



VOCATIONAL EDUCATION SOLUTIONS AND TOOLS FOR FAMILY
ENTERPRISES

MAPPING THE FAMILY BUSINESS ECOSYSTEM

COUNTRY SNAPSHOT GERMANY

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INTRODUCTION

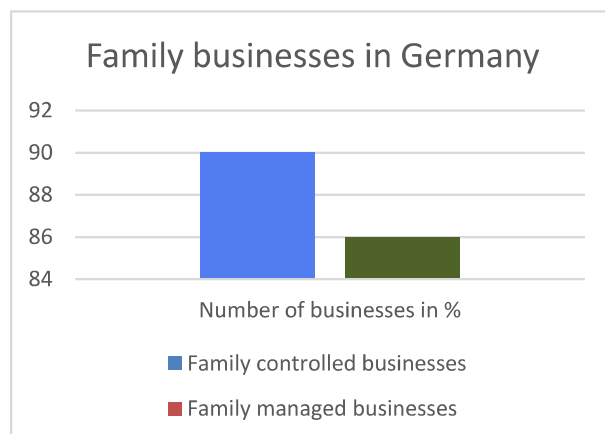


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Within the economy of Germany family businesses play an important role. In terms of their structure the literature identifies three typical characteristics that influence the way in which they work, namely personalism as the union of ownership and management, parsimony as the concentration of the family fortune within the business and particularism as the importance of non-financial goals (Stiftung Familienunternehmen 2020a).

Taking this into account the vast majority of all German companies in the private sector are family businesses with a mere 90 percent under the control of a family and 86 percent even managed by a family (Stiftung Familienunternehmen 2020c). In absolute numbers this makes up almost 3 million companies within the country, a relatively stable number in the last five years (Stiftung Familienunternehmen 2019). However, these are mostly small and medium sized companies as in general the amount of family businesses becomes smaller the more employees it has (Stiftung Familienunternehmen 2020c). Nevertheless, with on average less than ten employees each they account for half the employees in the private sector and half the turnover generated there (Stiftung Familienunternehmen 2019).

Although it can be said that family businesses form the backbone of the German economy and are present in all branches in various forms and sizes (Stiftung



1 - Own representation based on Stiftung Familienunternehmen 2020c

Familienunternehmen 2020b; BMWi 2019), there is no official definition for them (Stiftung Familienunternehmen 2020b). The most common definition that is agreed on in the literature is that these businesses have one or more families that manage them or are responsible for them. In using this definition the German take is a little wider

than that of the EU where the majority of the power of final decision needs to be within the

family and/or at least one member of the family has to have a managing or controlling role within the company. (Stiftung Familienunternehmen 2020b).

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Along the characteristics mentioned in the beginning, other sources further differentiate between family controlled businesses – that are mostly owned and therefore controlled by a smaller number of natural individuals – and owner managed family businesses – that are also owned by a limited number of individuals but also with at least one of them managing the company as well. The exact form of these regulations depends on the legal design of the businesses. (Stiftung Familienunternehmen 2019). The before mentioned control can be executed in different ways: either through the operative management role, through ownership and voting rights, as well as through membership within a council or through previously defined values of the family. The last two will be elaborated further in this report. However, it can already be said that the German family businesses are not a homogeneous group but depend on various factors that define them, among those the ownership structure, the influence of the family on the management or the participation on the founding of the business. (Stiftung Familienunternehmen 2020a; (Kammerlander et al. 2020).

Despite all their differences they do have some traits in common that are not accounted for in the general definition and shall be considered in the following. They all have a strong concentration on the managing family which assumes full responsibility and liability and takes the risk in using their own money for investment, growth, jobs, training

and prosperity in the country (BMW 2019). To do so they follow a strategy that can be called rather conservative and cautious (see chapter on qualitative factors) but is also keeping them stable in the long run. For its development it does not matter if the owning family executes their influence directly or indirectly (KPMG 2019). It can therefore be said that the mere set-up as family business partly defines the strategy. This potentially coincides with another characteristic of this business form: the strong centralisation and personification of authority for decisions in form of the family as well as the on average longer retention time on the highest management level (Prügl et al 2017). Other sources support this point in saying that the owner of a family business often connects more than just the sheer professional existence with it as demonstrated via various emotional and financial reasons. Among them is the use of the family name as business name, connecting image and reputation to the company. Additionally, the owner has invested his or her own money into the company and relies on its success. It is therefore also crucial to hand over the business to the next generation. All this results in aiming for long-term stability rather than fast monetary success. (KPMG 2019). Other sources go even further making the transgenerational element a requirement for the classification as family business (Otten-Pappas & Jäkel-Wurzer 2017) and attest them a thinking in generations (BMW 2019) which would necessarily result in aiming for stability and relying on values.

Socio-emotional values, a speciality of family businesses according to literature, are the sum of non-financial goals and values or non-financial capital connected to the well-being and affective needs of the family members. These are seen to be very important for them. (Stiftung Familienunternehmen 2020a). The social relationships within the family, a special loyalty of the employees and cultural capital (Kammerlander et al 2020) are part of what makes the family business up. But not only on the inside are values meaningful, the wider public in Germany sees managers of family businesses as responsible and value-oriented. This number goes up the older the people get. The same is true for the perceived innovation of family businesses. However, other generations seem to think the

same, as three fourths of Germans see the family businesses as innovation driver within the German economy. Additionally, according to the survey, more than a third of Germans attribute fairness and regional engagement most commonly to family businesses and value their quality and customer orientation. (PwC 2019). It can thus be said that family businesses are not only highly relevant to the economic design of Germany but also for the general public.

The focus on values is just as relevant for the next generation with the handover as one of the central characteristics of this business type as shown above. To give a comprehensive account of the so called NextGen and their importance is almost as difficult as finding the one definition of family businesses as neither a full list of all family businesses nor of the next generation exists (Stiftung Familienunternehmen 2020a). Nevertheless, researchers have surveyed representatives of the next generation over a period of more than ten years, finding out that they become more and more ready to be in a combined management with others. Additionally, values such as personal fulfilment, individualism and personal responsibility tend to become stronger. Most importantly maybe, taking over the family business gets a substantial rise in attractiveness. (Stiftung Familienunternehmen 2020a). If this becomes reality, the continuation of many family businesses seems to be secured.

