis. It is very likely that an idea of retiring would cross mind if a serious health issue arose, for instance a heart attack is often the trigger of such thoughts. Another aspect can be a business milestone in the form of business anniversary or a completion of one of long-term company's projects (Gersick 1997).

Concerning transfer of responsibilities to a younger generation, such event can be either a process or can be carried out during a single occasion. Similar to the process of retiring, transferring responsibilities can be also quickened by an unplanned happening. There is a whole lot of one-way paths that a family can take but can not come back. A typical example of this would be the death of one or both parents. There are, however, other events that serve as a cause of a sudden and important change in company's management. For instance, parents may decide to sell a family house and move to a small condominium or may decide to move to a completely different location where they grew up. There may be those who suffer from a weakening disease such as dementia, Alzheimer's disease or a slow recovery from injuries. Every family lives in an expectation of such events but, in fact, they are most likely not prepared for them (Gersick 1997).

Inevitably, in time, family business gets to the point where powers are being transferred to a younger generation and complex emotional problems connected to this process actually arise. For seniors, the signs of physical and mental descent are more inevitable than before. As Gersick (1997) states; according to Erikson, a significant psychoanalyst and theorist in development of human resources, this is an era of confrontation of seniors with their inner-selves their sense of honesty and despair. Such despair can be a result of deeply-rooted disappointments of their imperfections and mistakes they made during their professional lives. The ambitious dreams they once started their entrepreneurships might not be achieved and a person is left with a feeling of incompleteness. Gersick (1997) in his book points out that while company owners are on their heroic mission they often forget to plan ahead who will be the follower of their dreams.

### 2.3 Planning generational transition

Many people believe that a transition takes place the moment the company owner decides to leave his function. In fact, it is a process which starts long before that, when potential successors are still little children. This is the fact why it is not easy to actually determine a point in founder's life when the process of planning starts and how will it go. However, there is a certain outline, which can help.

In the first phase, a parent should raise his descendant's interest in successorship and should work on all goals that are related. According to Koubek (2005), planning should start the moment it is obvious that a company has strong foundations, a good perspective towards future, stability and it is convenient for the family to hold onto it. It is therefore vital to start planning as soon as we recognize the situation because if we do not, unexpected events may be a big threat for the company's continuance. While this seems a reasonable advice, in most cases companies postpone planning or do not start at all. One of the many obstacles is that people think that they are immortal, in a sense. They have problems leaving their position. This situation is unbearable mainly for those entrepreneurs who are driven by their own ego and accomplishments. They are convinced that they are the only ones who hold their lives in their hands and decide of their own destiny. Thus, it is very difficult to accept that they will not be able to take care of their company forever. It is this idea of their immortality, which causes a big obstacle when discussing the successorship in between family members. Secondly, small and medium enterprises often focus on short-term matters and they do not even consider planning. They refuse the process of formal planning because they think of it as too bureaucratic. As I have also mentioned before, many owners think of their companies as of certain symbols and they are identified to them. Then there is also a problem of uncertainty in their followers. They are not sure whether they will be capable of leading the business. Sometimes even the feel of rivalry adds to that. Also a conflict can arise when parents are faced with picking which children will be the successor. And as for problems from outside the family we should not forget about employees and clients. The first group can feel endangered because they fear losing their positions or lowering their salaries. New leader seems inexperienced to them. While clients feel it hard to put their trust in a new person they have not dealt with before.



But it is not just the time that is saved thanks to planning ahead that is a big advantage. If the company owner decides to pass the business on to his successor in time, he can avoid paying fees that are connected to inheritance later on.

Other than that, the process of aging takes its toll when the owner loses his abilities and is no longer capable of leading a business and reacting to constantly evolving environment. That is another reason to plan a succession well in advance. Of course, the primary target of any company founder is to pass the business on and see his legacy continue in the hands of his descendants. According to Koráb nad Klouda (2008), that is the aspect that positively motivates the owner to start planning.

