

Ludmiła Walaszczyk

# Family business succession in the Mazovian Region in Poland – needs and barriers

**The awareness of the family spirit is the key for the introduction and keeping up with the family business. The main challenge of family companies in the recent years has been and still is the succession process – transferring knowledge, power and ownership while keeping values, which hold business and family together. According to the estimates made by the experts, roughly one third of all EU companies will change hands over the next 10 years, ranging from 25-40 %, depending on the Member State. This indicates that each year an average of 610.000 small and medium-sized enterprises (300.000 SMEs with employees and 310.000 one-man companies) will change hands.**

Although the process of change in ownership, transfer and / or succession within or outside of a family is an extremely crucial moment in the business life of a family SME, unfortunately 30% of family businesses fail in the context of business transfers, leading to enormous jobs, knowledge and entrepreneurial potential losses (Business dynamics EC, DG Enterprise and Industry, 2011).

The state-of-the-art (e.g. Hollerbach, 2011; Mierzal, et al.; 2017; Bird et al., 2016) clearly indicates that only a small percentage of the companies really think about the succession, although each year approximately 450.000 companies, em-

ploying about 2 million people, face this challenge. About 150.000 businesses are closed each year due to an unsuccessful succession, leading to the loss of 600.000 jobs (EC, 2016/C 013/03). What is more, the results of the Family Business Survey from 2016, which interviewed 2.802 senior executives from across 50 countries, show that 43% of family businesses do not have a designed succession plan. Other family companies plan to make the succession, but many of them do not have any specific tool to do it.

The succession processes, which are performed inappropriately, can be therefore the threat for national economies. Family businesses do not only use their potential in communication with the clients or partners, but also do not see the need for the implementation of the family elements and do not plan the generation change. According to the Report on State-of-the Art in Family Business Transfer (ERASMUS+ project report, 2016), 60% of family business successions fail due to communication breakdown within the family. Less than 3% of the failures are caused because of mistakes in accounting, legal or financial advisory planning, or to tax regulations. At the same time, support in business transfers disproportionately focuses on technical and legislative issues. Consequently, the succession planning is undermined by failures in communication within the family, lack of appropriate expert consultation and adequate support.

The succession decisions influence the existence of the family companies. Therefore, it is important to make the family companies aware how important the succession process is and to show them the essential elements of this process, that in many cases are crucial to be taken into consideration.

The aim of this article is to present the results of the interviews (discussions) with the Polish entrepreneurs from family companies and the representatives of local authorities on the needs and barriers within family business succession in the Mazovian region.

### Literature review

The main challenges facing family businesses in the next few years in Poland, compared with Central and Eastern Europe and World are shown in Figure 1.

As it can be seen in Figure 1, half of the respondents (50%) stated that the successful planning is one of the challenge of the family company.

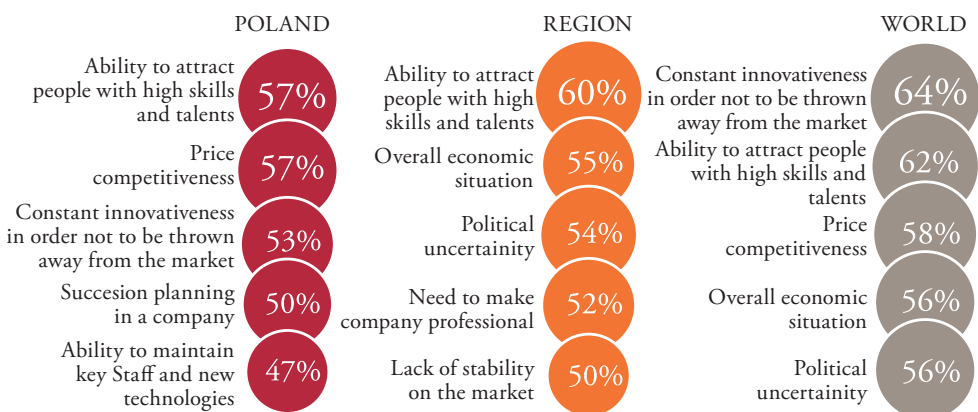
### Legal aspects

The topic of family business succession has become very popular in the recent years. It seems that the transfer of the company should be an easy activity but, based on the data from different sources (e.g. Roszko-Grzegorek, 2008; Duh,