Another aspect that is relevant for quite a big number of family businesses in Germany is the setting – being more rural for many of them. Even politics have addressed this issue in 2018 with the establishment of a commission to ensure equal living conditions in rural and urban areas. Within the former the family businesses play an especially important role, functioning as a structural part defining the region. Giving them better frameworks to work with also means supporting the region. According to the resources this has not been done sufficiently until now. Family businesses also help tie younger people to the region and thus ensure the continued prosperity there. (Stiftung Familienunternehmen 2020b; BMWi 2019). One example of the close connection to their region is the company

Peri, which is still tied to their rural area despite changes in the company's focus and structure (Koners & Prügl 2018). Other sources agree that this is actually something where family businesses have an advantage over big corporations as social and civic engagement is more natural and intrinsic for them and does not have to be learned under the current trend of Corporate Social Responsibility (CSR). Here again values play an important role in the sense of being responsible for their own doing and therefore acting sustainably and responsibly. (PwC 2018).

This long-term concept and outlook of the family businesses tends to make them a little more conservative than other corporations. In this context Germany appears to be a specific case according to a survey which even before the pandemic indicated that they on average look a little more conservative into the new year than other European companies (KPMG 2020b). However, despite this generally traditional outlook, the German family businesses do also contain the chance for renewal and change right within them. The already mentioned NextGen does not only appreciate the values but also sees themselves mostly as transformers, changing the family business from the top down according to their own ideas. Their numbers (35%) have even gone up within the last four years although they have not reached the worldwide quota of 46 percent. (PwC 2020).

Despite all the positive outlook, family businesses in Germany also face challenges that will be analysed more in depth at a later stage of this report and shall therefore be addressed only shortly at this point. One of them is the legal framework, especially in terms of the GDPR regulations. Additionally, digital technologies and the lack of skilled workers, innovation and competitive constraints are seen as challenges as well (Kranzusch et al. 2019). The stronger emphasis on digitalization in the most recent surveys in 2020 can therefore not be overlooked. It also ties in with the potential danger of falling behind in terms of production in comparison with the big enterprises (Bertelsmann 2019). This is not necessarily going to continue however, as family businesses can use their



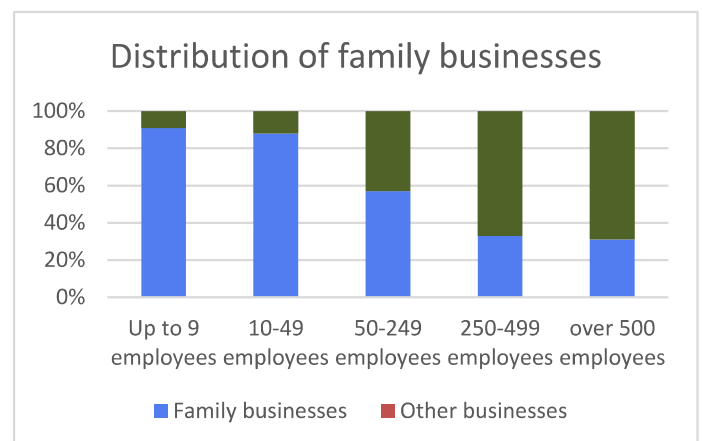
already mentioned qualities of creating high-quality products, processes and also service-innovations. They even do so despite potential bigger challenges due to their rural settings and lack of skilled workers (KPMG 2020a).

After all it can be said that family businesses in Germany do not have a specific design or are subject to a specific framework neither socially nor politically although they form almost the entire economy and contribute highly to the successful economy that Germany is.

Quantitative indicators on Family Enterprises in Germany

This chapter will further define the before introduced concept of family businesses in terms of quantitative indicators.

As mentioned in the previous chapter, over 90 percent of all non-governmental companies in Germany are family-controlled. Combined, they employ more than half the workers in the private sector in the country (58-61%). (Stiftung Familienunternehmen 2020a; Felden & Graffius 2019). Earlier resources have estimated this to round up to 17 million people in absolute numbers, distributed among many smaller companies. On average, the bigger the company gets, the less likely it is to be a family business: companies with up to nine employees are to 91 percent family businesses, companies with over 500 employees are only to 31 percent



2 Own representation based on Stiftung Familienunternehmen 2019

family-controlled. Together these employees generate more than half the revenues of the private sector (52% of 5.329 billion euros in 2017). (Stiftung Familienunternehmen 2019). These numbers have gone up slower since 2018 in Germany as well as in all of Europe while international activities on the continent almost remained the same (KPMG 2020b). For the turnover the same as for the number of employees holds true: the more they make, the less likely they are to be a family business. More than 90 percent of companies making less than a million euro are a family business, while those making 50 million and more sum up to 39-43 percent. (Stiftung Familienunternehmen 2019). It can thus be said that family businesses tend to be smaller companies in terms of employees and turnover. However, since there are so many of them, they do account for roughly half the working force and half the money made in Germany.

Looking at their design as a company, they have a sole proprietorship more often than other company types in the country (55% versus 49%). The opposite is true for stock corporations, their share among family businesses makes up 33 percent versus the 38 percent among all companies in Germany. (Stiftung Familienunternehmen 2019).

As mentioned before, many family businesses are located in the more rural areas where they have a significant influence on the values of the region and vice versa. However, also the economy of these regions is influenced by the presence of these companies, as resources show. They hire 2.5 million of the 5.7 million workers in these areas. The more family businesses a region has, the smaller the unemployment rate, the higher the patent activity, the higher the productivity rate and the more positive the development of the gross domestic product. This remains true when structural differences between the regions are taken into consideration and is thus statistically significant. The employees are also subject to social insurance contributions, making them full workers with a significant earning. Their numbers rise more in regions with more family businesses although they are picking up in other regions as well (Stiftung Familienunternehmen 2020b). Family businesses are therefore essential for the more rural areas in the country, helping them to prosper. They even support them outside of the actual business world, making them more attractive (BMWi 2019).

Adding to this conclusion is the strong connection to their employees. As was shown above, family businesses are not always as productive in terms of their operative performance as stock companies. Nevertheless, they benefit from their long-term orientation towards profit and succession. They then tend to be more traditional and guarantee stability. The resulting strong ties to their employees often result in various generations of a family working for them (Stiftung Familienunternehmen 2020b). This essentially means, that many families besides the owner family work for a family business, showcasing the attributed values and stability. They are valued as employers (PwC 2019). Other resources go even further in saying that the connection to the workers is a success

factor and linked to the duty of care. This is equally true for suppliers with whom the family businesses often have connections for centuries. All this is centred on the customer orientation, resulting in a strong focus on the customers. Through this continuity partnered with a long-term stable management the family businesses tend to be successful. (KPMG 2019). Additionally, this also secures their good standing in society as Germans attribute regional roots and appreciation for their employees to family businesses and value them even more when they have worked for a family business. Only among apprentices are they rarely seen as innovative. (PwC 2019). This remains still true in times of the pandemic where family businesses try to keep all their employees despite cancelled orders and use the governmental support that is available. This might also be influenced by the already existing lack of skilled workers that can be even more severe if employees are let go now. (Brink et al. 2020a; PwC 2017). This shows that the stability and values in a family business that have been analysed by researchers hold true in reality, making them essential for the German economy.

