

Vienna, 23 and 24 September 2002

# *European Seminar*

on the

# *Transfer of Businesses*

## **FINAL REPORT**



Enterprise DG



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Seminar***

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Enterprise DG



BUNDESMINISTERIUM für  
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## Foreword

"Creation", "growth" and "transfer" are the three significant phases in the life cycle of enterprises. In contrast to the two other phases, the "transfer" phase has so far not received sufficient attention. The transfer of an enterprise often constitutes a dramatic step, not only for the owner him or herself and the staff. It is also necessary to analyze the overall economic significance of business transfers and look for common solutions which would result in the largest possible number of transfers of companies, by improving current conditions on the one hand and by raising the efficiency of companies' services on the other. The objective of this seminar was to continue along the path already chosen some years ago, by exchanging experiences gained in Europe in various areas affecting business transfers in practice. In this exercise, best practices and successful approaches were presented. At the same time, the seminar was aimed at giving participants an opportunity to be inspired by the methods and practices of other companies and thus take home food for thought and ideas that can be adapted to their own needs. In order to make this possible, the good practices and examples were presented against the background of the conditions prevailing in individual countries and regions.

I am proud to be able to report that in the past few years Austria has succeeded in boosting the dynamism of business transfers, as was demonstrated by the analysis "Unternehmensübergaben und -nachfolgen in Österreich" (Business Transfers and Successions in Austria) conducted by the Austrian Institute for Small Business Research. Thus a series of measures were taken, which involved both modifying legal provisions which changed the business environment and offering "soft aid". All of these measures have resulted in facilitating business transfers. In this context, I should also like to draw attention to the amendments to the New Business Creation Assistance Law (NEUFÖG) and the Employment Contract Legislation Adaptation Law (AVRAG) as well as to the soft aid granted in the form of the business succession initiative and the activities of the "SPIN Group" focusing on business transfers. The Austrian Federal Economic Chamber also made a contribution by expanding its Business Start-up Service in all Provinces.

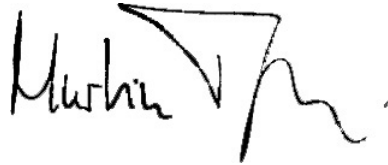
In my opinion, a further improvement and facilitation of business transfers in Austria will remain an important goal for the future.

This report contains a summary of a series of the seminar's findings. I do hope that the seminar report will motivate all of us to monitor closely the measures aimed at facilitating business transfers which are already applied within the EU and to identify areas for potential improvements.

The Federal Ministry of Economics and Labour and the European Commission, which jointly organized this seminar, have not only committed themselves to the goal of dealing with the topic of "business transfers" during the two days of the Vienna Seminar, but also to contributing to a sustained

awareness-raising effort with all relevant decision-makers, thus underlining the importance of this topic and improving the climate for business transfers. The "European Seminar on Business Transfers" was a great success, as is reflected by the very positive feedback we have received. This success was only possible thanks to the presentations of excellent speakers and the commitment and active involvement of the approximately 190 participants. I should therefore like to take this opportunity to express my special thanks to all of the lecturers and all participants.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Martin Bartenstein', with a stylized, sweeping flourish extending from the end.

Martin Bartenstein

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## **Conclusions**



## Conclusions

It was the purpose of the Seminar on Transfer of Businesses to continue the European exchange of experiences on specific topics, a project which was started some years ago. Best practices and successful approaches were presented to provide participants with feasible ideas for their own work.

More than 190 participants from EU member and candidate countries took part in the event, which was officially opened by Mr. Martin Bartenstein, Austrian Federal Minister of Economics and Labour, and Mr. Heinz Zourek, Deputy Director-General, Enterprise Directorate-General, for the European Commission. Both speakers emphasized the importance of the topic on national and European levels, both with regard to competitiveness and job safeguarding. Mr. Bartenstein also pointed out that in transfers – when carried out professionally – companies worked with particularly successful strategies and subsequently achieved overproportionate growth rates. Moreover, the survival rate of transferred businesses was significantly higher than that of start-ups. For Austria, the 5-year statistics showed 96% for transferred businesses and 75% for start-ups. He underlined the importance of transfers as well as the importance of start-ups. Mr. Zourek presented some of the most recent activities of the European Commission in the field of “transfer of businesses” and related them to two further projects carried out within the Best-Project scheme. He also pointed out some differences between Europe and the US, concerning the approach to entrepreneurship.

Mr. Janne Timonen, a Finnish entrepreneur, shared his personal experiences concerning the successful transfer of a business. Ms. Kirsi Ekroth-Manssila, European Commission, reported on the results of the Best-Project on the Transfer of Businesses. Mr. Peter Voithofer, Austrian Institute for Small Business Research, presented the main results of a recent study on the situation in Austria. The plenary session closed with the respective chairpersons’ brief introductory statements to the three workshops, which took place in the afternoon of the first day of the seminar.

Workshop 1, on “The Impact of Legislation on Business Transfers”, aimed at analysing to what extent appropriate legal measures might facilitate the transfer process. The workshop also dealt with the role of tax advisers in business transfers. Best practice examples from Belgium, Italy, the Netherlands, Denmark, and the United Kingdom were presented. They all aimed at reducing the tax burdens for business transfers, or, at least, at postponing them to avoid undermining the company capital. The participants agreed that, with a view to the complex legal environment, professional advice was required and that legal and fiscal measures formed only part of a multidisciplinary and coordinated approach towards the promotion of business transfers.

Workshop 2 dealt with “Awareness Raising Measures”. Good practice cases from Germany, Denmark, the Netherlands, France and Italy were presented. All speakers agreed that at present, the market for the transfer of businesses was not transparent enough, that potential buyers and sellers did not form a homogeneous group, that there was a lack of awareness on various levels, and that SMEs suffered most from these very problems.

Workshop 3 dealt with “Support Measures for the Transfer Process”. Support measures for the various phases of the transfer process were presented by speakers from the United Kingdom, the Netherlands, Spain, Finland, France and Denmark. The good practice cases and the subsequent discussion resulted in a number of ideas as to future activities and measures in the field of support services for business transfers. Similar to Workshop 2, this group also underlined the importance of local, regional, and national approaches. In addition, it was stressed that there was a necessity to promote European initiatives which should also involve candidate countries. The participants also pointed out that experiences available on a European level – e.g. the results of the Best Project expert report – should be utilized on national levels to a greater extent.

The final plenary session started with Workshop summaries presented by the three rapporteurs. Mr. Charles Robinet-Duffo, Vicepresident, GEEF (European Group of Owner Managed and Family Enterprises), then reported on the structure and the goals of his organization and its activities in the context of the transfer of businesses. The four panellists, Mr. Andrea Bonetti, President, UEAPME, Mr. Gábor Gérvy, Hungarian Ministry of Economic Affairs, Mr. Gunter Kayser, Institut für Mittelstandsforschung (SME research), Bonn, and Mr. Janne Timonen, reviewed the topic of the Seminar from their individual professional or functional points of view. Subsequently, they were available for questions from the audience.

The last two speakers, Mr. Heinz Zourek, Deputy Director-General, Enterprise Directorate-General of the European Commission, and Mr. Richard Schenz, Vicepresident, Austrian Federal Economic Chamber, agreed that the Seminar was a great success and that it resulted in interesting and important findings and impetus for further developing both legal frameworks and awareness-raising and support measures. In summarizing the results of the seminar, Mr. Zourek explained the plans of the European Commission. He emphasized the necessity of even more pronounced awareness-raising measures, above all on the political level. In rounding off the seminar, Mr. Schenz briefly presented relevant measures already taken in Austria. He underlined the importance of European benchmarking and identified the issues which, in the Austrian Federal Economic Chamber’s view, should be given top priority.

Based on the questions raised and the recommendations generated in the three Workshops on “The Impact of Legislation on Business Transfers”, “Awareness Raising Measures” and “Support Measures for the Transfer Process” we may draw the following conclusions:

- Major importance is attributed to a **business friendly climate** in a given society. There can be no doubt that Europe needs more entrepreneurs and in particular more transferees.
- **Local, regional and national initiatives are to be maintained and/or expanded:** The provision of support services for business transfers has to be tailored as accurately as possible to the needs of entrepreneurs - in other words, appropriate services ought to be offered at local, regional and national level. Moreover, support services ought to be geared to the circle of all those concerned by business transfers (owner/successor, family, employees).
- **Experience and findings gathered in Europe should be utilised:** National studies or seminars on business transfers drawing on the report of the European Commission’s expert group are good examples of how findings obtained at the European level can be put to use at the national level. Considering the complex legal environments, it is often difficult to choose the best method of business transfer. **Benchmarking at the European level** can help to reduce the complexity of the legal environment, since it offers Member States the opportunity to benefit from the experience of other Member States.
- **In future, business transfers ought to be taken into account in all enterprise-related initiatives:** Business transfers obviously suffer from **image and thus from awareness problems**. Measures should, therefore, be taken to promote business transfers and start-ups alike. Business transfers have to be propagated as genuine alternatives to business start-ups. Widespread attention should be drawn to the special needs of small and medium-sized enterprises when it comes to business transfers.
- A multi-disciplinary, coordinated approach is vital in promoting business transfers, **sensitisation to the issue being as important as appropriate and timely planning**. Continued organised discussion on the topic could lead to progress in the right direction, and further steps have to be taken to free the matter from prevailing taboos.
- **Europe-wide approaches should be encouraged:** Interlinking national data bases, as exemplified by the Danish "Match-online" initiative, could certainly stimulate additional all-European activities extending to the accession countries.
- **Addressing unanswered questions:** Current developments of entrepreneurship and their impact on business transfers, such as the consecutive setting-up and selling of several businesses (“serial

entrepreneurship”) or the simultaneous ownership of several SMEs, ought to be more closely studied.

The following points are proposed for consideration with a view to the continued promotion of business transfers: Equal financial support should be granted to the start-up and to the transfer of businesses; new concepts should be developed for “built-in” transfer counselling and awareness raising addressed to both transferers and transferees should be stepped up. Raising awareness should imply that the topic is freed of taboos in the eyes of the transferer who should also be sensitised to the importance of preparing and planning the transfer in good time. On the other hand, entrepreneurs considering to start up businesses should be increasingly sensitised to the advantages of opting for transfers.

## **Summaries of the Workshops**





## **Summary of Workshop 1:**

### **The Impact of Legislation on Business Transfers**

**Rapporteur: Karin Berggren, Företagarnas Riksorganisation, Sweden**

The aim of the workshop was to look at how legislation can be made to play a positive role in facilitating business transfers. The workshop focused on transfer of SMEs and how to facilitate these transfers by legal or tax measures but also discussed the role of the accountant. The best practice cases presented in the workshop show solutions to some of the problems in a transfer situation. The method chosen was that each speaker presented their paper and answered questions from the audience. The workshop ended with a discussion on the subject.

#### **Papers presented:**

- Transfer of Family Businesses in Belgium – Napoleon revisited, professor Jozef Lievens (Belgium)
- The Italian Measures in Facilitating Business Transfers, Mr Carlo Spagnoli (Italy)
- Company transfers in the Netherlands: the Current situation, Ms Paulien Geerdink and Mr Joop Kommers (Netherlands)
- Deposit of Capital Gains to a Pensions Scheme, Mr Søren Schou (Denmark)
- Facilitating the transfer of SMEs in Practice, Mr Peter Langard (UK)

#### **Legal measures**

Italy has changed the company law so that the minimum number of members required to form a public limited company has been reduced to one. On the basis of the same law it is possible to change from a partnership to a limited company. This can be done without tax.

Disagreement between co-operating entrepreneurs can be a potential threat to the survival of the enterprise. In Italy disagreements between co-operating entrepreneurs on the transfer of the business can be resolved by compulsory arbitration and reconciliation by the Chamber of Commerce.

In Belgium the rules for equal treatment of children in family law has been a problem when the entrepreneur wants to give the company to only one of several children. An increase of the value of the gift is taxed and recovered at the death of the parent. But if a gift of shares meets certain requirements and a 3% gift tax is paid the gift is valued at the time of the gift and not at the death of the entrepreneur when calculating the gift. This law has implications for both family and tax law. A problem is that this is a federal rule and that in some regions the inheritance tax is lower than 3%. If the entrepreneur wants to avoid tax the inheritance tax seems more beneficial and the entrepreneur

forgets the family law implications that may be to the detriment of the survival of the business.

### **Tax measures**

Italy has abolished the gift and inheritance tax to facilitate family transfers. This was made with the aim of equity improvement and as an economic development stimulus. But a gift is due for a register tax if the value is over EUR 180 000, or EUR 516 000 if the beneficiary has a handicap. If the gift includes real estate the mortgage tax (2%) and the land surveyor tax (1%) must be paid. If the person who receives movable goods sells such goods within five years she or he must pay the substitutive tax as if the gift had not been given.

Italy has also introduced a so-called honour loan that can indirectly support business transfer to third parties. It is a loan without guarantee. The loan works as a fiscal measure because all investments and expenses are VAT free.

Denmark has introduced a deposit of capital gains to a pension scheme for entrepreneurs in connection with a business transfer or transfer of a part of a business. This is a method for deferral of tax and as a bonus the entrepreneur may also avoid progression. The method can be used if certain requirements are met. The deposit to the pension scheme is deducted from the capital gain and the payments from the pension scheme will be taxed as personal income for the pension saver. This scheme was introduced to make entrepreneurs use profits to consolidate the enterprise instead of taking out the money and putting it into a pension savings scheme. The scheme was available for the first time in relation to business transfers that took place in 2001. It is estimated that 10 000 enterprises in Denmark each year have to be transferred or shut down. In 2001, 650 entrepreneurs used the pension scheme reduction. The maximum deduction allowed is approximately EUR 269 000. In 2001 the average deduction was approximately EUR 100 000. The reaction from advisors has been positive and the measure has obtained special attention from politicians.

The Netherlands has introduced the method of silent transfer of enterprises without corporate capacity. The silent transfer of the business is possible in situations both within and beyond the family sphere, in which a business or an independent part of it is transferred to a party that continues to run the business. If certain requirements are met no tax is payable at the moment of the transfer. The tax is deferred to the future when the business is sold or liquidated. The transferring party continues with the same book values. The presentation compared the silent transfer with standard transfer and conversion of the business into a private limited company with and without holding structure. The choice of method for transfer of a business depends on

- the size of taxable and hidden reserves
- liquid assets to settle the liability
- time left to prepare the transfer
- the wishes of the person taking over the business

The conclusion was that it is possible to transfer a business without having to pay tax but not without a good tax advisor.

### **Facilitating the transfer of SMEs in Practice**

The accountant is an important advisor in the transfer of a business. The transfer has personal, commercial and tax implications that have to be considered. Some of the matters that have to be considered are:

- whether family members are able to take over the business
- employees who are capable of taking over the business
- who will inherit any taxable assets
- should the purchase price be paid by annuity rather than capital
- planning so that the proceeds of sale are split between spouses to ensure maximum allowance for the relief of inheritance tax
- the wisdom of the sale in first place
- early consideration of retirement
- the buyer has to do due diligence
- should shares or assets be transferred

The accountant can advice on the commercial aspects of the transfer such as price, viability and commerciality, but there is also a need to consider a multiplicity of issues.

The legal issues that have to be considered are several. Among those are structure of ownership, environmental law, government, employment regulations, patent and licenses, insolvency, statutory legislation, land and building rights. In the UK there are three aspects of tax legislation that have to be taken into account when considering a business transfer. Stamp duty is a tax that the buyer has to pay and is based on a percentage of the cash purchase price of the business. Interests in family controlled businesses are, subject to certain important points, free from inheritance tax. The capital gains tax has introduced reliefs such as indexation, retirement relief, taper relief and annual exemption which means that it is quite possible to be able to sell for cash a substantial portion of the ownership of a business without incurring any taxation liability on any gain within the sale proceeds. Due to the complexity of the legal and tax issues, the accountants work with other experts to resolve problems.

### **Conclusions**

The national legislations have the same the target but different means. The transfers are governed by national legislation on company law, tax law, family law etc. But the transferor and transferee seem to be confronted with similar problems, for example the tax on the transfer. Aims of the best practices have been to reduce or delay the taxes on the transfers to insure that the

businesses will not be drained of capital. But differences between the Member States remain, for example the silent transfer in the Netherlands defers a tax that is 52 % of the profit whereas in the UK it is possible to pay tax only on a small amount.

The complexity of the legal environment makes it difficult for the entrepreneurs and the advisors to choose the best method for transfer. The discussion revealed a wish for simplification. Benchmarking at European level by learning from other Member States could do this.

The complexity of law calls for professional advisors. The transfer is a business decision, perhaps the biggest business decision that the entrepreneur makes in his professional life. To sell a business can be a very emotional experience. But the advisor can focus on the rational side of the transfer such as legal aspects. The complexity of law and other issues makes it necessary for the advisor to consult other experts, making the business transfer more expensive.

It is important that the policy and attitude in society is good towards running a business. The survival rate is better for transferred businesses than new businesses. By granting starters facilities to transferred businesses this survival rate could be even better. This is a way to prevent unemployment. Europe needs more entrepreneurs not only to start new businesses but also to take over running businesses. It is vital that people wish to become entrepreneurs, children to take over their parents businesses, employees to take over the company when the entrepreneur retires or starts new projects. The silent transfer in the Netherlands focuses on the fact that beneficial tax rules grant tax relief not only on transfers within the family but that the buyer has been trained for taking over the business.

To facilitate the transfers of businesses there is a need for a multidisciplinary and coordinated approach. Legal and tax measures can only be a part of this. The planning of a transfer is important. There is a need for awareness of the problems and possibilities related to the transfers. The complexity of law and tax issues makes it vital that there are good advisors. The support of the entrepreneurs that wants to take over a business or want to sell their businesses must be improved. To be able to do this, benchmarking, discussion etc. needs to continue at a European and global level.

The aim of facilitating the transfer of businesses is to save jobs and to ensure the continuity of economically viable businesses. To facilitate the survival of businesses we must support the sellers and protect the buyers. The best practice cases presented at this workshop can inspire legal and tax measures that will help entrepreneurs that take over a running business. The number of anticipated future transfers shows that measures have to be taken to meet the Lisbon goal that Europe is going to be the most competitive market in the year 2010.

## Summary of Workshop 2:

### Awareness Raising Measures

**Rapporteur: Charles Bassing, Chambre des Métiers du Grand-Duché de Luxembourg, Luxembourg**

#### 1. Introduction

Awareness raising is one of the key themes for business transfer. Without awareness raising there is no business transfer or even the chance of business transfer since no demand or offer for such an operation arises.

Those were the introducing words of Mr Francois HUREL from the "Agence Pour la Création d'Entreprise (APCE) in France, chairman of the workshop.

A recent survey<sup>1</sup> shows that for most Europeans a business take-over is still less attractive than creating a business from scratch.

This might of course affect business demographics, knowledge transfer from one generation to another as well as job creation and preservation.

Workshop 2 dealt with these issues and tried to expose existing awareness raising measures:

- How information was disseminated;
- Which channels might be used ;
- Where and how the best results were achieved.
- 

As Mr HUREL noted, awareness raising is a field that often seems to be neglected by most organisations and institutions. Therefore, conclusions and lessons learned by the organisations involved in awareness raising may give useful advice to anyone interested in this domain.