## **2.4 Approaching generational transition**

The most vital thing is to very carefully plan the whole process of transition. Two points should be paid attention to:

- Manner in which ownership will be transferred
- The way generational transition in companies management will be handled

Also in this case applies the rule saying that timing is everything. Transition is a lengthy process and it is important to approach and treat it that way. By the time the company owner is ready to retire, his successor should be evolving his abilities and gaining respect and trust both from the owner himself and everyone else involved: the employees, clients, suppliers etc. Also, the family should be allowed to express their opinions. Such planning should not go without defining targets, means we will use to meet our objectives, and deadlines. Planning everything on paper and introducing the family and everyone else involved to such schedule can open space to consult anything that is unclear. The process does not involve just choosing a candidate but attention should be paid to strategic viewpoints, education of candidates, their abilities and life values of succeeding generation. Parents should take care of providing education and experiences for their offsprings once they show interest in leading a family business. From then on, the parents should set objectives and deadlines to determine the time the potential successors should reach their targets. This gives the older generation an overview on how their children stand and whether it makes sense to integrate them into the company (Aronoff 2003).

## 2.5 Realization of succession

In most cases, following situations influence the process of choosing a successor:

- Life situation the owner is currently in
- Owners professional interests
- Requirement of owner that the successor identifies himself with the companies values

Aside from that, it is important so that the two find a common ground and trust each other. During decision making processes the successor should be getting a feedback from the owner and both should learn from one another. It is crucial so that they have friendly relationship. If aforementioned points are not abided, the result may be a misunderstanding, fault or a mistake. It can lead to a complete communication breakdown and threaten the company's stability and existence. Also other aspects may stand for a cause of problems while transition is taking place. For instance, many companies are built on the foundations of a successful know how and therefore can not be so easily transferred to another generation (Poza 2010).

## 2.6 Situation after transition

Once a new company owner takes his position he should not assume that everything would work the same way as in the times of his father. According to Lukeš and Nový (2005), the new owner has to eventually take care of following areas that may cause problems:

- Economic situation is not what it used to be during transition
- Retirement of a key employee
- New contract terms with important customers
- Responsibility for previous obligations
- Dismissal of contracts with current suppliers

Concerning economic situation, this is one of the most typical phenomena. The cause may be insufficient experiences and skills of a new owner or even underestimated financing (Lukeš and Nový 2005).

Once a key employee leaves the company the collective can break down, which can have a crucial impact on the company's future. There are cases where new owners could not handle the situation and left shortly after that. If this happens and more people from management leave as well the strategic development gets a serious damage (Lukeš and Nový 2005).

According to Lukeš and Nový (2005) it is important to check contracts with business partners during or shortly after the transition. Some of them might have been very inconvenient because the former owner would make deals based on his personal contacts. However, new owner should meet any obligations that his father made. Some of the suppliers or customers may terminate their contracts with company when a new owner takes over. This can cause serious problems because company loses a substantial part of their incomes or convenient supplies of goods or services. These are the risks the successor has to realize and react to.

## **II. ANALYSIS**

### **3 AIM OF THE THESIS**

#### **3.1 Goal of the work**

Main goal of my bachelor thesis is to analyze whether a researched family-owned company handled their generational transition according to approaches mentioned in the theoretical part of this work and whether there were any complications between, during or after the transition took place.

I would like to present my findings to both the company founder and the business successor and suggest possible improvements.

#### **3.2 Motivation**

My personal motivation for choosing the topic was that owners of the company are my neighbors and in the recent years we have often talked about their company and the pros and cons of such type of entrepreneurship in general. Also, I have worked in the company during summer 2010 and 2011 and I gained the insight of the environment as well as interest in the field of their business.

## **4 METHODOLOGY**

### **4.1 Method of research**

As a method for collecting data for my research I chose a qualitative method of interviewing so that I would gain a deeper and more complex understanding of variables involved in the process of generational transition, mainly the attitude of former company leader and current one. Also, this type of research gives space to looking for new correlations in between objects and based on such findings gives the opportunity to unveil and interpret outcomes of the issues we have researched.

My research was concluded in a family-owned company in the Olomouc region. The company is called JuBo s.r.o. and the company leader Josef K, who is in the business since the company's beginnings in 1993 gave me his kind permission to collect and interpret the data.