2012; Ting, 2009; Federation of European Accountants, 2016), it turns out that it is a long and complicated process. The main problem of family business succession in Poland is of a legal character. It is caused by the fact that there is no single legal act, which would regulate the aspect of business succession. Actually if the succession process is planned to be performed in a complex way, it is necessary to use many different regulations, among others: Act from 14 June 1960 – Administrative Process Law; Act from 23 April 1964 – Civil Law; Act from 17 November 1964 – Civil Process Law; Act from 26 June 1974 – Labour Law; Act from 28 July 1983 – Succession Law; Act from 14 February 1991 – Notary Law; Act from 26 July 1991 – Income Tax from the Individuals; Act from 15 February 1992 – Income Tax from Legal Entities; Act from 13 October 1995 – Evidence Rules and Identification of Taxpayers; Act from 29 August – Tax Statute; Act from 29 August 1997 – Banking Law; Act from 13 October 1998 – Insurance System law; Act from 9 September 2000 – Civil Activities Law; Act from 15 September 2000 – Trading Law.

Although there are many regulations how to cope with transferring the company, one of the main barriers is how to run the company inherited by a juvenile after

Figure 1 **Challenges facing family enterprises in the perspective of nearest years, taking into consideration Poland, Central and Eastern Europe and World (%)**



Source: [http://www.ibrpolska.pl/wp-content/uploads/2015/03/Firmy\\_Rodzinne\\_2015\\_IBR\\_PwC.pdf](http://www.ibrpolska.pl/wp-content/uploads/2015/03/Firmy_Rodzinne_2015_IBR_PwC.pdf) [access: 27.03.2019].

the death of the owner in order to balance the protection of the inheritance with the interest of a company (Martyniec, 2014). The main problem occurs when a juvenile inherits after the death of a parent and becomes at the same time co-owner of the company. The regulations are of static character and therefore there is the need to lead the inheritance case in front of the family court, which would concern the consent of the court for undertaking any activities related to the estate by the legal guardian.

Another legal problem is that it should be possible to take over the rights to the company by the children after the death of the owner even in the case of the partnership company. At this moment it is very doubtful (Martyniec, Rataj, 2014).

What make the family business succession difficult is that in the case of the death of the owner, the company should not be liquidated and the other owner could continue the activity alone during the period of one year unless the second co-owner appeared. It is very desirable in the case of family companies when the juveniles inherits the company (Pinior, 2008). Actually, the death of one owner makes the necessity of the liquidation of the partnership company (Rejmer, 2014).

Taking into consideration legal aspects of family business succession, a major obstacle for this process is the form of the business activity. The predominant legal form of family business in Poland is the sole business activity (Firmy Rodzinne, 2017). This type of enterprises includes 81% of all the companies. The second most popular form of the business activity is the partnership company (11%). However, corporations of individuals cannot be transferred to their successors in a liquid manner, as their existence expires at the end of their activities. The awareness of this threat is astoundingly low among the entrepreneurs. Many entrepreneurs ignore this danger and postpone the deci-

sion to change the legal form of their business (Bednarski, 2017).

From the discussions with experts and the owners of family companies across Poland, it can be stated that even an advanced form of business, such as a limited liability company or other commercial law company, does not guarantee a safe transfer of ownership and power. Owners do not pay sufficient attention to them for drawing up the company's contractual provisions regarding the succession of shares or the arrangements for efficient transfer of management (Jakubowicz, 2015). These facts make the majority of family businesses neither legally nor from the organizational side prepared to transfer ownership and power to the successors.

In 2018 the Decree on Succession Management of a Sole Proprietorship came into force. Its aim is to manage the company after the death of the owner until taking the decision by the heirs as far as it concerns the future of the company. Therefore the succession manager ensures the possibility of the continuation of business activity by the children in the form of sole activity.

The Decree can be a helpful solution for the heirs of the companies, but unfortunately it will not eliminate several barriers, mainly in thinking and perceiving the succession process by the owners and other members of the families.