#### 2. The projects presented

Five speakers presented different projects throughout Europe:

- Dr Birgit FELDEN, TMS Unternehmensberatung AG (Germany)  
Seven projects aiming at raising awareness and giving support to different actors: owners, buyers, consultants, bankers, ...
- Mr Niels Jørgen SØRENSEN, Randers Erhvervs- & Udviklingsråd, Denmark  
A project located in Kronjylland giving individualised support to buyers and sellers potentially engaged in a business transfer.
- Mr Marc KIKKERT, Chamber of Commerce, The Netherlands  
"Top-of-mind" approach developed by the Dutch Chamber of Commerce, trying to install themselves as a "natural" first contact in business transfer.

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<sup>1</sup> Flash Eurobaromètre 107

- Mr David GOURARIE, Club des Cédants et Repreneurs d'Affaires (CRA), France  
A nation-wide acting organisation run by volunteers (mostly former entrepreneurs) organising awareness raising measures and providing information and support.
- Mr Toni BRUNELLO, StudioCentroVeneto, Italy  
The "Kit.brunello-based-Laboratorium" is an interactive tool helping potential sellers to analyse their own situation. On an aggregate level the tool offers the possibility of creating a survey on the business transfer situation for a given geographic region.

### **3. The situation**

All the speakers agreed on the following specific points concerning the overall situation in the field of business transfer:

- Business transfer is a problem on both micro- and macro-economic levels;
- The market for business transfer is not transparent;
- Potential buyers and sellers are not homogenous groups;
- There is a lack of awareness raising on several levels;
- The most affected by the existing problems are SMEs.

While the starting points and the overall objectives were more or less the same for the projects, they differ in their specific approach, in communication channels used and in methodology.

#### **3.1. Dr Birgit FELDEN**

Dr FELDEN presented seven different projects run throughout Germany.

Three projects focussed on potential business sellers and buyers, while three other projects were aimed at giving support to consultants active in the field. The last project presented showed how cross-media based channels can be used to target different groups of actors in the domain of business transfer.

##### **3.1.1. Focussing buyers and sellers**

- The project run by IHK-Bonn / Rhein-Sieg is a "classic" example of awareness raising. Seminars and workshops in combination with backup support are the tools used to guide potential buyers and sellers through the process of business transfer.
- The succession navigator developed by the "Technische Akademie" Wuppertal is an Internet based tool offering integrated information on business transfer.
- "Go!NRW" is a joint initiative of the Land North Rhine-Westphalia and the region's industry to promote business start-up's. The overall objective of this pilot project created in a 1998 was to bring together potential buyers and sellers of enterprises.

##### **3.1.2. Focussing consultants**

- The nation-wide initiative of co-operative banks "MittelstandDirekt" provides integrated information to SMEs. A complete concept for banks

offering support to their customers in the field of business transfer is a spin-off of this project

- On behalf of the "Gesellschaft für Wirtschaftsförderung" in Düsseldorf, the TMS Unternehmensberatung AG developed an information brochure focused at consultants. The brochure is provided along with seminars and training for consultants.
- Under the KONTINUUM project, a reference on successful cases and ideas for consultants has been set up. The main idea was to give consultants access to experiences that other consultants have gone through on the "soft" (emotional and psychological issues, human relations) matters of business transfer.

### 3.1.3. Focussing different groups

The initiative CHANGE is a joint effort by the "Zentralverband des Deutschen Handwerks", the "Deutscher Industrie und Handelskammertag" and the "Deutsche Ausgleichsbank". Together with the initiative NEXXT by the Ministry of economic affairs it offers not only information brochures, several Internet based analytical tools and a CD-Rom based tool to develop corporate profiles for business sale, but it also runs the largest business succession exchange database in Germany (handling some 8000 enterprises).

### 3.2. Mr Niels Jørgen SØRENSEN

The objective of the GOODWILL project in Denmark was to prepare SMEs for the transfer of business through regional fieldwork.

The project took place in Kronjylland, an area in the middle of Jutland with some 120 000 inhabitants and some 3 000 SMEs.

The project was run by several partners: the Business Development Board, T.I.C. business schools, private companies (banks, lawyers, brokers), and the County's business department. This two-year project started in 1999.

Importance was given to local characteristics and the involvement of local partners.

Potential sellers were approached by direct mailing, in which they received an appealing offer. Follow-up was made by telephone in order to establish a person to person meeting. After this first round of information and open discussion, two possibilities were offered to the participants:

- For the owners: The possibility of being assisted by a mentor (for up to 50 hours) in building up a strategy for transfer and development of the enterprise. The idea was to make the enterprise worthwhile taking over.
- For the potential buyer (the junior): a two-year learning program enabling him to run his own company.

Throughout the project it appeared that the emphasis on local action undertaken by local experts was important for the success of the initiative.



Another point was that a successful take-over cannot take place unless the company is well run and "worthwhile being taken over".

Most of the services offered were free of charge or at a very low rate, thus improving the probability of participation by the actors.

### **3.3 Mr Marc KIKKERT**

The multi-channel approach by the Dutch Chamber of Commerce aims at promoting themselves as the "natural" point of first contact for any issues linked to business transfer.

This "top-of-mind" approach aims at making sure that an entrepreneur who has a question about business transfer or business start-up always knows where to go first: to his local Chamber of Commerce.

The Chamber of Commerce has therefore set up a four-stage process of guiding actions in business transfer.

#### **1. Identification**

Market surveys provide an overview of the current situation. Keeping track of changes in the (legal, financial, economic, ...) environment of SMEs is essential in order to provide adequate support.

#### **2. Raising awareness**

The identification of the right target group and the respective choice of communication channel(s) and message(s) make an initiative more effective.

#### **3. Fact finding / orientation**

After awareness has been raised, potential buyers and sellers need to have access to correct and complete information. This is granted through the Chamber's website or the support services offered by the network of local chambers.

#### **4. Suggesting solutions**

During the fact-finding and orientation process, the Chamber of Commerce draws attention to the need for professional guidance. The Chamber does not offer this help itself but points out existing professional services. Thus interested entrepreneurs may profit from the existing knowledge network of the Chamber of Commerce.

Besides this, the Chamber of Commerce runs a business transfer platform, a database for buyers and sellers, contributing to the transparency of the business transfer market.

The Dutch Chamber of Commerce network consists of 21 Chamber of Commerce with 56 local offices.

### **3.4. Mr David GOURARIE**

The "Club des Cédants et Repreneurs d'Affaires (CRA)" is an organisation which operates on a nation-wide basis, mostly run by volunteers (former entrepreneurs). The organisation has 33 local representatives throughout France.

Seeing that the market for business transfer is not transparent, the association tries to help raise transparency by setting up awareness raising measures, local events, seminars and offering support and consultancy.

Potential buyers or sellers may be approached directly or through seminars and training. Close co-operation with local media actors makes sure that optimal press coverage is reached.

Members of the organisation may fully benefit from the services offered as well as from the large network of contacts while strict confidentiality is guaranteed.

### **3.5. Mr Toni BRUNELLO**

The Kit.brunello-based Laboratorium is a coordinated and continuously evolving tool to help governance of business transfer by single SMEs and local institutions.

The project was first run in its "complete" version by "Unioncamere" in Tuscany under the "Progetto Germogli"

Primarily, Kit.brunello is an auto-evaluation tool for SMEs that are confronted with business transfer. About 100 questions lead to an individualised self-portrait of the entrepreneur's own and specific situation. This helps the entrepreneur to understand his own state of affairs and to detect possible weak points.

The next step consists in summarising each of the answers given by the entrepreneurs that used the Kit.brunello tool. By doing so, it is possible to establish an aggregate situation of companies and entrepreneurs for a given region.

The information gathered in this way may be used (in a press conference or by means of another publication) to explain the current situation and thus raising awareness within local organisations and institutions. The information may also be used to build a future policy on facts and thereby to develop a general environment that is beneficial to business transfer.

## **4. Lessons learned and recommendations**

### **Awareness raising goes together with offering support**

Each project presented offered support to the people involved. It seemed important to transmit the message but also to ensure follow-up and point out possible support.

### **Local action**

Most of the speakers insisted on the importance of the action taken by local organisations. Indeed knowledge of local environment ensures that the message(s) to be transmitted is (are) understood and creates confidence among the people involved.

### **Regional / national co-ordinating body**

Local projects were the most successful when there was support by a co-ordinating organisation on regional or national level. Economies of scale allowed initiatives that otherwise would not have been possible. However, there should be the freedom for local actors to adapt messages and concepts to local specificities.

### **Networking**

In most projects the target (buyer, seller, consultant, ...) would profit from a larger network of knowledge, skills or relations. It is important to create such a network as the process of business transfer creates needs for different and complex expertise.

### **Effective use of New Information and Communication Technologies (NICT) may be difficult**

It appeared in some projects that the access to NICT is not granted to all actors involved. Many entrepreneurs still have problems in using them effectively. This becomes even more important if one considers that in some 40% of business transfers the main reason for the transfer is the age of the entrepreneur.

### **First a generalist then a specialist**

When offering support it seems important to first draw up an overview of the entrepreneur's situation. It is not useful to start planning the transfer process with tax or even legal matters. The first contact for an entrepreneur should be a generalist – who should then point them towards specialists (lawyers, bankers, ...) who can deal with implementing details.

### **5. For the future**

The following conclusions or recommendations have emerged during the workshop. These can be seen as ideas for future projects or even as starting points for further research in the specific field.

### **Act local**

As already mentioned, local action is the key to success for any project in this field.

### **Take into account SME specifics**

SMEs neither have the manpower nor the financial resources to master the process of business transfer easily. They need support but support that is affordable as well as result oriented.

### **Awareness raising: include other actors**

Potential buyers and sellers are not the only actors involved in a process of business transfer. In fact business transfer processes are highly complex and require specialised and diverse expertise.

Therefore, a lot of actors intervene: lawyers, bankers, consultants, ... Not all of these actors have developed business transfer as a strategic field of action. They should be made aware of the importance of business transfer for the society as a whole as well as for their own business.

### **Importance of "soft" matters and lack of specialists for these**

Business transfer involves family as well as close partners to the main actors. Therefore "soft" matters (psychological and relational matters) are of growing importance during the process. It often happens that consultants have little or no experience in this field. While moderating meetings or giving advice, the how-it-is-done is as important as the what-is-said. Therefore experts should be given the possibility of acquiring experience for "soft" themes.

### **Combine communication channels**

As targeted groups are heterogeneous, transmitting channels should be combined, messages should be modulated in order to obtain the largest effect in the respective group.

### **Service out of one hand**

It seems important to offer a combined and integrated range of (support) services. The services could be arranged in a network but a potential "customer" should be able to find answers to his questions at one place.

### **Promote image of business transfer**

Business transfer is often not seen as a real alternative to business creation. While possible advantages of a business take-over compared to a start-up are obvious (existing and functional production structure, existing customer network, existing knowledge base, ...), entrepreneurs still seem to hesitate to take over a business.

In general entrepreneurship should be promoted as a real alternative to a salaried occupation. Taking over a business and creating a new one should be considered as two possible ways to become an entrepreneur. Often business transfer receives less support from public authorities than business creation. Moreover, support in business transfers often suffers from the fact

that the approaches and methodologies used to treat business creations are simply transposed to handle business transfer cases. Obviously business transfer has an image (perception) problem. Measures should be taken to promote business transfer on the same level as business creation.

### **Still lack of public support**

What seems to be a fact for consultants, bankers, lawyers or even entrepreneurs themselves, is also true for public institutions; there is still a lack of public awareness and public support for business transfers.

Politicians involved in creating a suitable environment for the economy should also be made aware of the specific needs of SMEs in the field of business transfer.

### **5. Linklist**

As the papers presented during the workshop can only give a short overview of the work accomplished on several projects, it may be useful to add a linklist to Internet sites, where additional information on the projects may be found:

#### **Germany**

Sucession navigator TA Wupertal

[www.1-to-manage.de](http://www.1-to-manage.de)

Project Kontinuum

[www.kontinuum-online.de](http://www.kontinuum-online.de)

Project CHANGE

[www.change-online.de](http://www.change-online.de)

Project NEXXT

[www.nexxt.org](http://www.nexxt.org)

TMS Unternehmensberatung AG

[www.tms.de](http://www.tms.de)

#### **Denmark**

Randers Business & Development Council

[www.reu.dk](http://www.reu.dk)

#### **The Netherlands**

Chamber of Commerce

[www.kvk.nl](http://www.kvk.nl)

Business Transferplatform of the Chamber of Commerce

[www.ondernemingsbeurs.nl](http://www.ondernemingsbeurs.nl)

#### **France**

Association des cédants et repreneurs d'affaires

[www.cra.asso.fr](http://www.cra.asso.fr)

## **Italy**

The Kit Brunello

[www.kit.brunello.net](http://www.kit.brunello.net)

Atelier StudioCentroVeneto

[www.studiocentroveneto.com](http://www.studiocentroveneto.com)

Projet Germogli

[www.progettogermogli.it](http://www.progettogermogli.it)



## **Summary of Workshop 3:**

### **Support Measures for the Transfer Process**

**Rapporteur: Anna Maria Heidenreich, Deutscher Industrie- und Handelskammertag (DIHK), Germany**

#### **I. Introduction: the current situation**

The transfer of a business within a family or its sale to a third party is generally something that an entrepreneur undertakes only once in his life. He therefore approaches the transaction with little or no know-how or experience.

Transferring a business is a complex process which has to take into account a number of involved and interested parties and requires a high degree of specialist knowledge. Extensive support programmes are available from a wide variety of institutions, but they are often one-sided (designed with the interests of the institutions in mind), uncoordinated and not transparent and do not therefore reach their target group – small and medium-sized enterprises (SMEs).

The importance of appropriate and well-directed support is clear from the fact that an average of five jobs are saved when a business is transferred successfully, whereas start-ups create an average of only two jobs.

#### **II. The workshop**

In the workshop, examples of models for supporting businesses – SMEs - were presented and discussed. They covered support measures for the various phases of business transfer, from awareness creation to planning to the actual transaction itself. They include awareness, information and training measures, and provide coaching and advice. Databases for buyers and sellers and finance planning models were also presented.

The following presentations were made:

- Chris Martin/David Heppenstall: "Knowledge-based mentoring support for SME owners in different succession situations", United Kingdom
- Rob van Engelenburg: "Co-ordinated support on business transfer in the Netherlands", Netherlands
- Luis Sánchez: "Higher programme for the consolidation of family businesses", Spain
- Pertti Korhonen: "Passing the baton - a support service for business transfers", Finland
- Muriel Decout: "Support scheme for the transfer of businesses in the form of cooperatives", France



- Peter Dalkiær: "www.ticmarked.dk - a market place for sellers and buyers of SMEs", Denmark

The presentations covered the following main aspects:

#### United Kingdom:

This support package is centred around a learning model for summarising the main know-how of the company to be transferred and its capital in terms of staff, structure and customers. This helps the entrepreneur to think flexibly and thus identify various solutions.

#### Netherlands:

From the Netherlands, a structural approach was presented, combining awareness, information and advice oriented towards demand; a pilot project has been implemented at regional (Chamber of Industry and Commerce) and sectoral level (bakers' trade association). In the pilot project, case studies were also used to illustrate difficulties and to encourage participants to analyse their own situation.

#### Spain:

The Spanish model combines an owner-oriented and successor-oriented approach which analyses the situation of the company to be transferred and of the owner family and, at the same time, the expectations of the successor. In a special forum, typical problems encountered in transferring family businesses are also raised and discussed.

#### Finland:

The Finnish model (especially in Lapland) focuses on "mental preparation", i.e. dealing with the emotional and psychological aspects of transferring a business, which must start 3 to 5 years before implementation of technical solutions. The support service aims to make business transfers according to plan and controlled and fully prepare the successor (by means of management training, for example) run the business profitably and provide the former owner with a "soft landing".

#### France:

The special feature of the French model is the transfer of businesses to employees in the form of a cooperative, for which under French law the employees must hold a majority stake of the capital. At the transfer stage, particular attention is paid to the aspect of financing; advice after the actual transfer is also offered.

#### Denmark:

Denmark has an Internet-based market place for business transfers, at which users can carry out geographical, sector-, size- and turnover-related searches, and sellers and buyers are brought together automatically. Since only registered intermediaries can make entries in the database, the quality of the content is assured. The database has already been interlinked with other national databases in the EU under a common domain at [www.match-online](http://www.match-online).

### **III. Points in common and differences between the models**

This section aims to present the different approaches and measures of the presented models by means of specific criteria and questions, and thus demonstrate the wide range of the measures proposed:

#### 1. Who is the support for?

The support services offered are all directed at SMEs and family businesses and include the owner of the company to be transferred. In almost all cases, the successor is also addressed; in the French and UK models, employees are also covered.

#### 2. What type of business transfer does it cover?

All the types of business transfer referred to in the introduction are covered: transfer within the family (models from Finland, the Netherlands and Spain), outside the family (Finland and Denmark) and to employees (France). The model from the United Kingdom does not focus on a specific type, but shows entrepreneurs various options.

#### 3. At what level?

Examples of support services at regional level (as in the Finnish, Dutch, Spanish and French cases), sectoral level (the United Kingdom and the Netherlands) and national level (Denmark) were presented in the workshop. The Danish example has been further developed at European level.

#### 4. Who provides it?

In all of the measures presented, the support services were offered as part of cooperation between public and private providers (chambers of industry and commerce, industrial organisations, banks, universities etc.), and drew on the assistance of specially trained advisors ("change agents").

#### 5. What form does it take?

In almost all cases, support is given in several stages: in the first, general information is provided; then a diagnosis phase analyses the initial situation of the business to be transferred. In the next stage, tailored advice is given, and finally help is provided with the actual implementation of the transfer.

The available services cover not only the technical preparations for the transfer, but also its emotional and psychological aspects, and address not only the owner/seller, but also the successor and the family.

#### **IV. Points of discussion**

In the workshop's discussions following the presentations, the following questions were raised:

- How can transparency of the support services offered be enhanced and how can the many different offers be better coordinated or how can incentives for coordination be created?
- How can the success of the services be measured, e.g. using the number of successful transfers?
- How much time must be invested in providing efficient support?
- How can the number of future entrepreneurs (i.e. the potential buyers or acquirers in the case of a business transfer) be increased?
- Are there any geographical features to transfers; are, for example advice offers more in demand or more necessary in rural areas than in urban areas, and are transfers within a family more common in rural areas than in towns and cities?

#### **V. Conclusions**

The following conclusions can be drawn from the models presented and the issues discussed:

Support services....

- exist, but must be better linked and coordinated
- must focus on awareness of the problems, so that preparations for the transfer can be started early enough
- can only ever help the people involved to help themselves
- must be process-oriented
- should promote the flexibility of the entrepreneur transferring the business and propose various solutions ("exit routes")
- should incorporate hard (technical) and soft (psychological) factors
- should be aimed at all the people affected by a business transfer (owner/successor, family, staff)

#### **VI. Future outlook**

On the basis of the models presented, the points of discussion raised and the subsequent conclusions, the following ideas should be pursued with regard to future activities and measures in the area of support services for business transfers:

- Support for pan-European approaches: the interlinking of national databases - as in the case of the Danish "match online" initiative - is a good starting point for other Europe-wide activities; accession countries should also be taken into account.
- Use of European experience/results: the national study and organisation of a seminar started in the Netherlands and based on the report of the European Commission's group of experts on business transfers is a positive example of how results produced at national level can be used at European level.