### **4.2 Collecting the data**

To gather information I needed I chose to interview both the son (successor) and the father (founder). As for the method, I decided it would be most convenient to conclude a semi-structured interview, which I thought, would be the most suitable option in this case.

A semi-structured interview is such a type where the interviewer prepares a set of questions that he would like to ask the interviewee, but according to what the person responds the interviewer has the option to react to the situation and ask additional questions,

During preparation for the interview my main focus was to get answers to questions concerning necessary steps that should be followed in order to make a generational transition happen without any complications. This means mainly choosing the right successor, giving him sufficient education and knowledge and deciding when and how the transition will happen and later on evaluating how the company reacted after the retirement of former company leader.

### 4.3 Researched subjects

As I have mentioned, my research is focused on generational transition in a family-owned company, therefore the interview concerns both persons involved the successor and the founder. The company consists of four actively working people of which only one employee is a non-family member and works on a lower position as an accountant's assistant while all family members (Josef's wife being the third person) work in administration and management.

Based on interviews with the founder and the successor I wanted to find out when and how long was the process of generational transition being planned and prepared for, whether there were any complications, how do they feel about it and what is likely to be the future of the company.

#### 4.3.1 Characteristics of researched subjects

I concluded the research in December 2012 in a family-owned company that specializes in the area of distributing snow chains, welded chains for trucks, ships and other chains used in heavy industry. The company founder started this business in 1993 together with a few other investors, who, however, do not actively work in the company and only maintain a formal position while the whole decision-making process is in the hands of the family I concluded my research on.

First researched person is Josef. He is the company's co-founder and maintains the position of an executive and manages the company in all aspects.

Second researched person is Tomáš. He is Josef's son, maintains several positions and recently was made an associate who has been taking control over the company for the last year

## 5 ANALYSIS

### 5.1 History and beginnings

Firstly I decided to learn more about the company's background, area of specialization and their beginnings in general. I had prepared a set of questions in advance and asked further questions when needed.

The first idea to start a company occurred right after the fall of communism in the Czech Republic. Josef was working in a business that was producing metal materials for heavy industry. He was put in a position of a foreman of welders after many years of experience that he began to gain after leaving school. The company he was working for was called Rudné Doly - Ocelové Stavby Jeseník and they were one of the biggest employers in the region. During Josef's employment he had a chance to meet many people with different experiences in the manufacturing and heavy industry and some of them became his close friends.

Inevitably, after the revolution happen it became clear that there is a unique opportunity to start a business or continue working for someone else. Josef decided to get together with his friends who were working in different positions across companies that concentrated mainly on producing materials for heavy industry. They begun thinking about what they could do with the many contacts they made while working in state-owned businesses during communism. Whilst figuring this question, they kept their jobs for a while and continued working in a company selling tools and equipment for constructions.

In 1992, Josef and few of his friends from the same business area finally got together and decided it would be best to get their knowledge and contacts together and start a company specialized in an area close to what used to be their jobs during socialism. At this point, seeing other entrepreneurs taking their chances in the market and distributing and reselling materials, they recognized the opportunity in becoming distributors for Řetězárna a.s. which was and currently still is one of the biggest producers of chains in the Czech Republic. They established a partnership and since 1993, JuBo s.r.o. is an official distributor of chains made in Řetězárna a.s. Josef thinks that it is both thanks to the fact that shortly after the fall of communism there was not a big competition in this area and also thanks to the contacts they made during their previous careers that their new company was successful since it's beginnings.



While the company started to take off, Josef was chosen to be the company's leader, full-time representative and a decision-maker while the rest of co-founders would continue working in other projects and let Josef be the main manager.

## 5.2 Successor joins the company

For the purposes of my research it was important to get to know the background of Josef's son employment in the company. I asked Josef if he could summarize when did his son join the company and what was the reason.

Josef's son Tomáš who is currently 33 years old joined the company in 2008 after leaving his previous job in a completely different area of specialization.

In general, Tomáš is not the typical example of a son that always wanted to follow the path of his father. Partly, that is also thanks to the political system in the Czech Republic that Josef did not have a chance to start a business before 1989, and when he did Tomáš was already 13 years old. Other aspect is that Tomáš always had his own interests that predetermined his further education, which was in a field very remote to managing a company.