### **Cultural, psychological and competence aspects**

John L. Ward (2004) wrote: *'The most critical issues facing business-owning families are family-based issues more than they are business-based issues'*. It then shows that apart from legal aspects, family companies face several other aspects in the execution of business succession process (e.g. Le Breton-Miller, et al. 2004; Lewandowska, 2014; Więcek-Janka, 2016), among others cultural and psychological

ones, which are strongly related to the family itself:

- Goodwill (family disputes, intergenerational conflicts);
- Family values (lack of time, weak family ties, lack of love, lack of respect, lack of understanding from other family members, lack of common interests and common goals);
- Other aspects (uncertainty, fears, lack of harmony, burnout, lack of mentor, too high requirements, lack of development opportunities).

Moreover, the family nature of the company may result in such barriers as: nepotism in the area of personnel management or autocracy or dominance of family goals over business (Żukowska, et al., 2012).

According to research, especially nepotism is regarded as the factor blocking the family succession (e.g. Henry, 2013; Liu, 2015). Family business owners demand more from family members than from other employees. This is mainly justified by the ownership of a family business. The founders do not want to transfer the family business to someone else. But on the other hand, nepotism is a negative phenomenon. For example, it demotivates the employees when they see that the leading positions are occupied by incompetent family successors. Moreover, family businesses, which struggle with nepotism, have the problem with retaining competent external people. According to Odehnalová (2008), this can lead to the bankruptcy of the company.

According to the ENTER transfer project partner from the Vysoka Skola Ekonomicka in Prague, which has elaborated this part of the literature review, conflicts within the family may negatively affect the transfer of the family business. If the enterprise is going to transfer the ownership, conflicts between generations and siblings may emerge. The most important

issue that arises in generational renewal is that the handover of the business is greatly underestimated, the family thinks that succession from generation to generation is a short-term issue (Koráb, et al., 2008). The main reasons of possible conflicts include, among others: non-compliance of family members with company priorities; different concepts of family members and between generations; rivalry of siblings; different approaches to the role of men and women in entrepreneurship (Deloitte Česká Republika a AMSP ČR, 2014).

Another psychological and cultural problem is related to paternalism and inclination towards autocracy, which is related to distrust of other employees, the inability to delegate its powers, the strong need for control and the need for recognition. The owner does not trust to anybody and tries to have permanent control of the business, even if he / she does not manage the business anymore. Employees are confused, because they do not know, which orders to take for given (Zahrádková, 2012; PARP, 2012).

When discussing about business succession, it is indispensable to consider the competences of potential successors. The owners of the companies are afraid of not finding the successors, who are competent enough. However in contrast to 2015, in 2016, the owners less insist on the practice of successors in other companies (AMSP ČR, 2016). The barrier is the fact that in many countries there are no educational institutions focusing on family business and the aspect of succession. If the family tradition in the company does not plan to continue, it is mainly because the owners do not want to exert pressure on other family members or because they are heading for other fields (AMSP ČR, 2016).

The transfer of business leadership is possible to be made in a short-term perspective, while the transfer of ownership is, by contrast, a more complex process that is irreversible. Research from the

United States has shown that it is even better to have a poorly planned generation change in the management of a family business than the ownership transfers to external people (Koráb, et al., 2008).

### Research approach and methods

In the article, the following research questions were given:

- What are the needs in family business succession in the Mazovian region?
- Why does family business succession not often take place? What are the barriers?

The research was conducted between 2017 and 2018. In the research, the direct non-structured interviews (discussions) with entrepreneurs and the representatives of local authorities from the Mazovian region, who were interested in the topic of family business succession, were applied. Before conducting the research, the author contacted c.a. 100 enterprises (micro, small, medium, and big enterprises), among which 63 of them decided to take part in the research. As far as it concerns the representatives of local and regional authorities, there were 20 people engaged in the research. The task of the target group was to indicate needs and barriers in family business succession in the Mazovian region. The only structured element in the interview was to suggest

by the author the groups of barriers and needs based on literature (legal, cultural, psychological and financial).