- Maintaining local, regional and national initiatives: despite the importance of a pan-European approach, the services offered should be as close to business as possible, i.e. should provide support at local, regional and national level.
- Taking business transfers into account in all future business-related initiatives: as much importance should be attached to business transfers as to business start-ups.
- Open issues: current trends in entrepreneurship and their impact on business transfers, such as the setting up and sale of several businesses in a row ("serial entrepreneurship") or parallel ownership of several SMEs must be investigated in more detail.

## **VII. Additional information**

More information on the six presented models can be obtained from the following Internet pages or by e-mail from the presenters:

- Chris Martin/David Heppenstall: [chrismartinassoc@btinternet.com](mailto:chrismartinassoc@btinternet.com)
- Rob van Engelenburg: [engelenburg@rzo.nl](mailto:engelenburg@rzo.nl); [www.rzo.nl](http://www.rzo.nl)
- Luis Sánchez: [luisSanchez@eoi.es](mailto:luisSanchez@eoi.es); <http://eoi.es>
- Pertti Korhonen: [pertti.korhonen@te-keskus.fi](mailto:pertti.korhonen@te-keskus.fi); <http://www.te-keskus.fi>
- Muriel Decout: [mdecout@scop-enterprises.tm.fr](mailto:mdecout@scop-enterprises.tm.fr); [www.resoscope.org](http://www.resoscope.org)
- Peter Dalkiær: [pda@tic.dk](mailto:pda@tic.dk); <http://www.ticmarked.dk>



## **Welcoming Addresses**



## Michael Hann

Moderation

Words of welcome

Ladies and gentlemen!

It is my pleasure to welcome you here at the Austrian Federal Economic Chamber, at the seminar on *Transfer of Businesses*. I do so on behalf of the Austrian Ministry of Economics and Labour and the European Commission.

As a journalist and long-term observer of economic policies, I used to only ever become aware of takeovers when there were problems involved. In preparing this seminar, however, I have discovered that transfers can actually take place within a planned and structured process.

This knowledge may become important for me as well, as I have just started up my own business. I have no intention of passing on my company within the next few years. As I have learnt, however, it can never be too early to prepare a proper transfer process.

I now have the honour of introducing the panellists to you:

Let me welcome the Austrian Federal Minister of Economics and Labour, Mr. Martin Bartenstein, Mr. Heinz Zourek, Deputy Director-General, European Commission, Enterprise Directorate-General, and, last but not least, Mr. Janne Timonen, a Finnish entrepreneur, who will share his experience of a successful transfer of a business .

I would now like to ask Minister Bartenstein to address the audience.





## **Martin Bartenstein**

Federal Minister of Economics and Labour

### **Opening Statement**

Ladies and gentlemen,

Welcome to Vienna, welcome to Austria! I would like to extend a most cordial welcome to those 75 per cent among you who have joined us from other European countries. I hope that you spent a pleasant evening and, especially, an exciting night, as the election cliff-hanger in Germany was undecided until the small hours of the morning and offered as least as much suspense as a book by Agatha Christie. While we saw something similar in the American presidential elections, the Germans have a great advantage: they know how to count more accurately and more quickly.

Ladies and gentlemen, today and tomorrow we are going to devote our attention to a topic that, while having little to do with party politics or ideologies, is of great significance. Actually, all the players concerned agree that the transfer of businesses is gaining in importance especially for small and medium-sized companies or SMEs. I myself am a little affected, just like Mr Timonen. Before I embarked on my political career - if I may call it that - I used to be an entrepreneur and I had the opportunity to take over a company successfully. As a father of five, which is wonderful but does not make it easier to hand over the company to the next generation, I am already giving the future of my company a great deal of thought.

Mr Hann is absolutely right: you have to think about the transfer of a business in good time. And this is the question that has brought us here today: how can one encourage entrepreneurs and companies to prepare for such a situation and what environment is needed? I am particularly pleased to see so many guests from candidate countries. We must never forget, however, that these countries are at least as concerned with the creation of such businesses as with the transfer of existing SMEs.

What the candidate countries require most in economic terms are healthy SMEs. We, the current 15 members, know about the importance of SMEs. They not only safeguard employment and innovation, they are also mainly responsible for the prosperity in the European Union.

In my opinion, this seminar is not about the large-scale takeovers that Mr Hann and others report about in the media, nor is it about 'friendly' or 'less friendly' takeovers. In my opinion, discussions in the coming one-and-a-half days should focus on the transfer of small and medium-sized businesses and

about creating the best possible economic environment for such transfers. This is a truly European event and I very much welcome the benchmarking from Finland. In many respects, Finland has become a model country for us. And when I say 'us' I am not only referring to Austria, I am referring to Europe as a whole.

Various reports rank Finland among the most competitive countries of Europe, while other studies come to the conclusion that Finland is even the front-runner in this context. Given the fact that even the Pisa study has Finland in first place within Europe, there is no doubt about Finland's model function, and we are always happy to receive input from there, including input about issues that are as important as the transfer of businesses.

I would like to thank the European Commission for devoting attention to this topic in co-operation with my ministry within the framework of this seminar. It is a worthwhile area of interest for DG Enterprise. I consider it reasonable and appropriate that the Commission has abandoned the former separation between SMEs and industry. DG Enterprise now includes all types of businesses. This is useful since the former separation presented major administrative hurdles for day to day activities.

The Institute for Small Business Research will shortly present the results of a study commissioned by my ministry. I'm looking forward to the results with a great deal of interest, and without wanting to anticipate significant insights let me just say this: I am the minister responsible for labour -- Mr Hann has already mentioned this aspect of my political responsibilities -- and therefore I'm not only concerned with business transfers from the point of view of the owner or management. A transfer equally affects the interests of the workforce. Therefore, business transfers need to be conducted in an environment which provides the best possible protection for employment.

In this context, I would like to present a few figures to you: until the magical year 2010, by which Europe is expected to be the most competitive market of the world after the Lisbon process, Austria will experience 52,000 business transfers affecting no less than 440,000 jobs. As far as SMEs are concerned I may tell you that 60 per cent of the companies awaiting transfer have five employees or less. Even by Austrian standards they are no medium-sized companies but small enterprises. Against this backdrop, were looking forward to Mr Voithofer's report and to the presentation of the study.

Ladies and gentlemen,

Let me conclude with a few remarks about my own expectations for this seminar. We know that after a successful business transfer that was conducted professionally and in line with workers' interests, companies pursue above-average expansion strategies and also achieve above-average growth. And is not higher growth what Europe needs most at a time when we are seeing growth figures of 1 per cent or even less? The further we are away from the Lisbon objective of 3 per cent average growth, the more we need to intensify our efforts to get on the right track again. As I have pointed out, transferred businesses help us do just that. They pursue expansion

strategies, they are marked by above-average growth. Jobs are also better protected in transferred businesses than in start-ups. While 25 per cent of all newly established companies fail within the first few years, the failure rate of transferred businesses lies at only 4 per cent according to our data.

The tax environment is not everything, but it will certainly represent an essential part of what we will discuss today and tomorrow. In Austria, legal provisions have recently been installed which exempt business transfers from inheritance and gift tax up to a marketable value of almost EUR 400.000, which clearly includes a sizeable share of medium-sized companies. Subject to a relatively complicated definition, which I am not going to elaborate on right now, business transfers are exempt from inheritance and gift tax. As far as I'm concerned, we could well discuss whether this threshold is sufficiently high. I am not implying that shareholders in large companies should be able to transfer their shares free of tax to the next generation. But as far as medium-sized companies are concerned such considerations are worthwhile, especially given the situation in our country. In Austria, it is relatively easy to pass capital on to the next generation free of inheritance tax, while the same does not hold true of risk capital in the form of participations.

We have to find ways and means to appropriately foster company integrity. Unfortunately, the Austrian discussions about foundations have only been conducted from the point of view of alleged tax privileges - and the stress lies on the term "alleged". Foundations may well be a way to keep the next generation involved in case of a complicated family structure, while at the same time protecting the integrity and unity of the company and, thus, economic prosperity and existing jobs. This certainly makes discussion on this topic worthwhile. A question that always arises in our beloved Europe is the question as to what will remain under national competencies and what will be the role of the Commission. Such questions of competency will certainly be an issue in this seminar.

Ladies and gentlemen, let me wish you successful deliberations and, as the co-host of this seminar, let me repeat how delighted I am to welcome you here in Vienna, and in Austria, as our guests.

Thank you for your attention.



## Heinz Zourek

Deputy Director-General,  
European Commission, Enterprise Directorate-General

### Opening Statement

Minister Bartenstein, Mr Hann, thank you very much for the invitation.

I would like to thank all the organisers that have contributed to the seminar and all of you that made the effort to come to Vienna to help the Commission find out whether this topic deserves more work and attention. We have recently witnessed a rather forceful debate on the weak performance in start-ups. Much of the political debate has been on start-ups of new enterprises leaving the development of transfer of already existing enterprises in the shadow. It is our intention to have an integrated view on all the difficulties that enterprises may face in Europe, involving a comprehensive approach which also includes a rather crucial phase in the life cycle of an enterprise when the end of the active period of the founder or the manager of this enterprise occurs. We discovered that the number of enterprises facing this situation is rather large and Minister Bartenstein has already quoted the figures for Austria. In the ten years to come approximately one third of the existing enterprises will undergo a change within their management and ownership. That means that within Member States the figure varies between 25-40% of the stock of enterprises but on average some 610.000 SMEs will change hands every year, potentially affecting around 2.4 million jobs – each and every year.

But why does the Commission care about all this? Isn't this the private business of these enterprises, of the owners and perhaps even of the work force affected by it? We think differently. We consider that the ambitious aim to make "Europe the most competitive knowledge-based economy" can only succeed if the environment for the enterprises is right. In Barcelona this spring, the Summit of the Heads of State and governments of the European Union confirmed the importance of competitive enterprises, in particular small and medium-sized enterprises, in a knowledge-based economy. This is an important condition to get right if you want to improve performance with regard to employment and growth and competitiveness. This is why the Commission is aware that it has to take a closer look at enterprise issues which mostly concern areas where there is no community competence or regulation managing this policy area. So how can we help achieve this goal without the necessary competence in legislation or funding?

I would like to put the issue of the day, the transfer of businesses, into a larger context. In all the areas where there is no community competence and where we will perhaps never have community competence due to the fact that it is a core business of national and local governments, competition

should still exist amongst policy makers. By this I mean - competition in the sense that they can learn from and build on the best practises of others. It is for this reason that we have installed an open method of co-ordination where it is the Commission's task to provide a platform for the exchange of experiences as well as to survey whether promises are really fulfilled. It's nice to be able to agree on the importance of a particular issue, it's more difficult to do something about it and to follow it up, so exchange of good practises is the only means that we have to introduce these ideas.

In practical terms the Commission has presented a work plan called the "Multiannual Programme for Enterprise and Entrepreneurship" which we will pursue. This is one of the main instruments that we can use for this exercise. One element in this Multiannual Programme is a method called the "Best procedure". One of the projects under the Best procedure method that we have pursued is the project that we are going to present today and which I hope you will discuss and contribute to. This is the Transfer of Business project which was launched last year along with others and is now approaching its conclusion. The transfer of business issue has been chosen because it is a crucial phase in the life cycle of enterprises. Unfortunately, still too many businesses fail with all the drawbacks of such a failure such as the loss of jobs, the loss of assets and the opportunities for investment. This isn't the first time that we at the Commission look at this issue. Already in 1994, a Commission Recommendation invited the Member States to improve the environment for the transfer of businesses. The aim of this Best project is to monitor whether this recommendation bears fruit. An expert group on the transfer of businesses was specifically set up for this and has helped the Commission to carry out its project.

We would like to put the transfer of business project together with two other Best projects which also deal with how to get things started. One is a Best project we have carried out on start-up procedures in order to compare the differences in the treatment of new start-ups. The second dealt with the management of incubators. The study that the Commission produced brought rather impressive results on the performance of incubators. This information is available free via the Europa server together with all the necessary and helpful e-mail-addresses. The Best procedure is still ongoing and this year we have already started three new projects. One will try to look into the initiatives of Member States to promote environmental management systems, especially in small and medium-sized enterprises. You are aware that the demand to protect the environment and to contribute to sustainable development is ever increasing but are small and medium-sized enterprises left alone with obligations or is there any help for them? The second Best procedure project underway concerns Member States' legislation in the case of a failure, insolvency legislation, how to deal with the stigma of failure and whether there is a second chance once you have failed. There is a dilemma in Europe as to how one can ask people to take risks if they get punished should they not succeed. The third of these projects will look into the effectiveness of Member States' institutions concerning the transfer of technology.

Turning now to our subject of today, I would like to go through some slides which give a taste of what the issues are. We see that there is a growing trend for transfer of businesses outside the sphere of the own family and it all starts by recognising that the transfer of business is like any other business in that it has a supply and a demand side. First let us look at what the demand side is. We have been looking into the attitudes of Europeans on becoming an entrepreneur. If you compare the performance of the US with Europe, one of the conclusions that we can see is that the number of people thinking of either starting a new business or taking over an existing one is only 14% in Europe and 16% in the US. But if we look further into this question, we see that a clear majority of 65% in Europe and of 70% in the US preferred to start their own business rather than taking over an existing one.

What are the attitudes towards entrepreneurship? We see in this survey that Europeans are much more concerned with avoiding risks than the American counterparts. It is rather remarkable how many Europeans would agree with the fact that one shouldn't start a business at all if it is connected to risk and if a risk of failure exists. This is perhaps one of the most important differences, but whether you start-up your own business or you take over an existing one, risk cannot be avoided. Now let's look into what type of risks people are mostly concerned about. We see that the Europeans are most afraid of losing personal property or of going bankrupt. Astonishingly, the most important risk for the US citizens is that of an uncertain income. Compared to the United States it seems that in Europe there is a lack of entrepreneurial dynamism. We can take this as a foregone conclusion or take it as still allowing some room for improvement. To improve it in reality would oblige us to provide the right framework conditions to encourage Europeans to take the risk and set up their own new business or to take over an already successful enterprise.

The debate on entrepreneurship should concentrate on generating economic growth in Europe and we should look into what drives entrepreneurial spirit and how we can balance entrepreneurship policy with other political considerations like sustainability. During the European Council in Barcelona this year the Commission announced its intention to publish a Green Paper on entrepreneurship. We are now in the process of drafting this Green Paper. The Commission intends to adopt it towards the end of January next year. One of the elements that we would like to figure prominently in this Green Paper is the result of this seminar because it has an impact on entrepreneurship attitudes. But this Green Paper should, of course, lead to a more comprehensive and larger debate on entrepreneurship. It will highlight the importance of entrepreneurship in the knowledge-based economy and analyse the correlation between entrepreneurship and economic performance. It will provide views on key components and the scope of entrepreneurship. It will also describe the relevant factors influencing entrepreneurship and open the debate on the main political challenges for Europe: How to better exploit its potential and how to develop a strategy for the future. We will also try to discuss with all of you two rather simple questions. Firstly, looking at the image of entrepreneurship there is no big difference between the United States and Europe. Entrepreneurs are regarded to be valuable and important, but there are fewer Europeans really



taking the step to become entrepreneurs. Secondly, and this is more linked to competitiveness or growth, there is the difference in the performance of small and medium-sized enterprises in Europe. It seems that there are fewer small and medium-sized enterprises in Europe that are determined to grow. The owner-manager run enterprises have certain limits above which they don't intend to grow. This is different to the American performance where all, or the vast majority, are eager to grow and where there is a difference in behaviour both culturally and economically. We want to discuss these types of questions in the follow-up to this Green Paper.

This seminar gives you the opportunity to take part in the discussion on entrepreneurship. You will hear what the Best project on the transfer of businesses found out and we will discover what you think of the results. Is it probable? Is it helpful? Is it useless? What are the conclusions one can draw from it? How can we raise awareness in the political debate on this issue? How can we get agreement for changes in existing legislation in some of the Member States? We have already made some progress in this area and it will be shown in the results of the Best project which made a stock-taking exercise of the implementation of the 1994 Commission Recommendation. We can tell straight away that the performance was not too impressive, so what can be done to enhance the progress? I would once again invite you to help us to come up with a policy on entrepreneurship which also serves your interests taking into account that those of you who are here in the audience today are really in charge of this. We could not have a better audience than yours. I hope that you will have interesting two days and also enjoy this lovely city.

## **Key-Note Speakers**



## **Janne Timonen**

Machinery Ltd, Finland

### **Case Presented by an Entrepreneur on the Transfer of a Business**

Your Excellency, Ladies and Gentlemen,

In family businesses we love our companies or we hate them. Family business is all about emotions and it is a loan from the generations to come. We are committed to developing the business and to protecting it, and then to pass it on to the next generations.

My presentation is divided into three parts. I will present my company, then I will talk more specifically about the intergenerational succession in our company. And finally I will conclude with a perspective from my personal experience - what I learned in the whole process.

To be able to understand the present and the future we have to understand the past. Machinery Ltd was founded in 1911 in the city of Turku in Finland. It has gone through two wars and severe depressions.

In the beginning Machinery Ltd was not a Timonen's family business. It was founded in 1911 by four gentlemen: Hall, Jacobson, Lindeberg and Tefke. They started to import investment goods to supply them to the Finnish metal industry. Machinery Ltd is in the same line of business even today. We are proud as a family business to work over 90 years under the same title: Machinery Ltd. The experience from the past affects us nowadays as we try to challenge and meet the competitive present markets.

My grandfather joined the company in the year 1937 as a salesman and at the end of 1940 the company faced the first challenge of succession. The owner, Mr. Jacobson, became elderly and didn't have any successor. His trusted man in the company, my grandfather, took the risk. He went to the bank and in the year 1950 he bought 100 % of the shares.

My father started as a managing director in 1977 and I succeeded him at the age of 29 in the year 1999.

One of my first tasks was to discuss our company values. First among them was profitability. In family companies we have to be very open and honest about the profitability. We have to have a long term profitability to be able to survive. It is nonsense to talk about other values or company culture if the long term profitability is not there. It is the number one concern.

Second is reliability. As we work with the metal industry and the defence forces in Finland, the most important concern for our employees is to make sure that our customers feel that we are a reliable partner.

And finally: respect. Here we enter the personal level in the organisation. I talk about a culture of respect - where every single individual is accepted with his or her weaknesses and strengths. Respecting each other remains very much a continuous learning process for the organisation. Machinery limited is the parent company to operations in Finland, Estonia, Latvia, Lithuania and a representative office in Russia, and a few other smaller companies also in the import business in Finland.

Family firms are owner managed businesses. My grandfather was owner and a manager also, so was my father and so am I. Family is involved, meaning the family holds managerial positions in the company or is active in the board work. Our family is involved in our business and finally the succession requires a non market based transfer of power between the family members. Exactly that took place in our company.

When we talk about succession I like to divide it into two. On one hand the transfer of ownership and on the other hand the transfer of leadership. The transfer of ownership is very much a technicality, but it contains also very important and demanding questions, such as whether to treat the children equally when it comes to the degree of ownership. But that is a more technical issue and we will be later talking a lot about taxation, it being a very important issue here.

I would like to talk about the transfer of leadership. Without a successful transfer of leadership nothing can work, it's in vain to talk about a transfer of ownership, if there is not a potential good successor, who can really take care of the company, make it grow and make sure, that the long term profitability will take place also in the future. So I emphasise the transfer of leadership in the succession process.