First he received a certificate of apprenticeship as a plumber and then he took a job at a local wastewater treatment plant. While working he went on to get full secondary education and finished with a high school diploma at a Civil Engineering High School in Jeseník. As his final education he chose to study for 3 more years and earned a foundation degree (DiS).

After his studies he was employed in several companies, none in the same area as of his father's company. Tomáš says he is a very self-sufficient person and therefore his intention was never to rely on his parents in matters of his employment. After several years of being employed outside any reach of his family he accepted a position of administrative worker in a company producing plastic windows. This was for the first time that he was working in a business that was connected to his father's business activities; his new employer was a co-founder of JuBo s.r.o. Contrary to what such situation might have looked like, Tomáš was never in a position where he would be protected by his father and was always treated as any other employee. After 3 years Tomáš felt it was time for a change and he left.

At this point his father approached him with a job offer and Tomáš replaced a retiring employee in a position of a storeman and driver.

### 5.3 Need of succession

The idea that Tomáš would one day be a successor has been on Josef's mind since he began to see the success of the company. He realized that while he makes a living for himself and the family, the business is growing and it would be a shame to retire and have someone else take over the company. And considering that unemployment in the Jeseník region is nearly twice as much as the national average, he began to think about it, though he did not know what would be the response of his son.

As to my question whether Josef ever thought about any other option than making his son the successor, he says that if there was not for Tomáš the company might have gone out of business. Although Josef also has a daughter, it was always clear to him that she would not be the leader of their family-business. His daughter Martina was educated and her whole career works as a nurse and never had any intention in changing her job. And although other co-founders have children of their own, none of them remained in the Jeseník region nor they showed any interest in working in the company.

To my question whether Josef ever thought about letting professional managers lead his company he instantly refused and said that this was never an option.

Josef used several examples of local companies going bankrupt after being taken over by managers who were previously not involved in the business. At the same time he adds that during the few years Tomáš has been working in the company he proved himself a valuable asset for the company.

He is viewed by everyone involved as a very hard-working person, who is always willing to work many extra hours and very importantly; maintain several positions at the same time.

#### **5.4 Agreement of transition**

Since Tomáš is the family-member who was not involved in the company until a few years ago but at the same time has been his whole life living in his parents' house, he was always in a position of a passive observer. While working different jobs, as years went by he saw his parents getting tired and he began realizing that his father will not be the leader forever. But it was not for another while that he would start taking the idea of succession seriously. As I mentioned, in 2010 it was for the first time that Josef started suggesting that there will soon be a need for company's new leader. Although this was for the first time Tomáš had an open conversation with his father on this topic, he suspected that this situation would come soon. His reaction was positive, during the few years he spent in the company he got used to the rhythm and according to his words; other than his father being sometimes a cause of bad environment inside the company, he felt generally satisfied with what this job has to offer. What Tomáš values the most is that there is no need for him to move and look for a job somewhere else. He always felt best living in the region where he was born and his intention was to find a job in its vicinity. Knowing that there is distinctly high unemployment in the Jeseník region and that finding a new job would not be easy, these factors speeded up Tomáš's decision.

#### **5.5 Planning and preparing for succession**

Since I have stressed the high importance of preparation for generational transition I was particularly interested in how they coped with this matter.

According to the words of Josef it was not a scheme or a schedule they would follow but more of a natural process during which it became clear that the company would soon need a new leader. It was 2010, two years after Tomáš started working in the company that Josef felt for the first time that he is not able to keep up with new technologies as he used to. In his attempt to gain a competitive advantage he tried to use social networks and other services which would allow him to promote the company, but while being generally successful in his attempt he knew that in the future it would not be easy for him to adapt to the trend of promoting a company on social networks and the Internet in general. He knew that it is a time when a younger generation has a big advantage.