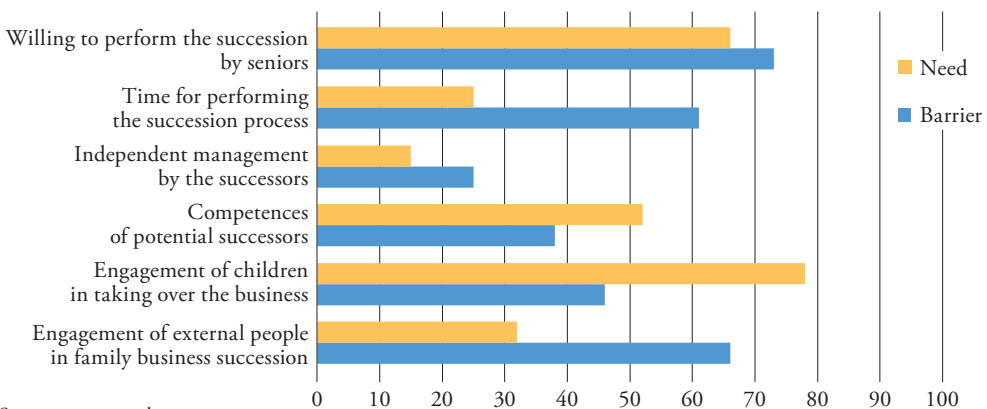
### Discussion and results

The target group of the interviews represented among others individual entrepreneurs, the representatives of Chambers of Commerce and the Municipal Councils engaged in the topic. They all highlighted the complexity and difficulty of the succession process. First of all, they stated that an effective implementation of the succession is a real challenge for all family businesses. However, the succession is even more difficult to be successfully implemented in Poland. During the discussions, the participants identified needs and barriers related to the business succession aspect. At first, they indicated barriers and adequate needs were the results of these barriers.

Above all, they concentrated on *psychological and cultural* aspects – both barriers and needs. Figure 2 presents the aspects most often indicated by the target group of the research.

The Polish entrepreneurs and the representatives of authorities in the Mazovian region confirmed that the owners (seniors) do not usually want to make succession in their companies. Such attitude

**Figure 2 Psychological and cultural aspects in the business succession in the Mazovian region (%)**



Sources: own study.

was presented by 73% of the participants of the research. The representatives of the authorities confirmed that the owners do not want to undertake the discussion on this aspect as it seems to be annoying for them. On the other hand, as presented in Figure 2, 66% of the target group noticed that it is a big problem to avoid the discussions on the succession and people should start talking about it. The reason, which caused that the subject remained silent, was that the owners are afraid of losing their life's earning. That is why they stated they still have time and they want to manage and supervise everything by themselves. However the aspect of *"still having time"* was perceived as barriers for 61% of the interviews and as 25% of the interviewed people admitted that there is the need to start discussing it. That result showed that most of the entrepreneurs are convinced that the succession will be performed in a long-term perspective and only 25% of the interviewed decided that it is a problem and the succession should not be moved in time. They stated that succession cannot be equal with the retirement. It is too late. The successors must be allowed to manage the company as early as possible. Moreover, they must be involved in crucial aspects of the company, i.e. they must learn how to manage, not just to be present eight hours per day in the company.

The next aspect concerned the possibility of transferring the company to children and the competences related to the management of the company, which is taken over. In the view of the target group, first of all, the children may not want to take the business, because they are interested in anything else as aforementioned (46% of the participants). Secondly, they may not have enough competences to take and maintain the business (38% of the participants). Therefore, even if the owner (senior) has children, it is not so

clear that they will want to be the successors. It seems to be a huge problem as 78% of the interviewees stated that there is a need to encourage the children adequately earlier to take over the family business.

The awareness was the significant factor of the discussion between the entrepreneurs and the representatives of local authorities. They agreed that the awareness of complexity of the succession process is still quite low in the society. The owners indicated that they would inform their descendants that they would hand over the company. However, they expect that the descendants will quickly and willingly enter a new role. The vast majority of Polish family enterprises belong to the first generation. The longer the company operates on the market, the more stable it is and the greater the tendency to *"change the leader"*.

Another important reason that hinders the business succession process in Poland generation, was the reluctance of the family ownership to apply knowledge of external people (i.e. managers, advisers and experts) and low interest in external training (66% of the interviewees). Distrust to external people hinders proper preparation to the most important change for the family company. However, what is interesting, the main resistance of introducing an external person to the company came from micro and small companies. In the case of big companies, the statement was the opposite – the representatives of such companies preferred to enter an external people instead of children, because they concentrated mainly on the competencies and not on family ties.

Finishing the discussions on psychological aspects it was summarised that the owners must trust the successors. They must think that the successors are able to do something well, without help. They must let the successors to be independent in activities.