I borrow a few lines about the ideal successor by John A. Davis. "The ideal successor has earned the respect of the managers, the employees, the board and the family". In the year 1999, when I started as a managing director I didn't have the respect of the other managers. They were more afraid of what this guy was going to do - so young and without outside experience. Not to talk about the employees, I hadn't had a chance before to really get to know them well. The board's decision naturally was to make me the successor and I'm sure, with those people I have the best discussions. I have had the respect and support from my family, too.

The ideal successor has abilities and visions that fit the strategic needs of the business. I think, I'm beginning to learn those. An ideal successor has necessary outside experience and business education. I graduated from the Helsinki School of Economics and Business Administration, but I don't have the necessary outside experience. In the year 1994, when I graduated, our company suffered a lot. We had a severe depression in Finland with bank

crises. The company's balance sheet looked terrible, my father was very tired and when I spoke to him, about which company I should join and prove my market value, so that I can be respected when I come to my own company, my father said to me: "If you don't come and work with me right now, when I need you, there is a chance that you will never see the day, to work in your own company." So even though in theory it will be extremely good to have that outside experience, sometimes life is not so easy and it may not be possible. Although I loved the business when I started, I was not at all so sure about myself. Someone said: "You can't run your father's business." I still don't have the majority shares of the company.

It was my father's managers who were running the company when I joined. During the first years as a managing director some of them have changed but I just started to build the team when I started as a managing director.

This is how the ownership went. My grandfather, Mr. Hugo Timonen, owning 100% had three children, my father Heikki had two sisters. This is the very normal way: if you have two children, it's 50:50. If you have four, it's 25:25:25:25. In every case the families tend to grow faster than business. It often creates problems.

These problems stem from the different roles. We look at the company from different perspectives. I myself, have the family role since I'm a family member. I have the ownership role; I'm an owner, and I have the management role also, as a managing director. My cousins for example, work in totally different areas and they have their life's work there. They have the family role, they are owners but maybe they look at the ownership also a bit differently and they certainly do not have the management role. This interaction between family members, who have different roles and different approaches to these matters, creates problems and is very challenging.

What did I learn about the process? First of all it is a process, not a project. In that specific time, when you start to lead the company - it is only a result of a long discussion. The discussions about the future of the company and the succession of the company can't be started too early. The process continues after the succession has taken over. I have to see and prove and show that with me the company grows and achieves a long-term profitability.

Mentoring and networking are extremely valuable even though one might have good communication between family members. Networking is important - sharing ideas with other successors of family enterprises, who face the same challenges and same problems. It gives you a feeling that you are not alone. By mentoring I mean some one trusted outside the company. I had one business man like that. He was a board member in two other family businesses and he had nothing to do with our company. I created a successful mentoring relationship with him. It proved very effective to speak about things and ideas I couldn't speak about with my family.

We talk about family businesses and the transfer of businesses. I feel that this inbuilt nepotism in family businesses is the great opportunity, but only when well managed.

## Kirsi Ekroth-Manssila

European Commission, Enterprise Directorate-General

### Best Project on the Transfer of Businesses

In December 2000, Enterprise Directorate-General of the European Commission launched a **Best project** on the transfer of businesses. This project was one of our priority areas of action and its main aim was to monitor the implementation of the 1994 Commission Recommendation on the transfer of businesses. The other tasks of the project were to identify support measures for business transfers and to propose areas for future action. This seminar is the concluding event of the Best project.

**An expert group** on the transfer of businesses was specifically set-up to help the Commission carry out this project. The group had members from all EU Member States except Ireland, Sweden and the United Kingdom. These experts were nominated by their home countries' administrations and they came from various backgrounds. We had entrepreneurs, civil servants, one banker, one academic and some members from business support organisations, business organisations and the Chambers of Commerce. I had the pleasure of co-ordinating this group which turned out to be something more than our usual expert group.

Not only were the members experts in their own right but the commitment, passion for business transfers and the initiative they showed together with the amazing team spirit, was absolutely overwhelming. And that's how the final report that you have in your hands today came about.

I will first outline the issues at stake in business transfers as identified by the experts. Then I will look at Commission action in this area and highlight some of the main findings of the expert group. Finally, I will take a look at the way forward.

### Why focus on the transfer of businesses?

After the creation and growth, the transfer is the third **crucial phase in the life cycle** of a business. But what makes this phase so critical?

The experts identified three types of problems related to the transfer of businesses.

The first type of problem is **psychological or emotional**. Many entrepreneurs, especially those who have created and built up their own businesses over a number of years, are very reluctant to prepare the transfer of their business. Far too often entrepreneurs are too busy with the day-to-day running of their businesses and think that they do not have the time for



succession planning. It is considered as something that can easily be left for later. The result of this is that the transfer of know-how and skills takes place very late, if at all.

This lack of planning and openness can have quite dramatic, serious effects for the continuity of the business in unexpected situations, such as illness, accident or death. This is the case especially in those small companies where the entrepreneur has taken on the whole responsibility of the firm and there are limited plans over the company's future.

The second type of problem is related to the **complexity of the business transfer process**. It is generally a once-in-a-lifetime event, of which the entrepreneur has little or no previous experience. The entrepreneur does not necessarily know who to contact for help or where to find information.

The third type of obstacle stems from **national legislation**, in particular company law, taxation and administrative formalities. Examples in this area include high inheritance and gift taxes, finance, problems preventing the change of the legal form of a business and, finally, problems preventing the continuity of partnerships when one partner dies or retires.

According to the experts, the issues at stake in a business transfer also depend on the **size of the company**. Bigger companies can usually rely on the advice of internal or external experts who are familiar with the relevant legislation and the challenges that are ahead. The awareness of business transfer issues is much lower for the owners of smaller businesses.

These are the possible problem areas. But just how many enterprises in Europe are concerned with these issues? This is exactly what the expert group wanted to find out but discovered that there are no comparable statistics available in Europe. They had to rely on the scarce data from national studies to make some estimates about the magnitude of the phenomenon. Luckily, all the available national data seemed to point in the same direction.

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 means that an average of **610 000 small and medium-sized enterprises** will change hands each year, potentially affecting **2.4 million jobs**. The number of enterprises consists of 300 000 SMEs with employees and 310 000 one-man companies.

According to the experts, more and more of these transfers will take place outside the family to third parties. Entrepreneurs will also more often transfer the ownership of their companies before the age of retirement due to personal reasons, such as early retirement or change of interests, or because of changes in the competitive environment of the company. There

will also be an increasing number of entrepreneurs that will stay in the same enterprise for a shorter period of time, not a lifetime as in the past.

### **Commission action in the area of transfer of businesses**

The transfer of businesses is a subject on which the European Commission has worked for quite a while. We first started looking into the issue at the beginning of the 1990s. Our efforts resulted in a Commission Recommendation on the transfer of small and medium-sized enterprises in 1994, which can be considered as the cornerstone of our work in this area.

The Recommendation invited the Member States to improve their legal and fiscal environment for business transfers, raise awareness and to provide support for business transfers. The measures proposed in the Recommendation include:

- **raising awareness** among entrepreneurs and encouraging them to prepare the transfer **a long time in advance**;
- **improving the financial environment** of SMEs by offering them suitable instruments for business transfer;
- **allowing SMEs to adopt the most appropriate legal form** in order to prepare for transfer, e.g. by establishing themselves in the form of simplified public limited companies;
- **ensuring the continuity** of partnerships and sole proprietorships when one of the partners or the business owner dies;
- **reducing inheritance and gift taxes**; and
- **encouraging transfer to third parties**, e.g. by promoting the transfer to employees through the taxation system.

The first evaluation of the progress made in implementing the Recommendation was discussed at the **European Forum** on the Transfer of Businesses in Lille, France, in 1997. Those discussions form the basis of the Commission Communication, which was adopted in March 1998.

After the Communication, the Commission continued its work with practical support for business transfers. A call for proposals was published later the same year. The objective was to co-finance projects that would raise awareness about business transfers or provide practical help such as training for entrepreneurs and intermediaries. One of the projects financed was the “sme-transfer.net” project which is presented at one of the stands at this seminar.

### **Results of the Best project**

The 1998 Commission Communication was the starting point for the expert group in the Best project. The group had to find out which new measures have been taken since 1998, to analyse the overall situation, to identify support measures and to make proposals for further action.

You will hear about specific measures available in the Member States in the different workshops and the final report describes 34 good practice cases so I will not go into details here. All the 53 support measures that the experts identified are in the SMIE database which is available on the Internet (<http://europa.eu.int/comm/enterprise/smie>) and which is also presented on the stands outside.

What I will show you now is the overall situation in the implementation of the tax and legal measures. This table lists 21 areas from the Commission Recommendation and shows the situation per country. It shows that barely half of the 21 tax and legal measures recommended by the Commission have been implemented. The take-up varies from 2 measures in Greece to 16 in the Netherlands.

Of course, not all these recommendations are of equal importance. According to the experts, the following five are the most important ones for business transfers:

- Measures facilitating the transfer of businesses to third parties
- Specific measures facilitating transfers to employees
- Special rules for inheritance and gift taxes for business transfers
- Relief for early retirement, and
- Tax relief on money received from a transfer which is subsequently reinvested in another SME.

What is positive is that in two of these key areas the progress made by the Member States has been relatively good. As many as thirteen Member States provide for special rules for inheritance and gift taxes in the case of business transfers and ten Member States have taken measures to facilitate the transfer to third parties.

The experts consider the Commission Recommendation to be a valid basis for work in this area. However, taking into account the increasing number of business transfers ahead of us, they wanted to supplement the Recommendation by some proposals of their own. In particular, the experts made the following proposals which concern the provision of support measures. The experts propose

- creating a “European Business Transfer Centre”, to co-ordinate information gathering, share best practices across Europe, and facilitate cross-border co-operation,
- creating a European sellers and buyers market place, to link up existing national databases and encourage countries that do not yet have such data bases to set them up. Here the experts have already gone ahead themselves in implementing this proposal. They have reserved a common Internet domain name for this database, “match-online”, in most of the EU countries.
- holding regular events on specific transfer questions at European level to exchange best practice and using the results of these events as input for seminars and meetings at national, regional and local level,

- developing alternative or additional tailor-made training and management tools for existing and future owner-managed and small family-owned businesses,
- launching publicly initiated support programmes and research on business transfers, and finally,
- giving as much attention to transfers as to business start-ups.

## **Conclusion**

The experts ask policymakers to pay longer-term attention to business transfers in order to prevent unnecessary business closures. They also urge the Commission to co-operate closely with the Member States in establishing an Action Plan to implement the group's proposals.

This is what the Commission is doing. To begin with, we are looking forward to your input to our work at this seminar. Then in October, we will launch a new project on business transfers. The aim of the new project is to act on the expert group's proposals and to help Member States make further progress in implementing the Commission Recommendation. Officials from the Member States' administrations will be working together with us on this project. This time, the representatives of the candidate countries will also be participating in the project.

To ensure that business transfers are not the beginning of the end, but a new beginning, the Member States and the providers of support measures for business transfers should step up their efforts to create an environment favourable to transfers, and to learn from each other's successes.

Let's set a target to get all the boxes in the table green!

Thank you.



# **Peter Voithofer**

Institute for Small Business Research, Austria

## **Business Transfers and Successions in Austria**

Ladies and Gentlemen,

First of all, I would like to thank you for the opportunity to present the study "Business Transfers and Successions in Austria".

In 2002, the Austrian Institute for Small Business Research (IfGH) carried out a study on the topic of business transfers and successions in Austria on behalf of the Federal Ministry for Economic Affairs and Labour as well as the Austrian Federal Economic Chamber (and the relevant departments "Bundessparte Gewerbe, Handwerk und Dienstleistung" and "Gründer-service/Junge Wirtschaft"). The basis for the current study was an earlier study of the IfGH on the same topic in 1999.

A business transfer or succession means the process by which business property is transferred to another person or enterprise whereby the original enterprise continues to operate. A business succession can take place within a family, through management buy-out or by transfer to a third party. The transfer may be planned in advance or take place as a result of an unforeseen event (e. g. death, accident or illness of the original business owner).

The main aim of the study was to gain knowledge from which proposals could be derived how to (further) improve the conditions for business successions in Austria. Thus, this should safeguard and ameliorate the economic asset and competitiveness of Austria as a business location.

In order to achieve this objective it was necessary to improve the quantitative basis for observing and assessing the transfer process in Austria. Therefore, the model to estimate potential transfer cases in the coming decade designed by the IfGH in 1999 was refined and updated, enabling a detailed breakdown by industry and a sector-specific interpretation of the transfer process for the period 2001 – 2010 by taking into account structural and economic restrictions on the transferability of enterprises.

Moreover, in the course of an empirical survey the characteristics (e. g. type and form of transfer, demographics of successors etc.) of business transfers realised since 1996 were examined. By representing how the transferred businesses developed, it was also possible to show the main reasons for failures of business successions and corresponding recommendations for measures to simplify the general conditions.

Business successions, just like business start-ups, are a natural part of the life cycle of companies. The fact that, for quite some time, increased attention has been devoted to this phenomenon can be explained by the fact that an increasing number of businesses are facing this challenge. However, this does not only affect Austria but – partly even more - other European countries. In terms of international comparisons, Austria is less affected by the phenomenon of business succession than other EU Member States.

Over the decade 2001 - 2010, approximately 56 000 Austrian small and medium-sized enterprises will face the challenge of successfully mastering the process of business transfer or succession. As to this respect it has to be mentioned that companies without employees are not included in this research design as in this size class the distinction between company formation and succession is very difficult. The above mentioned number has to be reduced by about 4 000 which cannot be transferred because of their disadvantageous business situation (highly negative equity capital and sustainable losses).

Therefore, about 52 000 SMEs with approximately 440 000 employees will be concerned by the problem of business transfer. This represents approximately a quarter of all Austrian businesses and approximately 17 % of all jobs in the Austrian industry. The fact that more than 60 % of companies facing a transfer have less than five employees shows that mainly smaller businesses are affected by the issue of succession.

As it was already mentioned by Minister Dr. Bartenstein, many existing jobs can therefore be safeguarded by mastering the process of business succession. At regional level, this is of fundamental importance, particularly in border regions, where, in case of failure of a business succession, employees are unable to "switch over" to other employers. Otherwise employees would be forced to commute.

As mentioned in the beginning, approximately one fourth of businesses will face the challenge of successfully mastering a transfer or succession in the coming decade. An analysis of those companies affected reveals that especially in sectors with a below average level of attractiveness (as measured by quantitative factors such as strong profitability) an above average proportion of businesses was confronted with business succession. These sectors were often "traditional" sectors or sectors which had undergone restructuring and contraction. In these sectors, many enterprise owners were striving to keep the business going at least until the earliest pensionable age, since, in many cases, there was no real alternative to being a self-employed business person.

As to this respect, the following industries can be mentioned:

- craft: construction, roof-covering, glazing, bakery, butcher, hairdresser
- industry: manufacture of clothing
- trade: textile, clothing, paper products
- transportation: transport agencies
- tourism: travel agencies

Against this background, the part of business successions that do not take place can also be regarded as a necessary structural change in economy. However, the business owners operating in these sectors face a greater challenge than those in other sectors. In this situation, a clear business concept and clear market positioning are of particular importance.

In comparison with earlier estimates, the proportion of Austrian businesses affected has slightly declined. This can at least partly be explained by the increase of the number of businesses which have undergone a succession in recent years: on average, there were approximately 4 500 business successions per year over the period 1993 – 2001, and in recent years (since 1998) a rather positive trend could be observed.

However, it turned out that approximately 18 % of possible business successions did (could) not take place. The fact that these business transfers did not take place is a consequence of the lack of attractiveness of either the company in question or the overall sector. The reasons for this lack of attractiveness are – at sector level – the increased rate of structural change of the Austrian economy as well as the unsatisfactory business situation during the last years. At individual company level structural factors (such as personnel structure or location) and – to a special extent – the strategic orientation (e. g. product programme, clientele and order structure) can be mentioned.

Approximately 96 % of those enterprises for which a business succession took place are still in business five years after the transfer. This results in a drop-out rate which is clearly less than that for business start-ups (approximately 25 %). Alongside the above-mentioned labour market effects, this shows the important contribution business succession makes to the dynamic economic development of a nation.

However, it can be seen that approximately 14 % of the companies which still operated five years after the transfer faced major business difficulties.

The study, thus, shows that approximately two thirds of the companies facing the challenge of a business succession mastered the process successfully, whereby – as mentioned above - success is not measured merely by the fact that the business was still operating five years after the event.

A breakdown by size of business shows that the proportion of business succession failures is markedly higher for sole traders.

A more detailed analysis of business transfers carried out in recent year reveals that the proportion of successions which took place in the last 5 years as a result of age reasons fell by 5 %, but is still at 60 % – taking both variations into consideration (early retirement and "normal" retirement).

In literature as well as for the purposes of this study estimates of business successions for age reasons used the state pension age for the business owners involved (i. e. 65 for men and 60 for women). According to this



criterion, 13 % of the cases in which business owners took early retirement were regarded as "early" transfers.

In 2001, 52 % of business successions were because of age reasons and 48 % were early or as a result of circumstances. The figure of 48 % breaks down as follows:

- 31 % for economic or other, including family, reasons
- 8 % early retirement
- 9 % as a result of unforeseen events such as accident, death or health problems of the business owner

The proportion of business successions within families is clearly declining – by 2001 one third of business successions took place outside the family. Within the family, the most common form of succession is by means of gift, whereas transfer outside the family is predominantly by means of sale to a third party.

For most business transfers (approximately 80 %) there was only one successor, for the remaining there were several successors. However, even in those cases there was often only one person actively involved in the day-to-day management of the business, while the others generally only played the role of investors.

The average age of successors is 35 and is therefore a little bit higher than the average age of new business founders. The main reason for this was that the proportion of successors taking over a business before reaching 30 is clearly lower than for new business founders. More than 70 % of the successors have already been working in the respective company before the transfer. As it is the case for new business creations and active members of the Austrian Federal Economic Chamber, women represent approximately one third of all business successors.

The basic motives for taking on a succession are the desire for independence, family tradition as well as ensuring the continuation of the business and the jobs. In comparison with new business founders, the motives of wealth generation or self-fulfilment are less to the fore.

Although the importance of planning a business succession is always stressed, only a small proportion of businesses have a specific, written plan. Particularly in family businesses there is no plan in many cases, and as a consequence this is one of the main reasons for the failure of business successions. On average, those company owners who drew up a specific plan for the business succession started the preparation three years in advance of the intended date and involved the successor in this planning process.

In three out of four cases the business transfer or succession took place at the intended time. Delays in the succession, however, were often a sign that the former company owner was not willing or ready to hand over his enterprise.

The majority of business transfers are realised with the collaboration of external advisors, whereby tax advisors are consulted by far most often.

From the viewpoint of the successors the transfer is seen to be rather unproblematic. Experience in the industry or entrepreneurial experience is rated to be of advantage. At about one fifth of all transfers within the family the familial situation is burdened. About two thirds of the successors would – again – opt for a transfer.

The main reasons for the failure of business transfers – besides the already mentioned missing plans – are

- that external consultants are not consulted and
- a lack of experience of the successors (especially with regard to the respective enterprise).