Furthermore, the family businesses also add significantly (48% between 2010 and 2018) to the tax amount with around 70.1 billion euro on average (Stiftung Familienunternehmen 2020c), strengthening the public purse. The individual taxation is also up to a third higher in regions with more family businesses, generating money to invest into its attractiveness and competitive advantages. (Stiftung Familienunternehmen 2020b).

Additionally, areas that are home to many family businesses are less in depth than those with fewer family businesses (Stiftung Familienunternehmen 2020b).

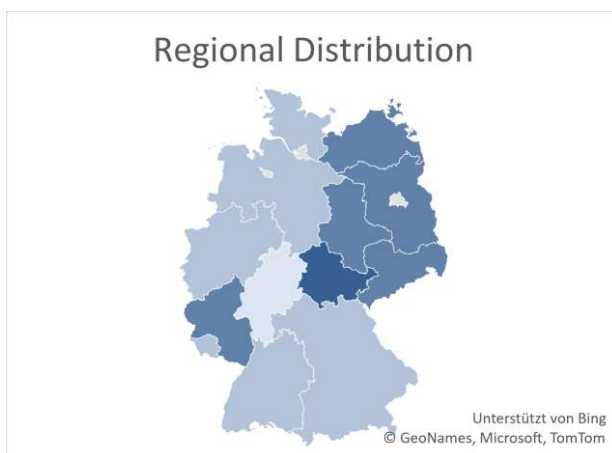
As family businesses generate more than half the added value in Germany and also hire half the working population, as was shown above, they also play an outstanding role in the development of taxes. Therefore, a single person or a family owning and controlling a company has considerable influence. (Stiftung Familienunternehmen 2020c).

Taking all this into consideration it can be concluded that family businesses play an important socio-economic as well as economic role within Germany. Absolute numbers and percentages indicate that the economy would not be the same without this type of companies. This is underlined by the high appreciation the general public has for them. Both aspects seem to complement each other, a rise in one provoking a rise in the other.

Qualitative indicators on Family Enterprises in Germany

As the previous chapter showed, family businesses are among the most common business types in Germany. Due to their strong presence they can be found in a variety of branches. Nevertheless, their numbers are especially high in the construction (97% of all contractors are family businesses) and the trade sector (90% of all wholesale and especially retail is family-controlled), while they appear less in the industrial sectors mining, energy and water supply, waste management and finances and insurances. The latter is due to the comparatively high demand for investments and equity. Nevertheless, 67 percent of these companies are family-controlled (Stiftung Familienunternehmen 2019). These numbers have remained fairly stable throughout the last ten years.

The same holds true for the regional distribution with more family businesses in the former East Germany – the highest number can be found in the federal state of Thuringia.



3 Own representation based on Stiftung Familienunternehmen 2019

The federal city states Berlin, Hamburg and Bremen rank at the bottom of this list due to the presence of branches where family businesses are less common such as technological services, media, and finances. This is attributed to the still ongoing adaptation of the former East, where many companies have only been founded after 1990,

to the former West. Many of the businesses in the former did not have the chance to grow

into big companies yet and are therefore often still classified as family business. (Stiftung Familienunternehmen 2019). This distribution shows a regional unevenness that splits Germany basically in half. It has to be seen if this division will even out over time, since the unification was already 30 years ago. When looking at the family businesses share on all companies with more than 50 employees, Bavaria and Baden-Wuerttemberg reach the

top places (Stiftung Familienunternehmen 2020b). This adds only to the assumption that the former East is home to more smaller companies, bringing up the number of family businesses. If they grow further, numbers in this statistic might also shift, putting the former East Germany into the spotlight. However, as was shown in the previous chapter, family businesses do have a positive influence on the economy in all rural areas. These are mostly felt in their role as employers, for regional innovations, for high value added and to enlarge the competitiveness of rural areas. Especially innovations, a topic that will be discussed further later on, are more prominent in rural areas with more family businesses. (Stiftung Familienunternehmen 2020b).

Another aspect that is worth mentioning is the educational sector. Through offering apprenticeships family businesses are able to develop the skilled workers that they will need on the long-run and also to keep the youth in the region that would normally tend to move to the cities. With these younger employees they can also develop innovations potentially easier in a rural setting as literature suggest. The presence of many businesses in related branches leads to the so called “coopetition” (Stiftung Familienunternehmen 2020b, p. 22) – cooperation with competition at the same time – that fosters innovation. When this milieu is supported by research institutes or colleges with the same focus, a regional innovation network ensures the long-term presence and development of the family businesses in these regions. (Stiftung Familienunternehmen 2020b). Furthermore, not only does the population not get smaller because of educational offers but it is actually growing through the presence of family businesses. Sources show a population growth of up to two percent on average in regions with a high share of family businesses between 2008 and 2018 while people leave to almost the same extent (2.6%) in areas with a family business share below average. (Stiftung Familienunternehmen 2020b). It needs to be highlighted that the regional bias, although subject to some obstacles for the companies themselves, provides the rural areas with some positive traits that would not be possible without the family businesses. They are therefore essential for a decentralized economy in Germany.

Besides the regional differences, other qualitative indicators for family businesses are the same in all areas of the country. With the succession as a prominent factor, it can be noted that most companies are handed over from the father's side of the family. In almost half the cases in the survey was or is the father the manager of the business. (Stiftung Familienunternehmen 2020a). No matter who hands over the company, the next generation sees themselves prepared and fostering the digital chance. It is their goal to prepare their family business for the future. According to the survey they are also motivated and qualified for this task. (PwC 2020). This is yet again an indicator of the high importance of education and skilled workers.