**Table 1 The responses (in numbers) between the entrepreneurs and the representatives of the authorities in the Mazovian region related to Figure 2**

| Aspect   | Entrepreneurs |      | Representatives of local and regional authorities |      |
|--|---------------|------|---|------|
|  | Barrier       | Need | Barrier   | Need |
| Engagement of external people                      | 39            | 10   | 16  | 17   |
| Engagement of children in taking over the business | 30            | 59   | 8   | 6    |
| Competences  | 26            | 28   | 6   | 15   |
| Independent management                             | 14            | 7    | 7   | 5    |
| Time   | 41            | 17   | 10  | 4    |
| Willing to perform the succession                  | 50            | 42   | 11  | 13   |

Sources: own study.

The division of the responses between the entrepreneurs and the representatives of the authorities in the Mazovian region are presented in Figure 3 and Figure 4.

The next stage of the discussion with the entrepreneurs and the representatives of local authorities concerned the *financial* aspects (Figure 3).

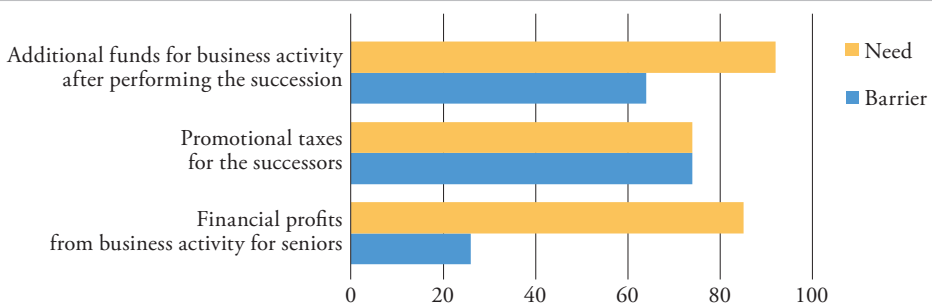
It was unanimously stated that the succession may require the investment of a big amount of funds and as presented in Figure 3, the majority of the interviewed people agreed that in the case of family business succession they would need additional funds for business activity. 92% of them stated that if the company disposes old technological equipment such machines, or not innovative methods of production, the successors are forced to invest money in order to gain profits from the business activity. Therefore for 64% of them there is a need to find additional financial sources if the succession process is to be performed successfully. If the successors do not have enough financial capital, they are not interested in taking over the family business. Moreover, there are

not any incentives now, which would encourage the owners to start the succession process (74% of them mentioned among others promotional taxes). Moreover, the successors would expect any financial incentives, such as the reduction of taxes in a specified timeframe in order to manage with all aspects important for the business succession (74%).

The last aspects discussed in the financial group concerned the financial profits from business activity. Fortunately 85% of the interviewed people stated that they must gain profits from the company after giving it to the other hands. Only 26% of them stated it is the secondary aspect, which does not influence the decision on the starting the succession in the company.

The division of the responses between the entrepreneurs and the representatives of the authorities in the Mazovian region are presented in Table 2.

One more group of barriers and needs, not indicated previously by the author, but strongly underlined by the entrepreneurs and directed to the representatives

**Figure 3 Financial aspects in the business succession in the Mazovian region (%)**

Sources: own study.

**Table 2 The responses (in numbers) between the entrepreneurs and the representatives of the authorities in the Mazovian region related to Figure 3**

| Aspect                                   | Entrepreneurs |      | Representatives of local and regional authorities |      |
|--|---------------|------|---|------|
|  | Barrier       | Need | Barrier   | Need |
| Additional funds for business activity   | 49            | 61   | 4   | 15   |
| Promotional taxes                        | 54            | 58   | 7   | 3    |
| Financial profits from business activity | 17            | 61   | 5   | 10   |

Sources: own study.

of local and regional authorities, concerned so-called *systemic* changes (78% of the participants) (Figure 4), which are strongly linked with decision making process of the national government.

The target group proposed, as the example, the introduction of systemic vouchers, which are not currently offered in the country, but which could support the successors in improving the company at the beginning of the activity with a new owner (62%). For 52% of them it would be a good incentive for the succession process. Especially in small companies it was highlighted that there are no people, who could support them in the business succession process (30%). There are no advisors, who are familiar with the issues related to the complex succession, and who are able to effectively cooperate with the owner and his family. At this moment, the potential successors may only use the advices of the lawyers on legal steps, which must be undertaken when taking over the company.