As a business transfer in most cases is a nonrecurring event for the respective entrepreneur, he/she should attend competent advisors and their experience. The fact that the lack of experience of the successor in the respective company can be seen as a failure factors shows once more that the transfer should be seen as a process rather than as a project.

There are many similarities between company founders and successors. Therefore, business transfer can be seen as a real alternative to the foundation of an enterprise. A clear difference between foundation and transfer can be found concerning the affected industries: While – as mentioned above – many “traditional” industries have to face a business transfer, company foundations are mainly found in “young, modern” industries.

Recent years have experienced a series of measures both in terms of the general conditions laid down in legislation and in terms of “soft aid”, which directly or indirectly facilitate the business succession process. Special attention should be drawn to the latest laws amending the NEUFÖG and the AVRAG<sup>2</sup>. Furthermore, in the area of “soft aid”, the Succession Initiative was founded and vocational and further training activities were intensified. At an international level, Austria plays a pioneering role with respect to the support measures provided.

The rising number of business successions shows how useful these measures can be. However, the results of this empirical study and an

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<sup>2</sup> NEUFÖG stands for *Neugründungs-Förderungsgesetz* [New Business Creation Assistance Law], AVRAG stands for *Arbeitsvertragsrechts-Anpassungsgesetz* [Employment Contract Legislation Adaptation Law]

international comparison also indicate that these measures could be boosted and developed even further. The following points should be mentioned particularly:

- Focussing awareness-raising measures on
  - micro businesses with less than 10 employees, and on sole traders and partnerships, respectively, as these are the businesses which are most often confronted with the issue of succession;
  - potential successors, so that they will see business transfers as a “real” alternative to a company formation
- The concept of transferability could be seen as an instrument of strategic business planning and should, for example, be introduced into the consultancy programmes.
- Improving transparency with regard to the markets for business successions and the support measures, e. g. by setting up a “one-stop-shop”;
- Incorporating the subject of “business succession” in the curricula of the school-based and the dual training system;
- There is further potential for facilitating the process with respect to the general conditions for business successions (e. g. exemption from the credit contract fee). Implementing these sorts of measures would be a further step towards making Austria even more open to business successions and more business friendly.

The realisation of such measures would be a further step to make Austria more open for business transfers and entrepreneurial spirit.

Finally it can be mentioned that about 80 % of all potential business transfers are realised and two thirds can be regarded as successful. This is a satisfactory result; the further improvement and simplification of business transfers is in any case an ambitious objective.

Thank you for your attention!

## Charles Robinet-Duffo

GEEF European Group of Owner Managed and Family Enterprises,  
Vicepresident

### Owner-managed and Family Businesses and Transfer

#### **Owner-managed and family businesses (OFB) are the foundation of our economy**

- Businesses that are run by one or more entrepreneurs, who own a significant part of the capital with their families, play a very important role in Europe's economy.
- They produce 45-70% of respective countries GNPs & new jobs.

#### **OFBs in Europe: not only SMEs**

- OFBs represent 45 million of jobs in Europe for a turnover of 8000 billion of Euros.
- 200 OFBs on top 1000 European companies (over € 1 billion turnover):
  - 5 million jobs
  - € 1000 billion turnover
- All economic sectors are represented.

#### **Different countries, different figures**

- 20% of the Top 1000 are OFBs
- 20% of the turnover
  - Italy 36%
  - France 32%
  - Germany 21%
  - Finland 7%
- 22% of the jobs

#### **OFB's Peculiarities: Significant & distinctive characteristics**

1. Stability in their capital structure underpin the long-term sustainability of structure, strategy & performance.
2. Less « hire and fire » due to a comprehensive strategy of long term development.
3. Strong work Ethic along with a deep-seated tradition of social responsibility.
4. A strong commitment to the local community

### **1997: Creation of GEEF by 8 national associations of OFBs**

- Germany: ASU
- Portugal: APEF
- France: ASMEP
- Italy: AIDAF
- Spain: IEF
- Finland: FBN
- Sweden: FBN
- United Kingdom: UCG

Honour President: Mariano PUIG

President: Harald RIELHE

Vice Presidents:

Charles ROBINET-DUFFO

Malcom Mc ALPINE

Ignacio FERRERO

Secretary General: Hans H. STEIN

### **GEEF's objectives**

- To establish an environment that will favour the development of family firms, as well as promoting their continuity & global competitiveness.
  - Sustainment & creation of employment
  - Research into relevant issues & legal criteria
  - Analysis of OFBs and contribution to the study of their specific problems

### **GEEF's achievements**

- Collaboration agreements with academic institutions (specific research)
- Policy Paper compiled by GEEF
- Conférence de Paris in June, 2000
- Madrid Conference in February 2002 during ECOFIN with testimonials from OFBs. Specific session on family businesses presided over by Mariano PUIG.

### **Transfer**

- 40% of OFBs manage to survive the transition from 1st to 2nd generation.
- 10% to 15% reach the 3rd.
- In Europe, 30% of the 5 million of OFBs will have to face the problem of succession within the next 6 years.
- We must recognise that the problems faced by OFBs are distinct to those faced by SMEs.

### **Other crisis factors during transfer for OFBs**

- Relationships between family members
- Relationships between shareholders
- Relationships between managers with responsibility

**Are the various tax systems in Europe adapted to the recommendation of the European Commission (7/12/94) on the transfer of small & medium sized companies?**

**GEEF's recommendations on the experts' report**

- Tax arrangements which encourage the retention of capital within the family are to be encouraged.
- Avoid tax arrangements which force the liquidation of company assets
- Capital tax concessions should not be set at a level which eliminates the benefits for medium or larger sized family companies.
- Formal recognition of family businesses as an economic entity
- GEEF strongly supports the report's conclusion that the transfer of business should be given equal weight to the creation of new businesses



**Workshop 1:**  
**The Impact of Legislation on Business Transfers**





## **Alfred Brogyányi**

### Introduction to the Workshop

As we all know, small and medium-sized enterprises are a mainstay of the European Union's economy. In Austria, the percentage of domestic businesses with a maximum of 50 employees is approximately 97%, with about 85% of the enterprises employing fewer than 9 people. A similar structure prevails in most of the other European countries.

These figures indicate that the importance of the transfer of businesses by far exceeds the importance of the transfer of shares. Essentially it holds the chance for the transferee to input his ideas and his creativity as well as his full potential; on the other hand, it holds the risk that, especially in the case of delayed business transfer, there is hardly enough capital left to keep the enterprise viable. This is why the timely transfer is so particularly important when it comes to small and medium-sized enterprises.

Our working group, which bears the title "The Impact of Legislation on Business Transfers", has the task to analyse how business transfers can be facilitated by appropriate legislation. Moreover, the working group will address the role, tax consultants have to play in business transfers. Best practice examples will be presented by Belgium, Italy, the Netherlands, Denmark and the United Kingdom, all of them designed to reduce or at least to defer the tax burden accruing from business transfers, in order to prevent capital erosion.

I wish our working group the best success in its deliberations and all its members a very pleasant stay in Vienna!



## Jozef Lievens

Eubelius Advocaten/Lawyers, Belgium

### Transfer of Family Businesses in Belgium - Napoleon Revisited

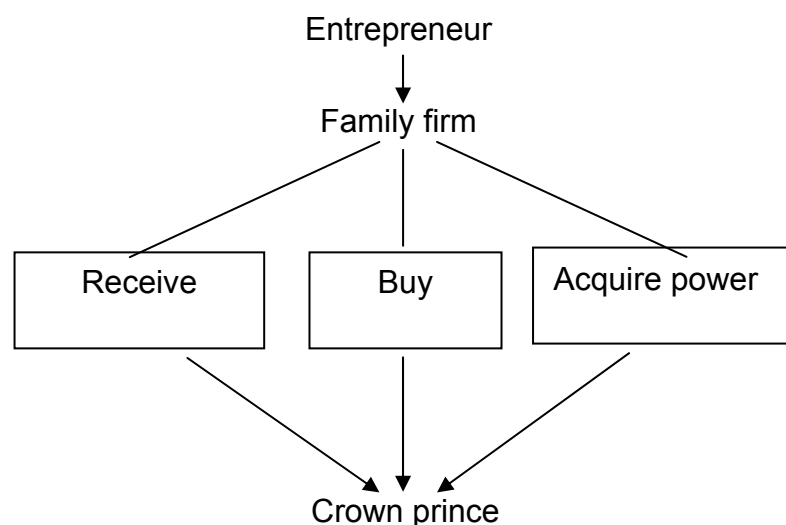
It is generally accepted that succession constitutes a major challenge for every family firm.

For the transfer of the company to a single successor, whom we will refer to hereafter as the "crown prince", in legal terms the transferor has three possibilities:

- he can transfer the family firm - or better: his shares in the family firm - to the crown prince without the crown prince having to pay any compensation for it. In this hypothesis, the crown prince "receives" the company as a gift.
- he can sell the family firm to the crown prince.
- in some cases, the two above-mentioned solutions are not realistic, generally because they are legally and/or financially unfeasible. In this case, the crown prince can still be brought in as the head of the family firm by allowing him to acquire the power by means of legal control techniques.

The choice between these three options generally depends on the wishes of the entrepreneur and the crown prince and on the legal and/or financial possibilities.

Figure 1: Transfer to the crown prince



## **The Belgian inheritance law: a major obstacle for an arrangement via gift**

When gifting the company to the crown prince, one is necessarily confronted with the Belgian inheritance law which, rather than facilitating such an arrangement in fact makes it more difficult.

After all, the Belgian law of inheritance dates largely from 1804. As a reaction against the Ancien Régime, the primary objective of the Napoleonic Civil Code was to establish the equal rights of children. Moreover, in that period company shares were a little-known phenomenon.

This means that the law of inheritance until today contains a number of rules which are very troublesome if one is thinking of giving the company to a crown prince.

The fundamental rule is the equal rights of the (entrepreneur's) children. Equal rights are no sinecure, especially when the family firm forms the lion's share of the entrepreneur's fortune.

The idea of equal rights is expressed in the principle of the reserve.

The **reserve** can be described as the part of the estate over which the transferor cannot freely dispose via gift or testament to the disadvantage of the reserve heirs. These are primarily the children and the surviving spouse.

The reserve, or the reserved share, is thus the part of the estate that must definitely be attributed to the children.

**The available share**, by contrast, is the part of the estate over which the entrepreneur may freely dispose.

The size of the reserve and the available share depends on the number of children:

Whether or not the reserve is exceeded by gifts is checked at the time of the entrepreneur's death. At that time, a so-called **fictitious mass** must be formed. This means that the fortune of the entrepreneur is fictively recomposed as if no gifts had been made during his lifetime.

One problematic aspect of this manoeuvre is that, to recompose the fortune, the gifts which were made in life are valued at their worth at the time of the entrepreneur's death.

If, when the fortune has been recomposed, it appears that the reserve was exceeded, the heirs may demand recovery. Recovery is a technique under which the gifts that exceed the available share must be returned. In principle this return must take place in kind.

## EXAMPLE

*An entrepreneur has three children.*

*In the year 2000, he gives the shares in the family firm to the crown prince. At that time the shares are worth 20 million francs.*

*The entrepreneur dies in 2010. Thanks to the indefatigable efforts of the crown prince, the shares at that time are worth 60 million francs.*

*At the time of his death, the entrepreneur still holds a piece of real estate worth 10 million francs and 10 million francs in investments.*

*The fictitious mass or the recomposed fortune amounts to:*

<i>Investments</i>	<i>10 million francs</i>
<i>Property</i>	<i>10 million francs</i>
<i>Value of shares (fictively added back to the fortune)</i>	<i>60 million francs</i>
<i>Total:</i>	<i>80 million francs</i>

*The available share amounts to one-fourth of 80 million francs, or 20 million francs.*

*The reserve share of the three children amounts to three-fourths, which for each child amounts to one-fourth or 20 million francs.*

*Nevertheless, the crown prince received what is now worth 60 million, and must therefore give back shares worth 40 million francs to the estate.*

This example illustrates why the Belgian inheritance law requires one to employ great prudence when working out such arrangements. The fact that the gifted shares are valued at the time of death implies that the crown prince threatens to be sanctioned for the very dynamism which he, after receiving the gift, revealed in order to further develop the family firm.

## Legislative initiative

Faced with this problematic, the Belgian legislator has intervened.

By the Law of 22 December 1998<sup>3</sup> a uniformly reduced tariff of 3 % was introduced for the gift of shares in family firms. The law was designed "to facilitate the transfer of companies in order to ensure the continuity of SMEs and the related employment"<sup>4</sup>. With this law, the Belgian legislator was responding to the recommendation of the European Commission of 7 December 1994 on transfers of small and medium-sized companies. As

<sup>3</sup> This law added the new provisions 140 bis to 140 octies to the Code of Registration Fees.

<sup>4</sup> Explanatory Notes, *Parliamentary Documents of the Lower Chamber*, 1997-98 session, no. 1608/1, page 2

explained below, it also has radical consequences in the field of inheritance law.

One will be able to benefit from the uniform and flat rate of 3 % gift taxes on the sale value of the shares, determined at the time of the gift, if the following conditions are satisfied:

- It must involve the gift of the full ownership of shares of a company whose actual management is exercised in a Member State of the European Union. Gifts with reservation of usufruct do not fall under the reduced tariff.
- The company must have as activity the exercise of a commercial, trade or agricultural activity, a liberal profession or an office or a post. In principle, the gifting of shares in holding companies cannot benefit from the reduced tariff.
- The shares must represent at least 10 % of the voting rights in the general meeting. When the shares represent less than 50 % of the voting rights in the general meeting, the crown prince must be able to present a shareholders' agreement which relates to at least 50 % in the general meeting. The terms of the shareholders' agreement were established in the Royal Decree of 19 April 1999<sup>5</sup>.
- The crown prince must undertake to retain the shares during an uninterrupted period of five years, counting from the date of the notarial deed of gift.
- The gift must be established by notarial deed.

The important point is that a gift which satisfies the above-mentioned conditions also has far-reaching consequences on the inheritance-law level. After all, shares which are gifted with application of the 3 % tariff are valued for the purpose of calculating the recovery according to the value at the time of the gift, and not according to the value at the time of entrepreneur's death. In this way, the crown prince is protected with regard to the value increase which is the result of his efforts since the succession arrangement.

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<sup>5</sup> These terms come down to the following:

- the shareholders' agreement must be concluded for a period of at least five years, counting from the date of the notarial deed of gift.
- The signers must undertake not to move the company's actual management office to a state which is not a member of the European Union for a period of five years.
- They must undertake to represent, during a period of five years, at least one-half of the voting rights in the general meeting.

# Carlo Spagnoli

Unioncamere, Italy

## The Transfer of Small and Medium-Sized Enterprises in Italy

### 1. Introduction

As well known to the participants of this workshop, thousands of businesses, mainly SMEs, disappear every year because they fail to overcome the difficulties involved in the transfer of ownership and this directly affects many jobs.

Following the suggestions coming from the European level, Unioncamere has elaborated a study that contains a detailed analysis of the different experiences existing in other countries and has developed a pilot model to be activated in Italy as a prototype<sup>6</sup>.

Moreover, another project is on course: its aim is to help enterprises during the transfer, more precisely it foresees the creation of a real market, called “Vendimpresa”, where entrepreneurs and buyers can meet.

This project aims in its first phase to develop a Central co-ordination for the business transfer problem. From this central co-ordination is foreseen a series of pilot actions in the decentralised Chamber of commerce.

The objective is to create a “path” useful to businesses that could at any time address to the diagnosis, information and consulting support service.

The structure of Vendimpresa project foreseen:

- the creation of the Central co-ordination;
- a survey of analysis on the family businesses potentially interested;
- the data-base and web site constitution;
- promotion actions to the family businesses;
- vocational training;
- diagnosis, information and consulting support service.
- Considering the actions put in place in Italy, we have firstly to point out that interventions were focused on small and medium-sized enterprises.

Focusing on the SMEs means not only work on transfer of business within the family but also to third parties. Nevertheless, family businesses require a special attention, in particular the transfer of business from a generation to another within the same family holders.

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<sup>6</sup> “Borsa Imprese”, Unioncamere, Studio Centro Veneto di Vicenza, 1999.



### *Transfer of family businesses in Italy (sample of all enterprises)*

Entrepreneurs having more than 60 years	43%
Enterprises that will face the problem in the following 10 years	40%
Family entrepreneurs concerned every year by generational transfer	66.000
Presence of a relative in the leader group of the enterprise	70%
Entrepreneurs that have the intention to leave their business to a relative	68%
Entrepreneurs who consider the generational transfer difficult to handle	80%

Source: Sda Bocconi, 1999

In the light of these data, at the end of in 1997 by about 30 companies of North Italy has been created the Italian Association of Family Businesses (AIdAF), which has given its important contribution to enhance the awareness of the Government about the importance of problems related to transfer of business, organising seminars and meetings.

On topics of interest of family business, AIdAF realize, directly or with the support of partners (Family Business Network-FBN, European Group of Family Enterprises-GEEF, Istituto per i Valori d'Impresa (ISVI), SDA-Università Bocconi), the following activities:

- study and follow up of original proposals in support of the family businesses and related lobbying activity;
- workshop, debates and meetings,
- vocational training, exchange of experiences between juniors of family businesses;
- Business networking;
- participation to the European Group of Family Enterprises (GEEF);
- study and researches in the framework of Family Business Network (FBN).

## **2. Measures taken in Italy**

One of the most important needs in Italy is to coordinate the measures taken to facilitate the transfer of small and medium-sized enterprises: enterprises, Chambers of Commerce, Associations and public institutions have to enhance the spread of information.

### **• Legal measures regarding transfer of business**

The most important recent act in Italy regarding the legal measures on transfer of business is the Reform of the company law (Law 3.10.2001 n. 366).

The reform started from a project elaborated by the “Mirone” Parliament Commission (Bill brought before Parliament on 26.5.00 and, after a long process, approved on 28.9.01). The law became effective from 23.10.01.

Within a year from that date the Government has to pass the application laws. This time (that is 23.10.02) is subject to extension to the 21.3.03. On the basis of this law the minimum number of members required to form public limited company has been reduced to one. The real effectiveness of this important reform will be possible only if concrete guarantees measures in favour of creditors will be issued.

Moreover, on the basis of the new law it is now possible to change from a partnership to a limited company (but not vice-versa in guarantee of creditors).

The development and application time of this law ( long and not yet evaluated as impact) could also take in consideration the fact that continuity of business should be recognised as a "juridical good"<sup>7</sup>. From such a conceptual recognition, many positive consequences could come to "support and defend" business transfer processes.

Concerning the continuity of partnerships, it has to be point out that disagreement between co-operating entrepreneurs is quite frequent at the time of transfer and poses a potential threat to the survival of the enterprise. Consideration should therefore be given to the settlement of disputes between co-operating entrepreneurs arising in the context of business transfer.

In this field the Chambers of Commerce -in Italy all companies are compulsory members- through their settlement desks can play an important role.

In Italy, in fact, the Reform of 1993 (Law no. 580) redefined the role of the Chambers of Commerce; new powers were introduced and others, previously granted only to some Chambers, were formally extended to the whole system.

This applies to the organisation of services for alternative dispute resolution, formerly left to the discretion of a few Chambers, but now both a right and a duty for all Chambers: a right because they now have the powers under Law no 580 (Art. 2.c.4), and a duty because successive laws make attempts at arbitration and conciliation through the Chambers of Commerce compulsory.