Another difference to the former generations is the more prominent role of women in the next generation. In a study over 40 percent of successors were female which is a significant rise from earlier examinations. With daughters taking over the family businesses, the so-called primogeniture loses its dominance as well. While there are older brothers, a fourth of the future leaders from Generation Y is female, up to a third even the youngest child. With taking over responsibility they ensure the continuity of the businesses. (Otten-Pappas & Jäkel-Wurzer 2017). The same can be done by so far rather overlooked groups, such as migrants or people from other countries close to the border (Felden & Graffius 2019). This indicates that in terms of succession it is more important to pick the child or even relative that is most able and willing to take over the family business instead of the one that is demanded by tradition. This again can add to the long-term stability of this type of company even in changing times. Furthermore, although the successors have a bigger age gap to the people handing over the business, they enter the company earlier and have less time for external professional experience (Otten-Pappas & Jäkel-Wurzer 2017). The next generation is thus highly involved in the business.

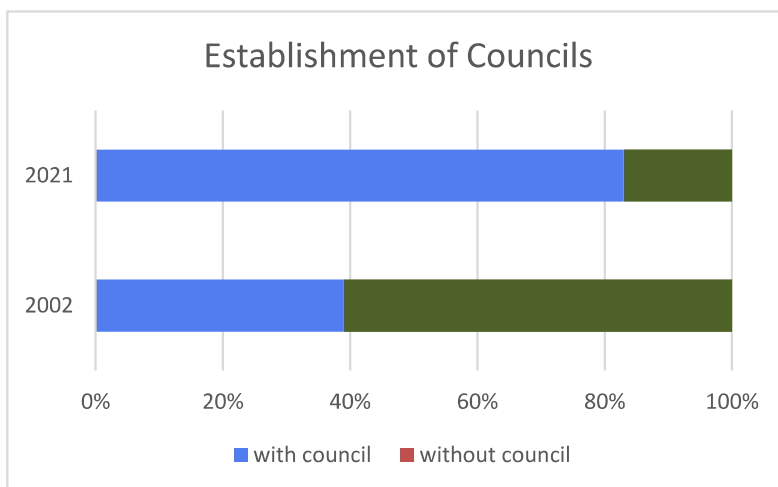
Nevertheless, the before mentioned rather rural settings, combined with the classic working time models make it hard to recruit and retain fitting candidates for open positions which leaves especially the next generation concerned (Stiftung

Familienunternehmen 2020a). They have a growing influence on the family business in other aspects as well. Before reaching the top level management positions and taking over the company from their parents or relatives, they receive a good academic education that is valued by themselves and taken up by more than two thirds (76.1% in 2019). These numbers are stable compared to the previous survey in 2017. Additionally, they seem to have inherited or picked up the entrepreneurial spirit as many of them see taking over the family business or even founding their own company as the most promising future options. (Stiftung Familienunternehmen 2020a). It can thus be deduced that family businesses will remain for some time as long as the circumstances allow it.

To ensure a successful handover to the next generation many family businesses are also united in terms of preparing for it according to a survey among the next generation. Almost half of them see an unwritten common understanding of roles and responsibilities for the time after the handover among the senior generation within their company. Only one fifth has put this in writing. (Stiftung Familienunternehmen 2020a). Since the succession has been defined as a core factor of the set-up as family business this seems important to note. As it is common in many companies it lets at least question the upcoming transition period and might hint at some difficulties arising in some of the German family businesses.

Nevertheless, most of the family businesses look optimistically into the future on the basis of continued growth. In 2018 with 90 percent numbers were as high as they have not been in eight years. (PwC 2018). Naturally, these expectations need to be re-evaluated now because of the Covid-19 pandemic. However, it is striking to see that people responsible for family businesses also see themselves as equipped and probably also necessary for the future.

Another step to become even better prepared is the establishment of a council in form of an advisory, supervisory or administrative board within the family business. Since 2002 numbers have more than doubled from 39 percent to 83 percent with a still increasing tendency. Not alone the numbers go up but also the responsibilities of such councils. Now they do not only advise the managers strategically but also influence the direction of the company, control the management and approve important investment decisions. The



4 Own representation based on PWC 2021

growing advisory and control tasks are due to the increasing company size, number of shareholders and speed of change, giving the owners a more effective form of advice and control, especially if they are not directly involved into the management. (PwC 2021). This shows that although family businesses in Germany are changing and evolving, the

owning family likes to remain in control and finds more adaptive ways to execute their control while also using the available advice from experts and research.

This can also be seen when looking at the most important topics for the future, namely legal regulations, attraction of employees and innovation (KPMG 2020b). This mix of external and internal influence factors on the development of the company are further elaborated as investments into the core business as well as the employee development and new technologies that are named as main goals for German as well as European family businesses according to a study (KPMG 2020b). What is striking is that these aims are no different in Germany than in the rest of Europe. It can therefore be concluded that family businesses are set-up and function roughly similar on the continent and are now also facing the same challenges. More details on these will be given in a further chapter.

Despite the importance of investments however, family businesses as small and medium enterprises (SME) tend to be more reluctant in spending money. They also have different effects on the productivity of work. An example that is used in literature is the investment into information and communication technologies (ICT) that tends to be double as high in big enterprises than in SME. Furthermore, the latter apply an investment in steps rather than investing a big amount at once. What is striking, is that the financial indicators for success are mostly not worse in SME compared to big enterprises although they invest less. (Bertelsmann 2019). This shows that balancing the investments with the business set-up is something that is rather well executed in Germany's family businesses. Here the before mentioned focus on long-term orientation and risk avoidance comes into play again. With own capital, self-financing and no financial obligations this is possible. Moreover, a balance between the desire for growth and the potential for investment needs to be achieved to take chances without risking the long-term survival of the family business through uneven balance sheets. (PwC 2017).

These indicators underline what has already been found out through the quantitative indicators in the previous chapter. Family businesses in Germany are more prominent in the rural areas, where they add to the value of the region. To ensure their survival they are cautious with investments and plan on handing over their business to the next generation which becomes more and more female. While this generation sees itself well equipped and can rely on an academic education, it still faces the challenges of a lack of skilled workers and the changes brought about by digitalisation.

Opportunities: training available and operational tools

As mentioned in the previous chapters, family businesses do not receive as much attention as a special entity as they might deserve according to their important role in the German economy. Hence, there are not too many tools and specialised trainings for them. Nevertheless, some organisations and lately more and more universities have devoted themselves to a focus on family businesses. Their offers shall be talked about in the following.