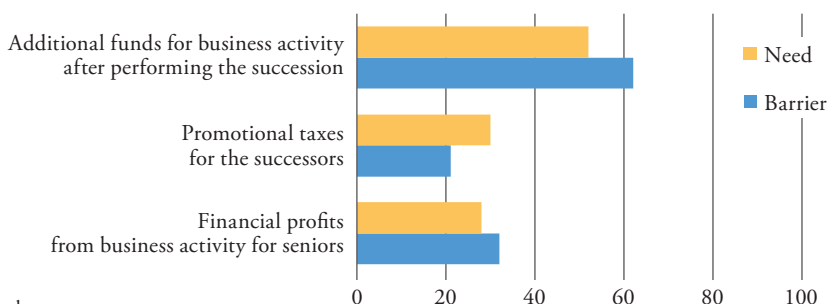
The interviewed people also mentioned the support from the EU funds as important incentive, however many of them are

aware that the support of the European Union will end in some years.

The division of the responses between the entrepreneurs and the representatives of the authorities in the Mazovian region are presented in Table 3.

To summarising the research it turned out that one more reason that aggravates the difficulties in carrying out succession in Polish enterprises in the Mazovian region, is the lack of the dissemination of the examples of successful successions or problems for which the owners and their successors are exposed in specific situations. When the successor enters the business activity, it is necessary to cope with everything immediately. The Polish system does not help them in any aspect. The proposed solutions are not easy to be understood and it discourages people to become the successors. Surely it is possible to find in literature information about successful business succession (e.g. Lipiec, 2017), however the interviewed people mainly represented the small companies at regional level, which do not wish to show the internal side of the company to external people.

**Figure 4 Systemic aspects in the business succession in the Mazovian region (%)**



Sources: own study.



**Table 3 The responses (in numbers) between the entrepreneurs and the representatives of the authorities in the Mazovian region related to Figure 4**

| Aspect                            | Entrepreneurs |      | Representatives of local and regional authorities |      |
|-----------------------------------|---------------|------|---|------|
|                                   | Barrier       | Need | Barrier   | Need |
| Introduction of systemic vouchers | 41            | 25   | 10  | 18   |
| Counselling of professionals      | 13            | 19   | 4   | 6    |
| Support from the EU funds         | 15            | 9    | 12  | 14   |

Sources: own study.

## Conclusion

Having discussed with the representatives of the companies and the representatives of local and regional authorities in Mazovia region it can be stated that the family companies are facing a big problem of the ageing of the owners. As the succession process is the only way to maintain the family business, it is necessary to continuously analyse different aspects related to the legislation, but also possible educational paths in this aspect, and based on this information, to develop the succession plan for the business owners and the young successors. The succession plan should identify the main steps of the succession process with the identification of necessary methods and tools. It should be the basic element of the strategy of each company. Moreover, the knowledge

on the business succession and its possible problems should contribute to the increase of the awareness on the business succession and its importance not only for local, but also for national economies.

The author received the responses on the research questions indicated at the beginning of the research. The interviewed people indicated clearly barriers and needs in family business succession: psychological, cultural, financial and systemic. Responding the question why the succession is often stopped or not even undertaken, the main reason is that the owners of the companies do not have competences and knowledge to introduce the succession procedure in the company and to be able to give the successor the possibility to manage the company without butting in by the seniors.

## References:

1. Act on Succession Management of a Sole Proprietorship from 5 July 2018 (Journal pos. 1629).
2. Bednarski D. (2017), *Succeeding at Succession*, Grant Thornton, <https://grantthornton.pl>, access: 01.03.2019.
3. Deloitte Česká Republika a AMSP ČR (2014), *Plánování nástupnictví*, <http://www.amsp.cz>, access: 26.03.2018.
4. Duh M. (2009), *Family Businesses: The Extensiveness of Succession Problems and Possible Solutions*, University of Maribor, Faculty of Business and Economics, Slovenia.
5. European Commission (2011), *Business Dynamics: Start-ups, Business Transfers and Bankruptcy, Enterprise and Industry*, European Commission.
6. European Economic and Social Committee (2016), *Opinion of the European Economic and Social Committee on 'Family businesses in Europe as a source of renewed growth and better jobs'* (own-initiative opinion) (2016/C 013/03).
7. Family Business Survey (2016), <https://www.pwc.com/gx/en/services/family-business/family-business-survey-2016.html>, access: 26.03.2018.
8. Firmy Rodzinne (2017), *Sukcesja Firm Jednoosobowych Projekt ustawy o zarządzie sukcesyjnym przedsiębiorstwem osoby fizycznej*, <http://firmyrodzinne.pl>, access: 01.03.2019.