In essence this concerns the resolution of both "business to business" and "business to consumer" disputes with the guarantees of the permanence of an Institution, with transparent, uniform procedures fixed by regulation with greater familiarity with the market and local custom.

In particular conciliation, more adapted to business transfer disputes - is a facilitated negotiation, conducted by a impartial and neutral subject (the conciliator) which lead the parties to an agreement that comply not only with their own interests but - possibly- with a development of their own economic

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<sup>7</sup> This concept is also confirmed by the European Project Relais on business transfer

situation. In the arbitration - on the contrary - the power is given by expressed will of the parties to a judge.

The Chambers of Commerce should also undertake a major effort to raise awareness on the ground, spreading a "culture of alternative resolution", which can effectively direct to all small and medium companies, which are usually involved in small and medium sized disputes, towards rapid, effective inexpensive solutions.

The analysis on the use and the effective application of the decisions by the companies confirm the concrete utility of these new tools at disposition of the companies.

- **Tax measures regarding transfer of business**

The Law 18.10.01 n. 383 "First intervention for the development of the economy" has introduced (at point V) some specific measures with the aim of abolish and simplify "useless fulfilment" in charge of tax-payers.

Specifically, with the aim of an "equity improvement" and of an "economic development stimulus" for the removal of difficulties of family transfer the inheritance duty on transfer and gift is abolished (art. 13, comma 1, L.n. 383/01). The new law is applied starting from 25.10.01.

The abolition of inheritance and gift duty is source of several interpretative problems due to a lack of coordination with the previous laws in the same field. In fact, inheritance duty is no longer due on inherited goods, whatever their value and the degree of relationship of the players. In this case there is no longer a need to present the succession declaration.

Tax is abolished for any goods and rights given as gifts. Gift tax is also abolished in the case of the simple waiving of these rights in favour of the spouse, descendants in the direct line (father, child, grandchild), and other relatives to the fourth degree.

When gifts are made in favour of different persons, the register tax is due if the value is over EUR 180 000. If the beneficiary has a handicap, the exemption is EUR 516 000.

For the registration of the gift act no tax is due but if the gift (or inheritance) includes some real estate the mortgage tax (2%) and the land surveyor tax (1%) must be paid. The amount of these duties is related to the gross value of the real estate, with a minimum of EUR 130 (Cm. Finanze n. 91/E/01)

If a person, receiver of the donation of movable goods – for which s/he should pay a tax, substitutive of capital gain – sells such goods within five years after the gift, s/he must pay the substitutive tax as if the gift had not been given.

How is the effect of this law in Italy? Probably it's too early to give an answer. In any case, some part of the public opinion think that is not an effective

solution for the improvement of business. In particular, some data has shown that the national yearly income from inheritance tax was so relative respect the whole Italian fiscal income and probably not able to pay the costs for its administration.

Another financial measure that can indirectly support business transfer to third parties is the “honour loan” introduced by the Law 28.11.96 n. 608 “Measures for the development of job creation”.

It is a loan without any guarantee, with a limit of EUR 25.000 for the whole investment, except a business idea and an accepted business plan, and the “word of honour” of the person (usually a young unemployed of a not developed area) who gets it with the promise to give it back after a new business start and consolidation. This loan works as fiscal measure considering that all admissible investments and expenses - in the first phase of activity - are VAT free.

- **Support measures regarding transfer of business**

The transfer of a business is generally a once-in-a-lifetime event, of which the holder has little or no previous experience.

In Italy, Formaper, the training organisation of the Milan Chamber of Commerce, systematically informs junior entrepreneurs and new ones about the opportunity of continuing an enterprise, not only starting up a new one. This information activity is also integrated by special training activities, where junior entrepreneurs can meet senior ones.

Another example of good practice to be highlighted is Transfbiz – On-line ExchangeLetter on Business Transfer – that is a newsletter sent every two months to institutions, managers, consultants, intermediaries, entrepreneurs about what’s on concerning business transfer in Europe and in the world. It is produced by the Italian Centro Produttività Veneto of Vicenza Chamber of Commerce, in cooperation with the Venitian Atelier StudioCentroVeneto on Business Transfer.

Among the support measures created Kit. Brunello has to be mentioned: it is a self analysis check-up for SMEs, very specifically focused on family business transfer processes, which has been applied to more than 400 firms in Italy. It contains 100 questions to help entrepreneurs, managers, consultants understand the strong and weak points of the transfer of businesses.

Finally, “Generazionimpresa”, based on a project realised by the Bologna’s Chamber of Commerce, that is now becoming a real national market, where many potential purchasers and vendors can meet.

### **3. Conclusions**

The transfer of business means to solve questions related to financial aspects, tax costs, technological and organisation obstacles.

To solve these problems a global and multidisciplinary approach is necessary with the support of public institutions as well as of the private sector.

At this regard bodies strictly involved in economic development and with a direct contact with companies, Associations, Institutions, local bodies and in general with the market - like Chamber of commerce - could give an important contribution to the promotion of this kind of approach.

The example is the “Laboratorium” of “Germogli (Sprouts) Project” in Tuscany region was run with different roles and steps:

- Tuscany Region Administration passed a law to finance initiatives to facilitate business transfer;
- Unioncamere/AsseforCamere took the co-ordination of the project;
- Local business Associations, researches and consultant Associations were involved;
- Local administration (Livorno, Pontedera) gave their patronage and sponsorship;
- A focused local research was run as a base for a local Observatory;
- Information, training, personalised self analysis and support for SMEs focused on business transfer was given.

With this global and multidisciplinary approach we could obtain the results of a real and effective value that companies and businesses need in business transfer modifying the usual rules for business administration fit for start-up and for ordinary administration.

Also a system action to co-ordinate business transfer initiative is demanded to promote change of experiences/information and to innovate the management approach as new corpus of knowledge, experts, focused tools.

## **Paulien Geerdink**

Ministerie van Economische Zaken, the Netherlands

## **Joop Kommers**

Raad voor het Zelfstanding Ondernemerschap (RZO), the Netherlands

### **Silent Transfers - The Tax Aspects of Company Transfers in the Netherlands: the Current Situation**

In 2001, the Netherlands had approximately 700,000 active enterprises. In that year, almost 60,000 businesses were started up and around 55,000 ceased trading. Roughly 20,000 businesses were transferred during the year. Proper tax and legal planning prior to a company transfer can easily take up to five years. Twenty per cent of entrepreneurs are over the age of 55. Based on this data, it is likely that over the next five years, approximately 100,000 businesses in the Netherlands will be transferred to a new owner in some form or other. In practice, between 10 and 30 per cent of company transfers fail. The reasons for these failures are wide-ranging, but they all have the same end result, namely the winding up of businesses that are in theory perfectly viable. This leads to a substantial loss of capital and jobs, and of the know-how embodied in individual entrepreneurs. Against this background, tax schemes designed to facilitate company transfers are vital.

#### **The Dutch tax system**

On 1 January 2001, the Dutch government reviewed the income tax system. Compared with the previous Income Tax Act, the new scheme is more broadly based and applies lower tax rates across the board. The top band has been lowered from 60 per cent to 52 per cent.

The profits of enterprises without a corporate capacity are progressively taxed at up to 52 per cent. Profits of less than EUR 48,000 are charged a tax liability of between 33 and 42 per cent. There are generous tax deduction provisions.

The profits of enterprises with a corporate capacity (private limited liability companies (BVs) in the Netherlands) are charged a corporation tax rate of around 34.5 per cent. The shareholder of the private limited liability company (BV) is liable for a 25 per cent rate of income tax on the dividend and the profit generated from the sale of the shares.

The silent transfer scheme (see annex) was introduced as part of the aforementioned shake-up of the tax system and applies to enterprises without a corporate capacity.

### Example: Yellow Bike, a bicycle shop

The owner of Yellow Bike, Mr Jansen, is 65 years old and would like to transfer his business.

The following are interested in taking over the business:

- Mr Jansen's son, who works in the business
- The company manager
- Mr Jansen's neighbour, who also owns his own company, 'Het Gouden Slot BV'.

The tax balance of Yellow Bike is as follows:

Premises	500,000	Equity	400,000
Stock	50,000	Bank	100,000
Liquid assets	50,000	Accounts payable	100,000
	-----		-----
	600,000		600,000

The goodwill in the business is valued at € 200,000. The surplus value (hidden reserve) of the premises is valued at € 400,000 (the real value of the premises is € 900,000). The taxable profit upon transfer would therefore be € 600,000.

Mr Jansen must consider the following three questions:

- 1) To whom can the business be transferred?
- 2) In what ways can the business be transferred?
- 3) What advantages and disadvantages are attached to the various options?

Ad 1) To whom can the business be transferred?

Both before and after 1 January 2001, the business could be transferred to all three candidates. So the real question is: to whom can the business be transferred without incurring a tax liability?

Until 1 January 2001, the only candidate who would qualify for this was Mr Jansen's son. After 1 January 2001, however, both his son and his neighbour qualified. And since 1 January 2002, all three candidates are now eligible under the silent transfer scheme, provided they qualify as co-operators or employees in the company (this includes the company manager). See the annex for the terms and conditions governing silent transfers and for a definition of a co-operator.

Ad 2) In what ways can the business be transferred?

The most common methods of transfer are:

- a) Standard transfer (sale of the business with a settlement)

- b) Silent transfer (sale of the business without a settlement)
- c) conversion into a private limited liability company + sale of shares -  
conversion into a private limited liability company + holding structure +  
sale of shares in operating company

Ad 3) What advantages and disadvantages are attached to the various options?

a) *Standard transfer*

This means that the person disposing of the business must pay tax on the hidden and taxable reserves. In our example, this was € 200,000 in goodwill and € 400,000 in the surplus value of the premises. This total of € 600,000 is charged income tax at 52 per cent, with a small discontinuation allowance of up to € 17,000 (2002). Liquid assets must in that case be taken from the business or from elsewhere to meet this tax liability. This is a disadvantage.

The advantage of this option, however, is that the individuals who are respectively transferring and taking over the business can agree between them what assets and liabilities are to be transferred. This offers them flexibility.

Another advantage is that the party taking on the business can start with higher book values, and hence can also expect to be able to make higher write-offs.

Standard transfers involve a tax on the hidden and taxable reserves of up to 52 per cent, following the deduction of a small discontinuation allowance. Turning back to our example, the tax liability at the time of transfer would be around 52 per cent x (600,000 -/- 17.000) ≈ € 300,000.

*Silent transfer*

When answering the first question, we established that all three of the interested candidates were eligible for silent transfer. The big advantage of silent transfer is that no tax is payable at the moment of transfer.

Another plus point is that an independent part of the business (which can itself be a business in its own right) can be transferred: the business need not therefore be transferred in its entirety.

The disadvantages are that:

- The transferring party must carry on with the same book values and therefore cannot write off tax on the higher real value of the assets.
- The transferring party and the party taking on the business must run the business together for three years under a partnership agreement. On the other hand, this has the advantage of ensuring an effective transfer of know-how.
- The party taking on the business must continue the business. If the business is to be wound up, then the transferring party will still be liable for tax.



Silent transfer avoids an immediate tax liability on the hidden and taxable reserves; this liability can be deferred to the future (e.g. at the moment of sale, liquidation, etc.).

#### *Conversion into a private limited liability company + sale of shares*

Conversion into a private limited liability company means that tax must be paid on the hidden and taxable reserves. Sole trader businesses can however also be converted into private limited liability companies without being taxed. However, certain conditions must in that case be met. One of these is that the shares in the private limited liability company can only be sold after three years. Selling or otherwise disposing of them before the three years have expired will incur a tax liability for the taxable and hidden reserves.

Sale of the shares after three years will involve a 25 per cent levy on the profit from the sale. The annual profits of the private limited liability company will be charged corporation tax at 34.5 per cent. The total tax liability on the hidden and taxable reserves in the event of a silent conversion into a private limited liability company + sale after three years will therefore ultimately be 50.87 per cent.

The advantage of this option is that it defers the payment of tax.

The disadvantages of the scheme are:

- that a substantial sum of money must be invested in supervision and consultancy costs and
- that three year time limit must be adhered to, otherwise the conversion will have been pointless.

Moreover, the ultimate tax liability is only fractionally lower (50.87 per cent) than that in the option that does not include conversion into a private limited liability company.

#### *Conversion into a private limited liability company + holding structure + sale of shares in operating company*

Mr Jansen converts the business back into a private limited liability company without incurring a tax liability. He then places a private limited liability company between the operating company and himself. The sale of the shares in the operating company can in theory be effected without payment of tax (participation exemption). However, this restructuring exercise should have taken place many years before the sale of the shares in the operating company in order to prevent the tax authorities from accusing the company of deferring or evading its tax liability.

The profit on the sale of the shares in the operating company will ultimately generate a total tax liability of 50.87 per cent (corporation tax and income tax).

Provided it has been planned many years in advance and is solidly underpinned, the holding structure route could defer the tax liability on the sale of the business. Once again, however, the ultimate liability is only fractionally lower at 50.87 per cent.

The advantage of this option is that it defers the payment of tax.

The disadvantages of the scheme are:

- tax planning is required (due to the time spans that must be adhered to)
- the consultancy and supervision costs are substantial

So what *is* the best way of transferring the Yellow Bike business?

What does the decision depend on?

- On the size of the taxable and hidden reserves. The greater the profit, the more attractive deferment of the tax liability. Larger hidden reserves will increase the potential for depreciation, which would make a silent transfer less attractive compared with direct settlement of the liability.
- On how much scope there is to generate or free up sufficient liquid assets in order to settle the liability. Immediate settlement will save on consultancy costs and there are no conditions to be met.
- On how much time is left to prepare the transfer. The more time there is, the more effectively the legal structure of the business can be prepared.
- On the wishes of the individual taking over the business: if he does not want to work with the previous owner for three years, or if he is prepared to pay more for a standard transfer, then the choice is a straightforward one.

So the conclusion is and remains: you can transfer your business without having to pay tax, but not without a good tax advisor!

## **Annex**

### **GOOD PRACTICE CASE: THE NETHERLANDS**

#### **SILENT TRANSFER OF A BUSINESS**

On 1 January 2001, the Netherlands introduced a new facility for the transfer of a business to successive entrepreneurs, known as the 'silent transfer' facility. This is an expansion of a regulation that existed before 2001, in which business transfers to family members were permitted without direct taxation.

The new facility is described as 'good practice' in the European 'Report of the expert group on the transfer of small and medium-sized enterprises'.

#### **Description of the regulation**

The main rule for the transfer of a business (that does not have the status of a legal person) to a successor who is a natural person is that tax is payable on the surplus value of the business (undisclosed and fiscal reserves) in accordance with progressive Dutch income tax rates of up to 52%. This means that cash assets are needed to pay the tax authorities. In certain circumstances, the tax authorities considered it undesirable that a transfer should be impeded by the tax liability. Sometimes it is possible to transfer a business without settlement of the tax, in which case the tax authorities retain the assessment, as it passes to the natural person who takes over the business: this person maintains the same book values. This applies in the case of a silent transfer of the business to entrepreneurs.

The new regulation introduced on 1 January 2001 means that the silent transfer of the business is possible in situations both within and beyond the family sphere, in which a business or an independent part of it is transferred to a party that takes it over.

In order to make use of the regulation, the person taking over the business must have been involved in the business as a co-entrepreneur for at least three years (36 months) prior to the transfer. A co-entrepreneur is a person who is liable for Dutch income tax in the capacity of an entrepreneur and who entered into a partnership with the entrepreneur transferring the business at least three years prior to the transfer. A co-entrepreneur to whom a silent transfer can be made may be any third party, not necessarily someone who is related to the party transferring the business. It is not relevant whether the person taking over the business is the parent or the child.

As of 1 January 2002, an important improvement was made to the regulation. Since then, employees who qualify as parties taking over the business can also make use of the silent transfer facility, on condition that they were employed by the business for at least three years prior to the transfer. They are therefore not subject to the co-entrepreneurship requirement. This legal amendment is important for transfers of family businesses, where sons or

daughters are often employed in the transferring party's business under an employment contract prior to the transfer.

A silent transfer can take place at the time when the owner exits the business. One condition for the application of the silent transfer facility is that the person taking over the business should continue its activities. If the continuation requirement is not met, the silent transfer facility does not apply and the party transferring the business remains liable for tax on the surplus value.

There are a number of exceptions to the regulation, for situations in which the three-year co-entrepreneurship requirement cannot be met due to unforeseen circumstances. In the following circumstances, compliance with the three-year term is not required in order to make use of the facility:

- If the party transferring the business becomes unfit for work for 45% or more after the partnership is contracted
- If the transferring party is declared bankrupt
- If the transferring party has requested a moratorium on payments
- If the transferring party is placed under the supervision of a trustee
- If the transferring party qualified as a partner of the party continuing the business before the partnership was contracted, but no longer did so at any time after that
- If the transferring party dies and the business is transferred to the party continuing the activities shortly afterwards.

Businesses can avail themselves of the silent transfer facility on request.



## **Soren Schou**

Skatteministeriet, Denmark

### **Deposit of Capital Gains to a Pension Scheme**

Pension saving of entrepreneurs can be viewed from different angles.

One view is that it can be an advantage to use profits to consolidate the enterprise, so it will be less sensitive to decline in sales, change in interest rates etc. Therefore entrepreneurs can be forced to or are better off paying out business debt instead of taking money out of the business and putting it into a pension savings account.

Another view is that the tax legislation (in Denmark) already contains special tax relieves for entrepreneurs that help to consolidate the enterprises. Therefore there would be no need to create special measures in relation to the pension savings of entrepreneurs.

Denmark has recently introduced a new measure that makes it possible for entrepreneurs to establish a pension scheme in connection with a business transfer or transfer of a part of a business.

The new measure is aimed at owners of especially small and medium-sized enterprises that have had to give priority to investments in the enterprise instead of pension saving in a traditional sense, and therefore have not been able to take money out of the enterprise to establish sufficient pension savings.

Considerable taxable capital gains arising from a business transfer and the insufficient or lacking pension savings can make an entrepreneur postpone his or hers retirement and therefore prevent or delay business transfers that for other reasons ought to take place.

The new rules can contribute to remove this obstacle to business transfers, since the practical effect of the rules is, that the taxation of capital gains can be deferred, so there is no taxation of capital gains at the time of the transfer. The capital gains are instead taxed concurrently with the payments from the pension savings account to the entrepreneur. In a progressive tax system – as the Danish – this can have the effect that the total capital gains tax will be lower compared to full taxation of the capital gains at the time of the sale.

The new rules also aim at giving more equal conditions for self-employed persons and wage earners to establish a pension scheme.

## **The new measure**

The measure applies to persons, who in connection with a sale or a partial sale of an enterprise get taxable capital gains. The measure also applies to persons, who sell shares in a company that has carried on an activity for business purposes. In that case the person has to be a controlling shareholder, which (as a main rule) requires, that the person owns not less than 25 % of the shares in the company. The rules also apply to controlling shareholders in a parent company, that owns not less than 25 % of the shares in another company, that carry on an activity for business purposes.

In Denmark special taxation rules apply to spouses. If one spouse owns a business and the other spouse runs it, it is the spouse that runs the business, who is taxed of the income (including capital gains) from the business. In that case the spouse who runs the business can use the rules, when the business is sold. If both spouses get taxable gains in connection with the business sale, they can both use the rules, if the additional conditions are fulfilled.