However it has become clear that Tomáš will likely be the person leading the company in its future, Josef did not arrange for any special training or further education that would help Tomáš in preparation. Josef thinks that his son is naturally talented enough to get into his role by simply working in the company and then one day transferring to a higher position with what he has learned in the process. While this seems to be enough for the father, Tomáš out of his own initiative started obtaining information that would help him become an informed leader. He saw that his father made a lot of decisions with only a little information and he realizes that it is knowledge that can help him in both being a responsible leader and expanding the business.

What Josef regrets is that thanks to the political system in the Czech Republic he was not able to start the company before his son was in puberty. He thinks that his son would be more prepared growing up with the company being around since his early childhood. Also as Josef has not started his business until he was in his 40's he says it was at times difficult for him to learn the whole process of entrepreneurship and that he lacked knowledge that youngsters get in school nowadays.

## **5.6 Realization of succession**

As I have mentioned, before Tomáš started taking part in the decision-making process of their company, he was already working in the business in several positions. According to both the son and the father there was no given point where they went to work knowing that from now on Tomáš is taking over the company and his father should start preparing for retirement. In fact, both now manage the company, even though Tomáš would undoubtedly appreciate gaining more freedom in the decisions he makes. On the other hand, despite the fact that Josef is still working in the company on a daily basis, for the past months he has been gradually letting his son hold meetings with their business partners and when Josef is not present Tomáš is the person in lead. According to Josef, even though he values his son and has decided that Tomáš is the only person he can see in the company's future, there are still situations in which his son is not capable of forming the best decision. Therefore, Josef decided to keep on going to work but slowly become more of an observer and retire completely in the upcoming months.

From both the son and the father I got the impression that they are both committed to more or less the same values but still differ in a few critical aspects. Concerning their business they are both hard-workers but with different mentalities and interests. Concerning this, one of the biggest issues seems to be Josef's passion for cultural situation in the village they live in.

Since his adulthood, Josef has always been very active in holding sport tournaments and generally providing cultural opportunities for other citizens. His intentions were always appreciated and Josef took pride in being an active member of society. However, the issue seems to be that it was easier to find resources, mainly time and people that would help organizing such events during the previous era. Now, that the political situation has changed there seems to be an ideological struggle between Josef and Tomáš. Josef's attitude did not basically change and he is still trying to do some extra work for the community but it is usually at the expense of company's resources; mainly employees who have to take care of related matters while they could be working on more important issues. And while both Tomáš and Josef see holding and sponsoring events as a good way of improving their company's image and contributing to the society they live in, they struggle in another matter; a pub Josef decided they would run.

Firstly, when Tomáš joined his father's company he did not pay too much attention to his father's involvements in other projects, but as time went by it became clear that the son will have to deal with things introduced during his father's era. The core of the trouble is that a few years ago Josef saw that a restaurant visited by many of his friends is likely to close unless a new innkeeper is found. Although he had no experience in running such business so far, he decided they would take the responsibility and save the restaurant.

This step consequently resulted in many problems that company specialized in selling chains should not even deal with. That is a fact that Tomáš realizes; company should concentrate on what they are good at and should try to make the best use out of their resources. But this interferes with Josef's efforts he puts in saving the restaurant. While there are only four workers in the company, each with a distinct role, running a restaurant has brought confusion in their organization. What Josef might not have realized is how much more complicated their work will become. Not only they have to run a company with very limited personnel but also they had to employ and organize additional people that would take care of the inn. And at the end of the day, it was mainly Tomáš, a person that works as a driver, who has to deal with restaurant-related matters and drive back and forth from their to the inn. As a matter of fact, Josef's side project barely makes enough

profit to fund itself while it comes with a lot of additional work; economical, administrative and organizational. Tomáš takes the rational side and would be for letting this business opportunity go.

## **5.7 Future of the company**

Throughout every session of our interview it seemed that Josef is comfortable with Tomáš gradually taking control over the company but also certain hesitation was expressed at times. While his son is mostly looking forward to be the only decision-maker, Josef is a bit nervous about some of Tomáš's habits, mainly his attitude towards employees, which is contrary to Josef's own. This has often been the reason of their dispute and once the father retires Tomáš thinks there will be more comfort inside the company but perhaps a bit less certainty during decision-making process without the presence of his father. As for any objectives in the future, Tomáš would like to improve the environment in the company and divide work of each person more effectively. His father had the tendency to sometimes mix tasks up and assign an already busy person to do additional work while others had to make up for the person's primary work.