One organisation offering a wider range of trainings on specific topics is the "Offensive Mittelstand – Gut für Deutschland". As the German name suggests, they deal with SME in the country to which they also count family businesses. Although their products are not specifically tailored to the latter, they do offer them some interesting insight through tests and company checks. These are available for the topics: Good SME, HR management, work 4.0, diversity-oriented company, health, and knowledge & competences. Additionally, there are also potential analyses for innovations, working time, and VET. If the companies cannot derive measures from these self-tests the initiative also offers counsellors and further services. With partners from state institutions and associations, social partners, chambers, social insurances, the agency for employment, unions, research and VET institutions, companies and consultancies the initiative offers a wide range of expertise that can support family businesses even while lacking a specific focus on them.

Such a focus is available in the INTES Akademie für Familienunternehmen (INTES academy for family businesses) that functions as part of the consultancy PwC as reference point for entrepreneurial families in Germany, Austria and Switzerland. It offers consultancy through its own methods and models for e.g. family constitutions and family governance. Other focus areas are the qualification of owners, successors, managers and board members through a range of seminars. These seminars are focused solely on family businesses and packed for each one of the aforementioned groups. They can also be booked individually and offer a range of educational resources for family businesses. The academy also hosts a yearly conference and votes for the family business of the year. With all these offers they can be seen as one of the few providers solely for family business. As they are tied to the consultancy PwC, always aiming at consultancy contracts as well, their neutrality might however at least be questioned.

Another entity that puts its focus on family businesses is the EQUA foundation. Lead by partners in family businesses the foundation aims to close the gap between economic and social science to provide scientific knowledge about and for family businesses. It therefore supports academic research about them and distributes the results to the family businesses themselves through publications, online colleges, seminars and individual moderation of change processes within the companies. Especially the short online colleges cover a wide range of topics such as digitalisation, inheritance tax, succession, innovation, company estimation, company history, and values. They can be accessed online free of charge and anonymously, providing a rather low threshold for participation for family businesses.

Despite these initiatives and institutions, the academic world also offers education and training on family businesses. Over the last years more and more universities and colleges have established a study programme on family businesses either in their bachelor's or master's programme. These institutions include the CBS International Business School, Cologne School with a master's programme in family business management, the Fachhochschule der Wirtschaft (College of the economics) Paderborn with Family businesses and SME as dual studies bachelor of arts, the Zeppelin University with an Executive Master for Family Entrepreneurship just for family business owners or NextGen while already working, the SRH Hochschule Heidelberg with an Economic Law programme and the branch of study Family businesses and entrepreneurship as Bachelor of Laws, the HWR Berlin, Berlin School of Economics and Law with a B.A. in Company Foundation and succession and the Witten Institute for Family Business (WIFU) at University Witten-Herdecke with six departments and 20 professors in the bachelor's and master's programme. While this list is most likely not complete, it shows that an academic focus on family businesses does often only happen at private universities that in many cases offer their classes for considerable fees. However, public universities such as the University of Bielefeld also have endowed chairs, in this case for management of family businesses in the faculty for economic studies for Bachelor and Master studies.

This overview shows that there are indeed trainings available from an academic as well as practical standpoint. However, there is no comprehensive offer that can be seen as the one solution that is available for all family businesses.

Good Practice - Digitalization of processes at Spangler GmbH

The medium-sized family business SPANGLER GmbH, based in Töging in the Altmühl Valley, currently employs 140 people and plans plant automation systems and manufactures switchgear and control systems for a wide range of industries.

Currently, the production of components takes place there in a large hall. Delivered parts are brought to the respective production place in the hall by logistics staff on call. If the order has been in progress for some time, the logistics staff has to look for it. What is currently still feasible will soon change. The company is expanding its capacities and planning another production hall. With the help of the Mittelstand 4.0 competence centre in Augsburg, the search is to be digitalised: The automatic identification and localisation of components and orders will enable faster allocation and subsequent delivery. The lead time is shortened and more can be produced. In addition, employee satisfaction increases because time-consuming searches are no longer necessary. Later, it will also be possible to use the data obtained to improve production control.

As soon as all the construction plans for the additional hall are ready, it will be decided which auto-ID technology will be used. Barcode, RFID or a Real Time Location System (RTLS) are the options and differ in their costs, requirements and information content. The information is to be put out via tablets running an app for order and component tracking. In several workshops with Spangler employees and experts from the Competence Centre, the requirements were collected and a mock-up - a digital design - was created and tested (Mittelstand 4.0-Kompetenzzentrum Augsburg 2021).

Despite the aforementioned tools and checklists in context with SME and family businesses as a whole, German literature and therefore also operational tools put a specific focus on succession. Offers on tools that are currently in use to support family enterprises range from national to regional tools and have been named and defined by Felden and Graffius 2019. An overview shall be given in the following.

National tools

nexxt-change company stock

nexxt-change is the biggest German successors stock exchange with around 800 regional partners. Here one can sell as well as ask to buy companies. It is operated by the German federal ministry for economics and energy, the KfW banking group, chambers and banks.

www.nexxt-change.org

Concess company stock

Con | cess M+A-Partner is a national network of mergers and acquisitions consultants. It supposedly liaises 40 companies each year and is a regional partner of nexxt-change.

www.concess.de

EFU company acquisition

E.F.U. is the expert network company succession and offers a nationwide exchange with companies that are for sale.

www.efu-online.de

German company exchange

The stock lists companies that can be bought and sold. Additionally, it offers an interactive market place for consultants, interns, franchisers and crowd funding. It is operated by the (economic) papers Handelsblatt, Die Wirtschaftswoche and Die Welt.

www.dub.de

Biz-Trade market place for companies

Biz-Trade is an exchange as well as cooperation platform for the direct contact between companies and interested parties. Besides buying and selling the companies it also promotes cooperation, share acquisitions and franchises.

www.biz-trade.de

K.E.R.N. |The company stock

The nationwide stock exchange of the company K.E.R.N – Die Nachfolgespezialisten offers a barrier free service for those handing over as well as those taking over. The advertisements offer information about location, price and turnover.

www.die-nachfolgespezialisten.eu

Carl – Stock exchange for sale of SME

Carl Finance is a closed platform for the sale of SME and addresses companies with over 1 Mio € turnover. All members are verified manually to ensure only legitimate interests and trustful communication.

www.carlfinance.de



These national platforms are further complimented by regional initiatives. Some examples are the company platform in Hesse, the stock exchange SaarLorLux for the border region of Saarland/Lorraine and Luxembourg as well as the platform firmenverkauf for the South of Germany, especially Bavaria.