The measure is reserved to persons who have carried on an “active” enterprise. Therefore the rules cannot be used in connection with transfer of “passive” enterprises, of which the main business activity consists of real estate rental and/or ownership of cash, shares, bonds etc. The enterprise is considered as “passive” if more than 50 % of the total income or assets in the enterprise concerns the abovementioned kind of activity.

It is a condition that the entrepreneur is at least 55 years old at the year of the sale.

It is also a condition that the person has carried on an activity for business purposes or has been a controlling shareholder in a company, which has carried on the required kind of business, for a period of at least 10 years. The condition will also be fulfilled, if the person for example has carried on a business activity for six years and has been a controlling shareholder for four years. In case of the death of an entrepreneur it is possible for a spouse to include the period of business activity, that was carried on by the entrepreneur.

It is pension schemes with disbursements in instalments that can be established under these rules. In Denmark payments from such pension schemes will be taxed as personal income by the pension saver.

According to the general Danish tax legislation it is not possible to establish a pension scheme with disbursements in instalments, when a person is 60 years old, and it is not possible to receive payments from such a pension scheme, when the person is more than 85 years old. These general rules do not apply to pension schemes that are established in connection with a business transfer.

The maximum deposit (in 2001) to a pension scheme under these rules is DKK 2 million (~ ECU 269.000). If the business is sold stepwise is it the total deposit that cannot exceed the maximum.

The deposit to the pension scheme is – besides the maximum amount - limited to the taxable capital gains arising from the transfer of the enterprise. If the business activity has been carried on at a personal basis (i.e. not through a company) the maximum deposit is calculated on basis of the taxable capital gains that arise from the sale of the assets of the enterprise (machinery, inventory, goodwill and other intangible assets, real estate, shares, bonds etc.). Any losses occurring from the transfer are deducted in the maximum allowed deposit. If the business activity has been carried on through a company the maximum allowed deposit to a pension scheme under these rules are given by the taxable profits from the sale of the shares in the company.

The deposit to the pension schemes shall be paid within a period of 10 years beginning with the year, where the enterprise or part of the enterprise was transferred.

Since the aim of the new measure is to make it possible for an entrepreneur to neutralize taxation of capital gains in the year where the business is transferred, the payments to the pension scheme are fully deductible with the abovementioned limitations on the deposits. This is a difference from the general Danish tax legislation concerning deduction of deposits to pension schemes. The general rules divides the deduction of one-time deposits to pension schemes with disbursements in instalments over a period of ten years, although it is always possible to deduct DKK 37.600 (~ EUR 5.000) a year.

The deposit to the pension scheme can be deducted in the income year, where the enterprise is transferred, if the payment has been made no later than July 1 in the following income year. This corresponds to the date, where the tax authorities must receive the tax return from the entrepreneur, and therefore also to a date where the taxable capital gains have been calculated and the maximum deductible deposit to the pension scheme is known.

### **Experiences with the new measure**

The possibility for depositing taxable capital gains to a pension scheme was available for the first time in relation to business transfers that took place in 2001. As the tax returns for 2001 must be received by the tax authorities July 1 2002 there are not yet any statistics – neither regarding use of the measure or impact on investments in SMEs - that indicates whether the new measure is a success or not.

When the new measure was introduced, it was estimated that 2.000 persons each year would use the possibility to deposit taxable capital gains to a pension scheme. At that time it was also estimated that approximately 10.000



enterprises in Denmark each year had to be transferred to new owners or shut down.

Since taxation rules are complex and play a major role in how a business transfer is carried through, tax advisors will be involved in most business transfers. This means that the use of the new measure highly depends on the tax advisors knowledge – and recommendations. Therefore information about the measure has been targeted at the advisors rather than the entrepreneurs.

So far the reactions of the advisors have been positive and there have been several requests for binding rulings concerning the new measure. Binding rulings is possible in Denmark, when (an advisor on behalf of) a taxpayer wants to know the tax consequences of a certain transaction, before the transaction is actually carried through.

The measure has also obtained special attention from Danish politicians. Already when the measure was introduced, it was decided that a report of the prevalence of the use of the measure must be presented for the Danish Parliament before January 1 2005. At that time information will exist regarding the first three years in which it was possible to use the new rules.

### **Possible extensions of the measure**

Although the measure generally was well received by business organisations, when it was introduced, some organisations proposed further extensions of the possibility to deposit taxable capital gains to a pension scheme. The proposals primarily regarded a removal of the maximum deposit on DKK 2 million (~ EUR 269.000), so it always would be possible to deposit the total taxable capital gains to a pension scheme with full deduction in the year of the deposit. Furthermore it was proposed, that the age limit was set lower than 55 years – for example 50 years.

The proposed removal of a maximum deposit was turned down with the argumentation, that the maximum deposit made it possible to establish a pension scheme with a reasonable yearly payment to the pension saver, and that the new measure is a supplement to establish pension schemes according to the general rules.

The proposed lower age limit was turned down with the argumentation, that the new measure should not tempt entrepreneurs to make an end to their business activities at a younger age.

Furthermore both the proposed extensions will result in a loss of yield for the state.

It is not likely, that the measure will be extended – at least not until there are reliable statistics concerning the use of the new measure.

On the contrary it seems to be the opinion in Denmark, that the money spent on an extension of the measure would be better spent on other improvements of the conditions for the transfer of businesses. In June 2002 the Danish Parliament passed a law that makes it possible for an employee of an enterprise to buy (a part of) the enterprise without the seller being taxed of capital gains. Instead the employee will take over the taxable position (concerning the enterprise) of the former owner.

The new rules - similar to rules already applied to transfer of businesses within the family - will facilitate the transfer of businesses to employees. The former rules stimulated transfers within the family although an employee might be the natural and most competent person to buy the enterprise. It is expected, that the new law will make it easier for a potential seller of an enterprise to find a (competent) buyer.



## Peter Langard

Fédération des Experts Comptables Européens (FEE)

### Facilitating the Transfer of SMEs in Practice

FEE has recently published three papers that are relevant to the topics of this conference:

- Family Business Succession
- How to prepare for the successful sale of a family business
- Valuation of a family business

Each of these publications has been very well received by the European Commission and other European SME Business organisations.

The topics in intend to cover relate mainly to the second publication, “How to prepare for the successful sale of a family business”.

I have been asked to talk to you about the legal and taxation issues that have to be considered by both the client and the accountant who advises the SME client in England.

I am the Chairman of an accounting practice in England that has 60 employees and acts for approximately 2,000 clients, most of whom are SMEs trading either in the form of sole trader, partnership or corporate entities. I have been working in this area for 40 years and have thus obtained a degree of specialism in SMEs. More importantly, my firm’s client base always contains a business that has to be sold or transferred for a variety of reasons.

Because my practice gives this advice it is important that members of the staff receive full training in all aspects of business transfer advice requirements, including legal, taxation and, most importantly, the human issues that arise.

The costs of this training are quite a substantial overhead and a financial burden to the practice.

There are always different detailed rules that affect each type of structure. However, there are some general points I should like to make that would be pertinent to each.

It is important for the economy that SMEs continue. As you will all be aware, small and medium enterprises make up the greatest part of the European economy both in terms of trading activities and in terms of employment.

The European parliament and U.K. Government are doing as much as they can to assist the growth and successful development of SME organisations within the U.K. because they understand that these types of business are the backbone of the economy.

The U.K. legislation has been framed to ensure that it can be attractive to transfer a business, whether within the family or otherwise.

I have formed the opinion that the European parliament is taking steps to encourage the successful transfer of small business and is also working to ensure that all countries within Europe bring the support and encouragement given by governments to these businesses up to a minimum benchmark level.

#### Reasons for transfer

A business may need to be transferred for a variety of reasons, but the principal ones are:

- Sale of a successful business on the open market to enable:
- Proprietor retirement
- Expansion and development under new ownership and management
  
- Sale of a business in difficulties in order to salvage some value for the proprietor or ensure continuity and employment
  
- Transfer to next generation of family
  
- Transfer to employees in a management buy out

The accountants will have an important role, primarily in advising either the vendor or the purchaser on the commercial aspects of the proposed deal, either price, viability and commerciality, but will also need to consider a multiplexity of other issues.

In many ways the legal and taxation consideration will be different, particularly if there is any hint of financial difficulty.

For the purpose of today's talk, I will concentrate on a transfer of an SME that is successful and is a step towards planning the retirement of the proprietor.

One important point to make is that the U.K. law has an over-riding rule that relates to buying and selling, which is "caveat emptor" or "buyer beware".

This roughly interpreted means that it is the buyer's responsibility to undertake his own checks to ensure that what he buys is what he expected to buy.

A sensible buyer would, therefore, undertake his own investigation, more often than not by employing an accountant to investigate the business. This is called due diligence work.

Once this work has been done, then lawyers need to negotiate a contract for sale in which the buyer will seek to obtain warranties and assurance that there is nothing untoward in the business and particular reference will be made to cover any matters that arise from this due diligence work.

## Legal Issues

### A) Structure of Ownership

The structure of the ownership of the business affects the legal requirements of the transfer and the degree to which due diligence is undertaken and the nature of the legal documents, particularly warranties, required.

On transferring a corporate entity all the titles to its assets are automatically transferred, whereas assets owned by a sole trader or partnership have to be transferred individually often by a different route for each asset dependent sometimes on how the asset is financed.

### B) Government

There are many instances when government has given grant aid to a business and it is most important to ensure that the business assets to be transferred are free from liability to the government, or, if not, can be transferred with government permission.

The sensible purchaser will also wish to determine whether any grants are available to assist in the purchase or development of the business.

### C) Employment Regulations

There are many strict laws and regulations relating to the rights of employees on the transfer of a business to new owners, which means that extra care has to be taken in reviewing exactly what rights the work force have acquired during their collective and individual periods of employment.

There is legislation (transfer of undertakings – protection of employment – regulations 1981 (“TUPE”) ) which quite clearly sets out that all the relevant employees and their rights transfer to a new owner.

### D) Patents and Licences

If the business has the ownership and/or benefit of rights under patent or licence to produce then the actual right to them has to be investigated and legal transfer has to be completed within the special requirements relating to them.

### E) Insolvency

There are special rules that affect the sale of business assets in the case of solvency which lead to situations where a vendor is not able to give the purchaser full and safe title to those assets.

The most important of these is:

I.Regulations that impose the responsibility to ensure that any preferential creditors (including government departments and some wages of employees) are paid correctly and that any general creditors are treated equally

II.If banks or finance houses have loaned money secured by charge against the business assets then these lenders will have to agree to any sale and receive the proceeds.

F) Statutory

Statutory legislation governing the operation of a corporate entity imposes rules that will have to be observed.

G) Land and Building Rights

The advisors to a purchaser will have to ensure that the vendor has both the title and the power to transfer these rights.

Once acquired the purchaser will have to register that entitlement with the land registry.

If a lender has a charge over these assets they will also require assurance as to title and to keep control of the title documents as part of their own security.

H) Country of Domicile

There are many different laws, rules and regulations in each sovereign state in the world.

This means that if ownership of a business is being transferred to a resident of another state then the purchaser and their advisors will need to ensure exactly what particular requirements are needed in the state of domicile of the business as well as those of the purchaser.

Taxation Issues

There are three aspects of tax legislation that have to be taken into account when considering a business transfer, either by transfer into the family for no consideration or by sale on the open market to a third party. In fact two of these taxes actually work in opposite directions when considering whether or not to sell on the open market and have a degree of influence upon the seller's if not the buyer's attitude.

1) Stamp Duty

Stamp duty is a tax that the buyer has to pay and is based on a percentage of the cash purchase price of the business.

2) Inheritance Tax

Interests in family controlled businesses are, subject to certain important points, free from inheritance tax in the U.K. which encourages the owners of the interest in the business to retain, or retain within their family, the

ownership of the business and thereby encourage the continuance of the business under the same control with the same family ethos.

(This could of course pose many problems particularly if there were no person within the family who was capable of running the business after the retirement or demise of the principal entrepreneur.)

Should the business be sold, either on the open market or within the family, for cash then the inheritance tax exemption disappears (except between spouses) and such a sale can instantly create a potential 40% taxation liability.

### 3) Capital Gains Tax

Over recent years capital gains tax legislation has introduced relief's which, to a large extent, after taking into account: -

- Indexation
- Retirement Relief
- Taper Relief
- Annual Exemption

Mean that it is quite possible to be able to sell for cash a substantial portion of the ownership of a business without incurring any taxation liability on any gain within the sale proceeds.

Clearly, these rules are designed to encourage a sale of the business for cash whereas the inheritance tax positions are designed to keep the business within the family.

Herein lies the first dilemma faced by the vendor of the business who has clearly to consider the implications of both of these classes of tax and at the same time take an indepth view of how the successions for the business will work.

Whilst some accountants will have the detailed knowledge and experience to advise either the vendor or the purchaser on these complex matters, it is more than likely than assistance and advice will need to be obtained and is usually found by consulting, for example:

- Experienced Family Lawyers
- Business support organisations and trade associations who have knowledge of the trade and market place
- Venture capitalists and bankers

Some countries also have business advisory services supported by government funding that would normally be prepared to help the small business purchaser when required.

All the advisors should be encouraged to communicate with each other to ensure consistency of advice.



Some of the matters that will have to be considered are: -

- Whether family members are able to take over the business
- Employees who were capable of taking over the business
- Who will inherit any taxable assets
- Should the purchase price be paid by annuity rather than capital
- Planning so that the proceeds of sale are split between spouses to ensure maximum allowance for the relief of inheritance tax
- The wisdom of sale in the first place
- Early consideration to retirement

There are of course many businesses that are sold or transferred for reasons other than for retirement such as illness, lack of profitability, lack of management.

For these businesses there are different considerations and they may not just be tax related.

It is always important to ensure that the arrangements for a sale or transfer of the business are made on the basis of sound commercial and personal reasons and then the consideration of the taxation implications becomes secondary as part of the final stages of planning, otherwise things can be done for the wrong reasons.

### The Buyer

When a buyer is looking at acquiring a business and having it transferred to him he will also have to take into account taxation considerations as well as the requirements of the vendor, because it may be that the buyer will have to prepare an offer for the business based on his knowledge of the vendor's personal and financial situation and construct it accordingly, rather than just submitting an offer to suit his own purposes.

The buyer also has to take into account how the purchase price is dealt with and what is required i.e.:

1. Purchasing shares or assets if the business is within a corporation
2. The value of those assets and the best construction for tax purposes i.e. immediate tax purposes such as capital allowances or future taxation purposes such as potential capital growth and capital gains.

There is also other U.K. legislation, which I understand is also European legislation, concerning the transfer of undertakings and the law attached to the transfer of employees under these circumstances and which I have touched upon already. These laws will materially affect the transfer of the business because both the buyer and the seller will have to consider not only the question of the legislation covering the employees' rights but also the financial implications there are which means that the purchase price could be materially affected by the potential financial cost of these employees' rights i.e. redundancy pay, current contracts of employment and established rights.

Sometimes these liabilities can be so high that the potential transferee of the business will not be prepared to pay anything towards the purchase because there could not be a sufficient return of capital or there may have to be expensive renegotiations of employees' terms and conditions and service contracts, or the business may not be financially viable.

#### Environmental issues

The legislation on environmental control can also have a very heavy impact when considering a business transfer, both in connection with the environmental issues of the land and business premises occupied by the business and the nature of the product, because there is legislation that can pass the liability for breach of the regulations involved on to a transferee, especially if the business is a limited liability company / corporation.



## **Workshop 2:**

### **Awareness Raising Measures**



# François Hurel

## Introduction to the Workshop

**The transfer of a business is a normal phase in the life of an enterprise.**

### The Current Situation

So far, at European level, attention has been more strongly focussed on measures destined to promote business start ups than on transfers. Especially with regard to the preservation of jobs the transfer of businesses represents a major option for governments and public institutions, especially with regard to the preservation of jobs.

The players in the business world have not been made sufficiently aware of the significance of business transfers.

Although a number of specialised institutions and experts are now involved in the transfer process, we see that the owners who want to transfer their enterprise and their potential successors are neither informed nor trained and supported in the complex transfer process.

### The Workshop

With a view to remedying these shortcomings, one solution consists in taking awareness-raising measures which will contribute to successful transfers. The objective of Workshop Two was to discuss these measures. To date, various approaches have been adopted and implemented in the different Member States of the European Union. The speakers in the Workshops presented the most important approaches. In their work, the group of experts identified the principal fields of action for the future:

- raising the awareness of entrepreneurs or heads of enterprises of the need to prepare for transfers
- the role of information
- the role of training
- the support given during the process in the form of tutoring, mentoring or counselling.

Very often the greatest obstacle to a successful transfer is persuading the owner that he should consider organising the transfer and begin his preparations for it at a sufficiently early point in time. Opinion was divided on the question as to whether there is too little or too much information available on the different types of support given in the transfer process. Furthermore it must be borne in mind that even if information is available, it may be difficult to accessing it. Raising the awareness of business owners of the need to prepare for the transfer of their property marks the beginning of the process necessary in order to achieve a successful transfer. The workshop dealt with the different awareness-raising methods already applied, the way in which information about support options in the transfer process is supplied, and

possibilities aimed at improving the visibility of such measures. The awareness-raising measures currently applied (campaigns, seminars, web sites, etc.) were analysed and ways and means of obtaining information about available support were identified.

# Birgit Felden

TMS Unternehmensberatung AG, Germany

## Business Successions: Experience of Best Practice in Successfully Raising Awareness

Target groups - approaches - media - success factors

### I. The starting situation

According to statistical analyses, the number of businesses in Germany whose succession has to be arranged over the period 1999 to 2004 stands at around 380 000. Of these businesses, most of which are small enterprises with a turnover of up to €1 million, around 42% will be transferred within the family, while 58% will be taken over by a member of staff or external successor or will be acquired by another enterprise or liquidated. A large proportion of such transfers are unplanned or occur as the result of an emergency situation.

Recent years have seen a marked change in attitudes in small and medium-size enterprises (SMEs). In 1989, when we first began advising SMEs on succession arrangements, we encountered an 80 year-old who, looking at his life's work and sensing that his physical faculties were beginning to fail, felt it was his responsibility vis-à-vis his employees to hand over the reins to someone younger. Now, in 2002, we come across 55 year-olds who, having successfully built up a business, want to reap the rewards and enjoy life free of responsibility. While it is true that these are two highly contrasting situations rarely encountered in such an extreme form, my point is that people's attitudes have undergone a fundamental change over the past ten years, and I would like to outline some examples of how we have contributed towards bringing this change about.

By "we" I mean *TMS Unternehmensberatung AG*, based in Cologne and Hamburg. Since its foundation, the company has focused on advising SMEs in matters of succession. Our expertise, based on many years of experience in the consultancy field, has been and is being brought to bear nationwide in projects geared primarily to creating a positive climate in succession issues. Various avenues are pursued in order to raise the awareness of transferors, encourage highly qualified start-up entrepreneurs to take over enterprises and further develop the pool of consultants active in this area.

In the following, I would like to report on these projects, the experience I have gained and the conclusions I have drawn. When I refer to entrepreneurs and successors, I am of course talking about both men and women.