It is also likely that once Josef retires Tomáš will try to generally take the unnecessary pressure off of the company and get rid of matters, which are not of company's primary function. An example might be the restaurant that Tomáš would like to free of but can not until his father takes his part in the decision-making process.

## 6 EVALUATION AND SUGGESTIONS

From both the company founder and the successor I got the impression of high commitment to the job, which seems to be a typical aspect connected to family businesses. They realize they work for themselves, which keeps them being more responsible and working.

Had Tomáš been born in a different era he would have been probably prepared for the succession process well in advance. Moreover, not only would he be growing up with the idea of being a possible successor one day, he would be passively observing since his early childhood and could evolve on the idea. His interests might have been different and his education altered as to be the most useful for his future role. Instead, Tomáš grew up with different interests and created his own path. When his father co-founded the company, he was already preparing for a different career path and it would take nearly 15 years before Tomáš took a job in his Josef's business. Shortly after, he was already put in a situation that the existence of the company may rely entirely on him. This fact was contrary to the very essence of responsible planning. The process that precedes generational transition is lengthy and of great importance and underestimating it may produce negative results in the future.

As it often happens, also in this case Josef seems to be struggling to let his son be the only decision maker. It may be again because his son did not have any theoretical nor practical experience in managing a business before. However, the problem seems to be mainly because the son and the father do not share their views in two matters:

- Running a restaurant
- Approach towards other employees

As for the first mentioned, Josef stands his ground and wants to keep the restaurant as long as he takes part in managing the company. He does it at the expense of time that the employees could use in matters of the biggest importance; company's primary specialization, which is distribution of chains. It soon became clear that once Josef retires his son will probably take steps in freeing the company from this additional responsibility.

The other controversial topic between the son and the father is their style of managing and approaching other employees. While Josef has gained respect because of his authoritarian style Tomáš adheres to more libertarian values and does not identify himself

with his father's approach. Josef is worried that once he leaves the company his son will be too tolerant and his decisions may be questioned. However, in the recent months it sometimes happened that Josef let his son fully manage the company and put Tomáš's attitude to test. It turned out that his son's decisions were the most convenient and mainly objective while his father sometimes made decisions at the expense of other and perhaps even more suitable options. Despite this fact, Josef still seemed to be reluctant in making his son the only decision maker and tried to teach him being more of an authority. It is to Tomáš's favor that in the very recent past his father began realizing the situation and is slowly pulling back and admitting that Tomáš proved himself to be at least as competent as his father.

In conclusion my suggestion would be for Josef to give his son more freedom. Tomáš's attitude causes a friendlier environment while keeping the company's interest as a priority. Moreover, his son proved to be a valuable young contribution to the company with his high commitment to the job while maintaining several positions and trying to stay objective and finding the most convenient solutions.

Tomáš seems to be the person fully aware of what is the company's true objective and realizes that running a restaurant as a side project is a real burden for a small company such as theirs. Also he has the assumptions of keeping up with modern ways of company management and reacting to an evolving market.



## CONCLUSION

This bachelor thesis deals with questions of family entrepreneurship. While in many European countries family-owned businesses are regarded as unique types of companies, in the Czech Republic these are often being overlooked.

The most critical questions concerning this type of entrepreneurship are those regarding succession. It should be in the highest interest of every company to approach generational transition in the most responsible way. However, many companies are not familiar with the very basics of the process and the majority of family businesses do not survive the first generational transition and later on only half of these are successfully transferred to another generation.

In this thesis the main focus was put on analyzing the process of transition and understanding it as a complex unit. The process of generational transition is lengthy and starts well before the successor starts working in a given company. However, many companies underestimate the importance of proper planning and preparation. Theoretical part therefore describes all necessary steps that a company needs to take to make sure that transition will happen as it should.

Presented theoretical knowledge is then applied in the practical part, which is focused on an analysis of generational transition in a family-owned company JuBo, s.r.o. In conclusion, theoretical suggestions as well as findings of this thesis will be presented to the company's management for their further development.

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