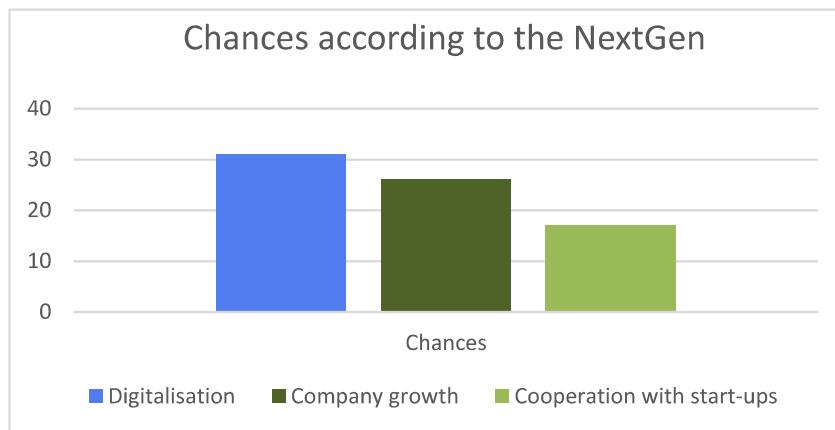
With the variety of platforms it can be once again concluded that there is no comprehensive list of companies as well as those ready for succession, making it difficult to get the whole picture and discover all the potential.

Needs: skill gaps and needs assessment

Since there is not the one specific definition of the term family business and its implications for the set-up of the companies as the previous chapters have shown, there is also no general analysis of the skills gaps and needs in Germany. However, several papers and sources address the needs and suggest learnings and changes for family businesses in Germany. Many are inspired by surveys of the businesses themselves – often with a special focus on the next generation – and are classified as chances and challenges.

According to these surveys chances include digitalisation, growth, innovation, branding, changes through the next generation and a better profitability. Challenges include the lack of skilled workers and digitalisation as well. (Stiftung Familienunternehmen 2020a; PwC 2018). Other papers attest that the family businesses and SME have recognized the current signs and are adapting their business models accordingly. Nevertheless, many are lacking a systematic approach. It is suggested to evaluate the own business model according to the four dimensions of who, what, how and how much to get a clear picture and then to install an innovation management and implement the knowledge that successful investment requires changes in many business areas (Lehmann 2018). All of this seems like a rather complex undertaking which needs to be adopted to each individual business.

When asking the next generation about the chances for the next ten years they mostly mention digitalisation as well (31 percent), expecting a productivity increase as well as



6 Own representation based on Stiftung Familienunternehmen 2020a

optimized processes. After implementing the basics, they plan to increase the digitalisation further, seeing themselves as driver behind the process. Additional chances are seen in the company growth with the establishment

of new business portfolio and more customers (26%) as well

as in innovation that might even include the cooperation with start-ups especially for digital solutions (17%). On the challenges side they name the lack of skilled workers (41%)

and generational change (13%) as well as the German politics (9%).

(Stiftung Familienunternehmen 2020a). With evaluation they name the same things as all stakeholders

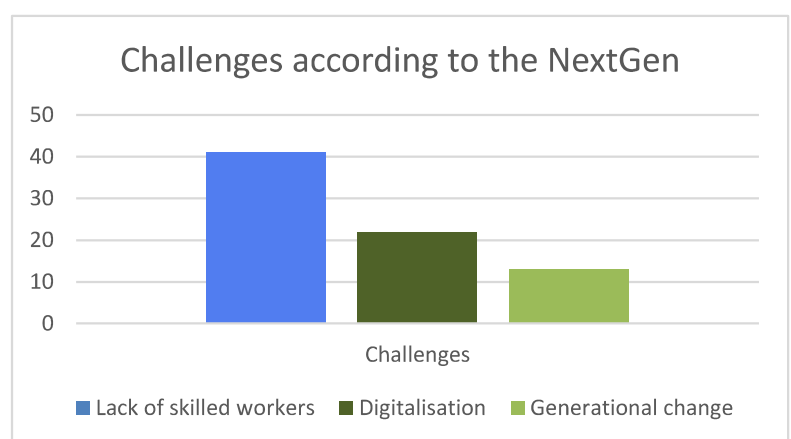
of family businesses in other studies (PwC 2018). All this is shown

by one study with the practical

example of the family business Peri where there is constant change

and the goal is to match humans and processes. Only with attraction and retention of the right people is it possible to develop the company further. (Koners & Prügl 2018). In line

with the older generations the NextGen does not only see digitalisation as chance nevertheless and also names it as challenge (22%).



5 Own representation based on Stiftung Familienunternehmen 2020a

(Stiftung Familienunternehmen 2020a). Only apprentices value digitalisation and technology still more (PwC 2019).

This shows that digitalisation is seen differentiated by all generations which can be attributed to the generally reluctant attitude towards change and great investments. While some companies face this head on, many others are not willing or maybe not able to prepare for the upcoming challenges through digitalisation. How they deal with this topic depends on the so called “family factor”, the sum of all individual opinions and measures to achieve competences within the family. (Rüsen & Heider 2020). Other resources also suggest that established companies underestimate the potential as well as the risks of digitalisation (Nielen et al 2017). However, due to their structure with the owner family as decision maker they also tend to be more independent and can take more risks if they seem appropriate. At the same time they need to manage their tight resources to the maximum extent. One study thus concludes that family businesses are the motor for entrepreneurial quality and technical progress. (KPMG 2019). They focus more and more on digital transformation, especially lately (KPMG 2020b; Kranzusch et al 2019) although it needs to be differentiated between digital openness (the degree of understanding and conviction) and digital readiness (actual qualifications and competences and the user context) (Rüsen & Heider 2020). This is not received to the greatest degree by the general public that does not necessarily attribute digitalisation and technology to family businesses and even demands better digital infrastructure and support for family businesses (PwC 2019). However, the family businesses deal with the digitalisation can be an indicator for the economic site of Germany given the prominence of family businesses in the system (Kammerlander et al 2020).

It is furthermore expected that the topic will pick up even more now due to the Covid19-pandemic. Especially representatives from the economic politics name it as relevant in overcoming the pandemic – even more than those from the businesses and the academics (Brink et al 2020a). There is also some critique that the digitalisation is not yet

developed to its full potential through missing values that would offer orientation in the digitalisation process. They need to be adapted to the so called “new normality”. Values in general rank at the top of the strategy hierarchy of the most successful family businesses in Germany. They are handed down from generation to generation and are incorporated into the strategies and operative actions. This practice makes the business stable and authentic and gives it direction for employee guidance and financing. (PwC 2017). This shows how essential it seems to be to include values to guide the company through digitalisation. If it is not put into this core set at the basis of the business, digitalisation might not receive the attention needed to make it useful and successful. This task is given to the NextGen that is seen as able to fulfil it if involved more. (PwC 2018).