9. Henry M., et al. (2013), *Family business succession – trust and gender issues in family and non-family succession*, Democratizing Management, EURAM 2013, <https://www.researchgate.net>, access: 26.03.2018.
10. Hollerbach A. (2011), *Company Succession in small and medium sized family companies* (Následnost společnosti v malých a středních rodinných společnostech), Doctoral Thesis.
11. Jakubowicz J. (2014), *Sukcesja uniwersalna publicznoprawna (administracyjna i podatkowa) przy łączeniach, przekształceniach i podziałach spółek*, Doctoral Thesis, Poznań.
12. Korab V., Hanzelková A., Mihalisko M. (2008), *Rodinné podnikání: Způsoby financování rodinných firem, řízení rodinných podniků, úspěšné předání následnictví. Praxe podnikatele*, První vydání, Brno, Computer Press.
13. Le Breton-Miller, I., Miller D., Steier L.R. (2004), *Toward an integrative model of effective FOB succession*, Entrepreneurship, "Theory & Practice", 28(4).
14. Lipiec J. (2017), *Ład przedsiębiorstwa rodzinnego. Doświadczenia światowe oraz zalecenia dla Polski*, Warsaw, Oficyna Wydawnicza SGH.
15. Martyniec Ł, Rataj P. (2014), *Selected changes suggested in the legal regulations facilitating succession in family businesses*, „Przedsiębiorczość i Zarządzanie”, Vol. XV/7, Part I, pp. 118-124.
16. Mierzal L. et al. (2017), *Succession Planning in Different Cultures: A Comparative Analysis of Family Firms in Mexico and Germany*, Munich Business School Working Paper 2017-04.
17. Piniór P. (2008), *Śmierć współnika spółki jawnej a kontynuacja działalności spółki*, „Prawo Spółek”, No 2.
18. Rejmer M. (2014), *Konsekwencje śmierci współnika handlowej spółki osobowej na przykładzie spółki jawnej*, „Nowy Przegląd Notarialny”, No 2.
19. Roszko-Grzegorek E. (2008), *The role and importance of succession planning in Polish family firms*, „Acta Universitatis Lodziensis”, No. 224.
20. Ting Z. (2009), *Succession in Family Business – Differences between foreign family business and Chinese family business*, Bachelor's Thesis Business Management.
21. Ward J. (2004), *Perpetuating the Family Business. 50 Lessons Learned From Long Lasting, Successful Families in Business*, Palgrave Macmillan.
22. Więcek-Janka E. (2015), *Bariery w procesie sukcesji w opinii sukcesorów firm rodzinnych (wyniki badań)*, „Przedsiębiorczość i Zarządzanie”, Vol. 17(7), pp. 39-52.
23. Yambol Chamber of Commerce and Industry (2016), *Report on state-of- the art in family business transfers*, April 2016, <http://succession-project.eu>, access: 26.03.2018.
24. Zahrádková M. (2012), *Diplomová práce – Problematika následnictví v rodinném podniku*, Masarykova univerzita v Brně, Fakulta sociálních studií.
25. Żukowska J., Pindelski M. (2012), *Szanse i ograniczenia innowacyjnej strategii rozwoju firm rodzinnych*, „Współczesne Zarządzanie”, No. 4, pp. 129-141.

#### Acknowledgments

This research was financed by the international funds within the INTERREG Central Europe programme – ENTER-transfer “*Advancement of the economic and social innovation through the creation of the environment enabling business succession*” project, No CE 1158.

---

PhD **Ludmiła Walaszczyk**, Assistant Professor, Innovation Strategies Department, Institute for Sustainable Technologies – National Research Institute, Radom, Poland