Different studies in the last years have shown that in saying that the next entrepreneurial generation is more flexible and less conservative than those before and challenges the family businesses to ensure their continuance (PwC 2017). They are ambitious, able to lead and possess digital knowledge – something that is needed by the family businesses (PwC 2020). This shows that not only the generation itself, but also external analysts see potential in the NextGen and expect changes in the coming years. Digitalisation is an ongoing process that will only accelerate in the future and become more complicated which makes it necessary to continuously work on and with it, especially in family businesses (KPMG 2020a).

Furthermore, it needs to be noted that the challenges can be more severe for the family businesses in more rural areas. This is especially true for the lack of skilled workers since these areas are more effected by the demographic change as well as the digital and transport infrastructure (Stiftung Familienunternehmen 2020b).

Another aspect that needs further development and training is the establishment of councils. As mentioned in the chapter about the qualitative indicators, councils have been established in many family businesses over the last years with their numbers rising substantially. However, they are not always designed well leading to missed potential.

Studies indicate that members of these boards are generally too old on average, do not have the right expertise for the recent and future topics of the so called “new normality”, do not receive enough payment and are recruited too often from among friends and family. They therefore discuss topics they do not know how to handle. Especially the background of the members needs to be considered with 81 percent of family businesses choosing partners or family members. This can be good if the actual management of the business is done by someone external (now 85% with at least one external manager). In this way the council and the management are balancing each other. (PwC 2021). This shows that in setting up a council many factors need to be considered since they can have a significant influence on the further development of the business. It is important who with which expertise and which family ties sits on such a board.

The study further explains what can be seen as good governance for this aspect in saying that if the manager is a family member, the head of board should be external and independent and vice versa. At the time of their investigation this was only the case in half of all questioned family businesses. They are therefore missing a pole that is solely focused in the company’s interest. (PwC 2021). Taking this into consideration family businesses need support in defining what their councils should be able to do and need a plan for designing and setting it up as well as for keeping it productive. This is further supported by the view of an academy solely dedicated to family businesses. Every family business thus needs a council that depends on the most recent constellation of the owner family, the situation of the company and their specific goals. The use, tasks, number of members and their selection, the process of their meetings, the role of the head of board, their liability and costs need to be defined individually for each business. (INTES 2021). As these seem like a lot of aspects to consider, it might be advisable to offer guidelines for the companies with individual support and council.

Another group that is overlooked in this context is the NextGen whose importance has been established at various stages of this report. Many councils do not have members

under 30 since some of them even set this as the minimum age. According to one study only 15 percent of all boards have regular members in this age group. (PwC 2021). This again underlines the potential lack of knowledge for the most recent topics such as digitalisation. Without this background such a board might not be able to support and council the management sufficiently. Their knowledge base needs to be adapted to the needs of the business on a constant level (PwC 2021). This can be done by tapping into the talent pool of the next generation, an advantage family businesses have. Using the loyalty and creativity of the NextGen while integrating them into the company early on can save time and money later (PwC 2017).

Besides the external controlling organs the family also needs to define how they want to interact with each other and how the family leads the business. This so called business governance becomes more important with the growing diversity of the company and includes the management structures and professional councils. For family businesses this can be classified as family governance with the owner or shareholder family at the centre. They need to define structures for the organisation of the family and their roles that are accepted by all. This unites the family and makes the ties to the company more reliable while also providing them with strategies to resolve conflicts and providing them with the necessary economic knowledge about the company to make educated decisions. Part of this are also the family constitution with a family office, family education, councils and succession plan. (INTES 2021). All of these are only as good as the company makes them to be.

Especially the latter is another skills gap that has been mentioned before. With the handover of the company to the next generation as a central defining character of family businesses it is important to have a plan for the succession before it is needed. A strategy for management and ownership ensures a smooth and almost frictionless handover. This needs to be developed beforehand in dialogue with all affected parties. (INTES 2021).

Furthermore, it needs to be considered that succession in a family business does not only mean the handover of the management duties but also that of the ownership in some cases. It needs to be defined who owns what after the takeover. (Kay et al 2018). Succession can thus become a problem if not well prepared. Other resources see an issue here as well that might be even more severe.



7 Own representation based on KPMG 2020b

According to a survey the biggest difficulty lies in identifying the successor (40%) and motivating him or her to take over the business (34%) (KPMG 2020b). It can thus be difficult to even establish a successor which, if it happens regularly, can have a significant influence on the German economy taking the prominent role of family businesses into consideration. Their continuity and in this context also the succession should be of public interest according to one resource. Here the role of female successors needs to be taken into account as well. With the primogeniture diminishing they play a growing role in the succession process making it often smoother and less problematic (Otten-Pappas & Jäkel-Wurzer 2017; KPMG 2019).

Taking this into account the whole issue needs to be addressed from a far wider standpoint, considering all aspects of successor search, development and establishment while also getting the company ready and involving the public. Other sources agree with this, saying succession counselling should not be done without taking the entire complexity into account. It needs to be thought out over its entire process and part of the long-term strategy. Especially politics need to accompany the process and involve all parties. This could be done through quality standards, regional counselling guidelines and quality checks for consulting services. (Felden & Graffius 2019). This again also reflects on

the regional differences and more difficult circumstances of the more rural settings. Putting the next generation in charge can also be a chance to adapt the strategy of the company. If the successor has a strong focus on innovation, he or she can rejuvenate the business and make it more competitive. In looking for the one to take over the company it therefore needs to be asked how future-oriented he or she is and which topics would receive focus. (Prügl et al 2017).

The next manager can thus influence the family business to a great extent, especially when putting the focus on innovation which is yet another chance identified by all generations. Throughout the life of a family business it is always necessary to balance individual interests resulting in a shifting focus from innovation to maintenance. The desire to keep the business within the family long-term makes them also cautious in using their resources resulting in few risky investments in innovation. (Prügl et al 2017; Bertelsmann 2019). While in practice innovation might be less central, it is still in the focus of family businesses as one recent study shows. Together with initial and further education of the employees it is named often by German and European family businesses (KPMG 2020b). This shows that it is not a lack of interest but rather a lack of structure that hinders innovation. A plan and measures to develop and support them can therefore help family businesses. Additionally, research suggests that family businesses are more efficient when generating innovation, involving less resources for a comparable or better result than non-family businesses (Kammerlandern et al 2020).

As the employees are also part of the innovation rate of a company – 2-2.4 million are effected by company handovers between 2018 and 2022 (Kay et al 2018) – it cannot be overlooked that the lack of skilled workers is another issue that needs to be addressed. The NextGen especially sees this as a problem with 93 percent of them (in Germany, Austria and Switzerland) naming missing talent as central growth risk for family businesses. Thus, further education for their employees is the first priority for 95 percent of them. (PwC 2020). This shows that many issues are interrelated which needs to be

considered in developing tools and measures. Working on one topic without at least rethinking the other will not generate enough impact.

While all these skill gaps and needs have been there before, some of them are becoming more pressing now due to the Covid19-pandemic. Most prominently, surveys mention digitalisation and the lack of skilled workers. They are not losing their importance in these recent times. (Brink et al 2020a). Especially for the former the pandemic functions as accelerator, resulting in demands on politics to build up more digital infrastructure and digital security. Another aspect that is brought about by the pandemic is the more intense focus on sustainability and climate protection (Brink et al. 2020b). This is worth noting since it has not been talked about before in literature in relation to family businesses. The companies need to adapt to changed consumer behaviour and develop sustainable business models (Brink et al 2020b).

All this shows that there is a variety of skills missing and gaps that need to be filled. When doing so it is important to address the respective issue from a standpoint as holistic as possible and refer to other topics as well. Only through a complete long-term strategy are these issues solvable.

CHALLENGES



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As the quantitative and qualitative analysis have shown family businesses in Germany are facing a set of challenges. These shall be named and defined in short in the following chapter, referring back to the sources from the before mentioned parts of this report.

Lack of skilled workers

Since family businesses employ more than half the people in the private sector, they have a high demand for skilled workers to continue their businesses that are essential for the German economy.

Location in more rural areas

Many family businesses in Germany are located in more rural areas where they add significantly to the monetary and social value of the region but are also faced with less developed infrastructure and a smaller amount of skilled people.

Little presence in industrial sectors

Family businesses are less present in industrial sectors such as mining, energy and water supply as well as waste management since they demand comparatively high investments and equity.

East versus West

Family businesses are more present in the former East Germany since they are still adapting to the former West and have generally smaller companies even 30 years after unification which leads to a regional unevenness that splits Germany basically in half.

Apprentices

Through offering apprenticeships family businesses are able to develop the skilled workers that they will need on the long-run and invest a lot in keeping the youth in the region.

Digitalisation as future challenge

Digitalisation is a challenge for all generations but often put in the hands of the next generation that sees itself able and is motivated to solve it.

Role of women

With the primogeniture diminishing, female successors become more and more important in German family businesses but still need to demonstrate their high qualifications that sometimes even outmatches that of their male counterparts.

Succession

To ensure a successful handover to the next generation many family businesses need to prepare for it long-term but have only a spoken understanding without anything in writing.

Establishment of councils

Within the last years many family businesses have established a council in form of an advisory, supervisory or administrative board to guide the management but the members are still too old, do not always possess the knowledge to tackle the most pressing issues and are paid too little.

Investments

Especially new technologies such as information and communication technologies (ICT) will demand many investments in the future but such investments are met with reluctance by the family businesses that generally like to keep their resources under tight control.

Political regulations

Family businesses tend to feel restricted by (changing) political regulations and demand more support for a better standing and better infrastructure.

CONCLUSIONS

A graphic with the text 'WHAT'S YOUR NEXT STEP?' in white, bold, sans-serif capital letters. The text is enclosed in a white rectangular frame with a thin border. The background of the graphic is a dark, blurred image of a desk with a laptop, a cup of coffee, and some papers.

WHAT'S YOUR NEXT STEP?

As this report has shown, family businesses have been very important for the German economy over many years with making up almost 90 percent of all companies in the private sector and employing nearly half the people. It is more than likely that they will continue to be of significance in the years to come. However, with missing a definition that is agreed on by all parties involved and more important without a specific training offer and support system, family businesses will have to face a variety of potential problems on an individual basis. One of the biggest of these challenges will be digitalisation which is viewed differently by each company and needs to be addressed accordingly. It is often put into the hands of the next generation that does see itself equipped for this challenge. Nevertheless, a support system with courses, counsel and best practices might help them set the right focal points.

The same is true for succession. As shown, resources agree that it needs a long-term plan that involves all concerned parties. Although they do not necessarily see a lack of successors in the years to come, they nevertheless need to be motivated and integrated. Right now it seems like tools and support for this are only given by consultancies such as PwC. Tapping into this gap seems necessary to ensure the continuity of family businesses of which the generational handover is an integral part. Additionally, a special focus on women and other so far overlooked groups can widen the horizon and make it easier to find the most suitable candidate. Matching these groups can be a challenge that needs to be addressed.

The previous chapters have also demonstrated the importance of employees and their close ties to the family business. Together with the long-term orientation and the avoidance of unnecessary deemed risks they ensure the survival of this business type. Nevertheless, they are also affected by the demographic change and experience a lack of skilled workers and new apprentices. This is even more pressing since these companies are more likely established in rural areas. It seems therefore unavoidable to showcase the attractiveness of family businesses as employers while at the same time establishing political measures to enhance the infrastructure in the rural regions and to provide incentives for the family businesses. They form the backbone of the German economy and ensure its decentralized design after all. The same is true for the former East of the country that does have more family businesses but mostly smaller ones. The region is still aiming to match the West, even more than 30 years after reunification. Political and social contributions can thus help to make this process faster.

More support can also be needed for more presence in industrial sectors that naturally require comparatively high investments and equity. This can help new family business to be founded and ensure the survival of those present there.

To do the latter the establishment of councils can help from within. Within the last years many family businesses have established a council in form of an advisory, supervisory or administrative board to guide the management but the members are still too old, do not always possess the knowledge to tackle the most pressing issues and are paid too little. Education and best practices can help to solve these issues.

Lastly it is up to the businesses themselves to invest into their future and find a balance between their desire for stability and the need to adapt. However, being provided with tools, research, best practices and a guideline or even counselling can help them make an educated decision.

This report as well as this conclusion have shown a not so small numbers of challenges for family businesses in Germany. Nevertheless, it also demonstrates the endurance and long-term success so many of them have. This is due to their set-up, their integration into the economy, their appreciation among the public and many other aspects. In the most recent times the Covid19-pandemic has even shown their stability and connection to their employees with so many businesses still running and not letting go of their workers. They do indeed form the backbone of the German economy and need more consideration in politics and academics as well as support through practical appliances to ensure they can reach their full potential.

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