## **II. Directly addressing entrepreneurs and successors**

### **1. Regional project group at the Bonn/Rhine-Sieg Chamber of Commerce and Industry**

The activities of the project group at the Bonn/Rhine-Sieg Chamber of Commerce and Industry (*Industrie- und Handelskammer* - IHK) are an example of the conventional approach to raising transferors' awareness at regional level. By means of targeted events (lectures, panel discussions and workshops), in conjunction with consultancy services, entrepreneurs were guided through the arrangements necessary for succession. At IHK-organised "Entrepreneurs' Consultation Days", entrepreneurs were able to have an initial talk with a consultant qualified to address their particular problem. They could then book one of seven "consultation modules" dealing with the various phases of a business transfer and thus benefit from targeted and relatively inexpensive consultancy support. On the media front, the project was backed up by a "central information flyer" and various PR activities.

#### **Findings from this project:**

- Major events give no added value if entrepreneur and successor are already basically aware of the issues.
- The willingness of small-business entrepreneurs to pay for consultancy services is low, even where costs are reduced.
- An holistic approach helps raise the level of acceptance for support measures.
- By addressing entrepreneurs in a thought-provoking manner using cartoons or a satirical curtain-raiser, a relaxed atmosphere can be created in which to deal with what can be an emotional subject.

### **2. TA Wuppertal's Internet application: the Succession Navigator**

The *Technische Akademie* (TA) *Wuppertal*, in cooperation with partners, has developed the "1-to-manage.de" Internet portal featuring a "Forum for entrepreneurs of tomorrow". The forum's centrepiece is the "Succession Navigator", a comprehensive Internet application for successors to small and medium-sized enterprises. Developed and implemented by TMS AG, the Succession Navigator is geared above all to potential business successors at the pre-commitment stage. It contains specialist information designed to support an in-depth analysis of all aspects of the succession process - from initial appraisal to final takeover and realignment of the enterprise. Also integrated into the Navigator are numerous links and practical aids, as well as examples of actual successful successions intended as motivation for the target group. While not concealing typical problems which are liable to occur, the real-life examples highlight the opportunities in various scenarios: son/daughter or long-time employee as successor, highly qualified university graduate as start-up entrepreneur or successor.

### **Findings from this project:**

- Existing initiatives have focused on the transferring entrepreneur - but the successor also needs support.
- Potential successors are very interested in obtaining technical information: if the search term "*Unternehmensübernahme*" (business transfer) is entered in Google, the Succession Navigator appears as number 11 in the results list although there have as yet been no Web promotion measures and the site has not yet been registered by search engines.
- The didactic approach featuring convincing practical examples motivates the target group to address the issue in greater depth and to take on board "dry" specialist information.
- Nationwide networking brings information into focus and cuts out duplication of effort.
- A "one-stop" service combining information with further training and consultancy packages enjoys greater acceptance than do individual services.

### **3. *Pilot business-succession project under "GO!NRW"***

"GO!NRW" is a joint initiative of the *Land* North Rhine-Westphalia and the region's industry to promote business start-ups. Since 1998, the scheme has featured a pilot project aimed at securing the stock of businesses and facilitating successions. The idea is to mobilise enterprises which are "in the transfer market" and bring them together with potential successors, providing support for both sides all the way through the process up to the signing of a letter of intent signalling the intention to arrange succession.

A further aim is to take suitable measures to raise the awareness of and inform regional multipliers. The results of the project and experience gained are set out in a "Guide to business succession" and are passed on in intensive seminars for multipliers, such as advisers to chambers of commerce and industry, customer advisers of credit institutes, tax advisers, lawyers and management consultants.

### **Findings from this project:**

- After awareness-raising measures have been carried out, it takes around 1 to 2 years for entrepreneurs to embark upon the actual steps required for a transfer.
- While the figures for the whole of Germany are enormous, only a small number of businesses (with more than 10 employees) are interested in structured support. One reason for this may be that although a wide range of information is on offer, too few people know about it.
- There is a reluctance to draw up a letter of intent - because it means that an entrepreneur makes a commitment during a phase in which he or she is not yet absolutely certain about matters.
- Approximately 5 000 potential successors were reached, compared with 1 600 businesses - of which, however, only 400 were involved in the project. While there are many parties interested in succession, there are too few suitable successors.

### III. Indirect communication via consultants

#### 1. *Nationwide initiative of cooperative banks: "MittelstandDirekt" (SMEs direct)*

In 1996, the cooperative banks (*Genossenschaftsbanken*) launched the "*MittelstandDirekt*" initiative, designed to provide their small and medium-sized business customers with specialist information via various channels (Internet, CD-ROM, personal advice and talks). The CD-ROM is a central support instrument providing comprehensive, in-depth information on specific succession issues, which are addressed taking a process-oriented approach. Also provided are interactive tools which can generate concrete, fully formulated results and thus relieve the entrepreneur of formulation and formatting tasks.

#### Findings from this project:

- Transferring entrepreneurs are not open-minded enough with regard to the Internet and computers in general.
- Technological application problems - hardware and software-related - can drastically reduce the prospects of achieving success with electronic instruments.
- Information and technical-feasibility "overkill" will overtax older users in particular.
- Results are largely dependent on the willingness of individual banks actively to implement the scheme.
- Even where their umbrella organisations initiate corresponding measures, the majority of banks are often not prepared to define the subject of succession as a focus of their business policy.

#### 2. *Gesellschaft für Wirtschaftsförderung Düsseldorf*

The Düsseldorf-based *Gesellschaft für Wirtschaftsförderung* (GfW) is the umbrella organisation of all North-Rhine Westphalian economic development corporations. On its behalf, *TMS Unternehmensberatung AG* produced an information brochure entitled "*Unternehmensnachfolge - Ein Handlungsfeld für die Wirtschaftsförderung*" (Business succession - a focus of action in the economic development sphere), which was distributed to all affiliated economic-development consultants in North Rhine-Westphalia. By way of practical consultancy support, the brochure describes two actual cases from start to finish, complete with typical problem situations and checklists for direct use in actual consultations. This "consultant's folder" package is supplemented by training courses and by articles and sample letters which economic development corporations can access via the GfW Extranet for use in their PR activities.

### **Findings from this project:**

- "Ready-made" consultants' modules are actually used.
- Compact information packages relating to actual cases encountered in practice are used more intensively than complex texts of a more academic nature.
- Central instruments may also find wider use via the Internet/Extranet.
- Consultants are happy to use Extranet packages because they can be put directly to further use by digital means.

### **3. *Institut der Deutschen Wirtschaft (KONTINUUM)***

Under the KONTINUUM project, we produced a reference work entitled "*Mehr Erfolg bei der Unternehmensnachfolge - Fälle und Einfälle für Berater*" (More successful business successions - cases and ideas for consultants). It brings into focus experience gained in relation to the "soft factors" of business succession and is available to interested consultants free of charge both in printed form and via the Internet. The cases outlined are applications-oriented, taken as they are from the actual operational practice of a number of specialised consultants. The underlying approach deliberately avoids a "one size fits all" philosophy and concentrates instead on reflecting the full gamut of actual experience. It is thus intended more as a source of ideas. The project also featured several events dedicated to the subject matter. After the project had officially ended, the domain name [www.kontinuum-online.de](http://www.kontinuum-online.de) was taken over by TMS AG, which then launched "*KONTINUUM+Forum für Berater*" (KONTINUUM + Forum for consultants).

### **Findings from this project:**

- Business successions often fail because emotional problems have not been solved.
- Specialists are available for the "hard" factors. Consultants often know little about the subject of solving emotional conflicts.
- It is not always necessary to offer ready-made solutions. It is precisely the more creative solutions that attract the attention of (often non-institutionally tied) consultants and provide an impetus for new approaches.
- Attractive information packages which come *free of charge* are also used by groups which are not being targeted: it is often the case that entrepreneurs also order the reference work because they evidently have not found any other sources of information, despite the fact that such sources are very easily accessible in all media.

## **IV Cross-media approach for addressing various target groups**

The CHANGE initiative is a joint effort by the ZDH (German Confederation of Small Businesses and Skilled Crafts), the DIHT (Association of German Chambers of Commerce and Industry) and the *Deutsche Ausgleichsbank*. Operating in conjunction with the Federal Economics Ministry's NEXXT initiative, it is the leading nationwide scheme for awareness mobilisation and

implementation support in the business-succession context. In addition to an extensive starter-pack brochure, Internet succession checks and an interactive CD-ROM for producing corporate profiles for business sale purposes, CHANGE also handles Germany's biggest succession exchange, featuring 7 500 enterprises. NEXXT brings the relevant institutions together in a regional forum, and provides the requisite networking capability.

Apart from the succession exchange, the Internet sites [www.change-online.de](http://www.change-online.de) and [www.nexxt.org](http://www.nexxt.org) set out a calendar of events and provide specialist information on the subject. This information package guides transferor and transferee alike step-by-step through the individual phases of succession, as well as providing useful hints and references to further information. To make the site more attractive for visitors, the items of specialist information are integrated into a photo story showing typical scenes from a sample business transfer. It is planned to expand the information content further in 2002 and 2003 by adding practice-oriented checklists and computing tools.

Consultants have separate access to the CHANGE Internet portal, enabling them to place interested parties in the exchange. The initiative's monthly e-mail newsletter is also directed mainly at consultants.

### **Findings from this project:**

- There is still a great demand for information on the subject. This can be met by providing high-quality media support: the newsletter attracted more than 2 500 new subscriptions after just a few weeks; the number of visits to the Internet sites soared from an average of around 2 000 to approximately 13 000 per month.
- Succession exchanges are an important instrument, particularly where transfers of small and micro-enterprises are concerned.
- A uniform technological basis (networking, Internet) is indispensable.
- Additional information (business profile, successor profile) can enhance the quality of exchange content with standardised data input.
- A combination of concrete application and support (inclusion of the business in the exchange) with useful additional packages (tools, specialist information, consultant search, calendar of events) is considered to be particularly attractive.
- An active, advertisement-based matching process handled by consultants often bears fruit.
- This calls for the setting up and expansion of high-quality support structures and the involvement of private consultants in the support process.
- The integration, where possible, of all relevant local institutions (chambers, banks, savings banks, private operators, tax consultants, etc.) is also important.

## **V. Conclusion**

Ladies and Gentlemen,

Permit me, finally, to summarise what I consider to be the key factors addressed in this paper.

Arranging a business succession is a complex and time-consuming process that calls for a systematic and holistic approach. Only very few entrepreneurs are able to handle such matters on their own. Larger enterprises in the SME sector call on the expert services offered by companies such as ours.

What is needed, for the benefit of smaller enterprises in particular, is a vigorous campaign conducted across a broad front with the involvement of all relevant institutions. Our most positive experience has been gained with centrally controlled projects which are implemented in a decentralised manner.

I feel that two factors should be singled out for special mention. The first is that the emotional side of the process should not be neglected. Only if consultants recognise that a succession arrangement is not a mere mathematical calculation, but rather the end of a particular period in someone's life, can the significance of this process be appreciated.

Secondly, none of those involved should be fooled by the sheer number of potential interested parties: as a rule, only very few of them are actually suitable for a particular business. A broad-based and active matching process, plus support in implementing the transfer, will thus be key factors in ensuring that a high proportion of those 380 000 businesses in Germany can be successfully passed on to the next generation of entrepreneurs.



## Niels Jorgen Sorensen

Randers Erhervs- & Udviklingsrad, Denmark

### Goodwill - A Project of Preparing SMEs towards the Transfer of Business through Regional Fieldwork

In Denmark more than 100.000 companies will have new owners within the next 10 years. This is due to generational change - more than 75% of the owners are more than 50 years of age.

Many SMEs were started in Denmark through the sixties and seventies - thus transfer of business is a highly relevant subject for the owners.

If this change situation is not handled properly, it might well develop closing of companies and unemployment in certain areas of Denmark. We felt it would in Kronjylland, the area where this project was carried out.

Kronjylland is an area in the middle of Jutland with 120.000 inhabitants and approx. 3000 SMEs. The capital is Randers with 60.000 inhabitants.

Many of the SMEs in the area are engaged in fabricating iron and steel products. Many are sub suppliers to large production factories in the area, which produce combines, trains, windmills etc.

Thus the partners in Kronjylland got together and formed the project "Goodwill".

They were:

The Business Development Board, the business schools, private companies as bankers, lawyers, brokers as well as TIC and the County's business dept. The Danish Governments ministry of Business and Commerce supported the project.

A two-year project was started in 1999 running through 2001.

Important was

- To focus on the local area involving local partners. The local knowledge is very important in Denmark. From the beginning it was important to make the project known to potential participants by making seminars and PR in local papers
- Essential and more important was to find the potential companies by writing them and visiting them. Essential is also, that the first discussions with company owners were carried out by general advisers with a broad experience - not by specialists in taxation, law etc.
- After first round the owners are offered primarily two activities:
- One is having a general sparring partner (a mentor), who can assist the owner up to 50 hours - the idea is to help forming strategy and actual plans for development of the company - also to make it sales worth.



- Another activity is offering "junior", who should take over the business, a two-year learning program. This was in a group of approx. 10 "juniors" in same situation. They went into an "owner-learning-process" where they worked with marketing, economy, human resources etc. - most important however was foundation of valuable networks with other "juniors" in a similar situation.

The results of this two years project and the concept for similar projects elsewhere in Denmark we formed as follows:

### **1. Contact to the companies**

The SMEs are not themselves aware of coming problems - anyway they are not aware of the necessary long planning period before a successful transfer of business. Therefore they must be contacted

- We offered our service to 170 ownership owned companies (2-50 employees)
- Of these 140 were interested, and we visited them
- Of these 50% were interested in receiving advice as to planning the transfer of business.

### **2. Your message must be good!**

To interest the people when writing the first time the message must be good - and different from the normal pile of mail.

Afterwards it has to be followed up on the telephone.

Our headline was:

Where is your business in 10 years?

This apparently started some thoughts, which made it easier with the following contact.

It is necessary to contact the companies this way. Owners are busy people; they do not see advertisements in papers or TV spots.

### **3. Know your companies**

The local known and respected business advisers must make the contacts. The adviser must be neutral - and not from some distant city.

In Kronjylland the business and development council had a good reputation locally, and in our files we had the necessary amount of SMEs and details of these.

### **4. Listen and make confidence**

A listening behavior itself creates confidence.

Otherwise you do not get close to these people.

### **5. Speak the owners language**

- Not a University language. Often this will not be understood - or misunderstood.

Owners of small companies are often self-educated and speak a craftsman's language.

### **6. Make a free or very cheap offer**

This concerns the following help by sparring partners and consultants.

Owners must be able to get out of agreements with short notice.  
In Denmark SMEs are skeptical against expensive private advisers. Quite a lot have bad experiences as to incorrect or bad advices.

**7. Follow up on agreements**

Any planning that is agreed to and which shall be made, must be followed up regularly. The sparring partner should visit the company with regular intervals, for instance once a month.

The owner is very much involved in the daily business - thus this external input is very important.

**8. Be patient**

- Let the owner take the necessary time for decisions.

In our case some owners had to think of our offer for more than one year before they accepted and wanted assistance.

**9. First generalists**

- Later on specialists.

It is important that the generalists known to the owner take the first steps.

The gaining of confidence is essential and general discussions of production, human resources, sales and marketing were carried out at the first meeting.

Specialists like accountants and lawyers were not contacted at this stage - this could occur later on.

This would often happen in the process where owner and sparring partner were well acquainted and more detailed working with the problems.

**10. Good planning**

Successful transfer of business is a question of good planning - and making strategic planning

sparring partner and the company in question together.

Even if it is a question of transfer of business, the subjects will be production, organization, sales, marketing etc. Only when these subjects are carefully dealt with, when a strategic plan is made, the company is ready to transfer.

Only at this point the buyer or "junior" to take over can estimate the future value of the company.

**11. Remember the new generation!**

Junior who shall take over has to be involved in the process. Junior has no relevant network. This is important. We started education and networking with of a group of juniors. They were all in the same situation. They learned of IT, economics, production planning, sales and marketing - but most important, they built up a network with juniors in the same situation.

This is extremely important - a good business transfer has NOT taken place before the new owner has the company well running.

Like we stated in point 1. it is essential to be active in contacts to the SMEs. As this project ran out of money in 2001 we are now only in a defensive

situation, where we handle the companies that contact us. This is an entirely different situation. We contacted ourselves approx. 80 companies per year, and 3-5 companies per year now contact us.

We have informed of our project in other areas of Denmark. We are pleased to see that the local business councils now use our experience in other places.

## **Marc Kikkert**

Vereniging Kamers van Koophandel, the Netherlands

### **Multichannel Approach of the Dutch Chambers**

#### **1. Introduction**

Large firms are big enough to absorb new challenges within their organisation. However, there are also around 650,000 small companies (SMEs) in the Netherlands employing fewer than 20 staff. These companies simply do not have the in-house expertise or manpower to provide answers to all their questions. Research on how these entrepreneurs look for answers to their queries shows that they tend to go first to friends, their fellow entrepreneurs and their accountants, closely followed by the Chamber of Commerce.

Operators of small and medium-sized enterprises (SMEs) are finding it increasingly complicated to run their business. They have to divide their attention to a growing number of aspects. Changes in social and tax legislation, progressive globalisation, the growing importance of information technology, increasing risk of liability and blurred distinctions between branch sectors are all examples of what entrepreneurs now have to contend with.

In a transparent market, SMEs would know how to find their way to all providers without much difficulty, and an organisation like the Chamber of Commerce would only have a limited (social) role to fulfil. In practice however, the market is far from transparent but small firms do know how to find their way to their local Chamber of Commerce. Once they have done this, the Chamber of Commerce ensures that the knowledge embodied in the market is made accessible and is opened up to entrepreneurs.

As a gateway to knowledge for Dutch businesses, the Chamber of Commerce is unique, since no other provider offers such a comprehensive, cohesive and independent package of services. There are of course other providers in each sub-sector, but in these sectors, the Chamber of Commerce only attempts to complement the services that the private sector offers. The Chamber of Commerce is therefore not in competition with the market, but facilitates access to it.

#### **2. Underlying general philosophy of the Dutch chambers – “Top-of-mind approach”**

First of all we would like to point out that the Chambers of Commerce have a long term 'top-of-mind' approach, with as end goal that entrepreneurs are fully aware that with any question they may have they can always consult their local Chamber of Commerce first. These questions may range from for instance start-up of a company up to business transfer.

When an entrepreneur is content with the information that he received and the assistance provided by the Chamber of Commerce in his start-up stage, he will most probably return to his chamber later on when he is confronted with new questions/ problems. For instance: when he seeks information or assistance regarding hiring his first employee, starting up a business abroad (import/ export), specific legislation or eventually selling his business.

Besides, he may tell a colleague-entrepreneur about his positive experience with the Chamber. Therefore the Chambers of Commerce try to approach all entrepreneurs in this overall approach rather than trying to locate and individually reach the entrepreneurs at exact the right time for selling their businesses (which seems/is impossible).

### **3. Description of the specific actions with regards to business transfer**

The chamber has identified 4 stages in the process and follows the following approach regarding business transfer:

#### ***Stage 1. Identification***

#### ***Stage 2. Awareness-raising***

#### ***Stage 3. Fact-finding/orientation***

#### ***Stage 4. Suggesting solutions***

#### ***Stage 1. Identification***

- **Market surveys**

The Chambers of Commerce are aware of the various market surveys that are carried out concerning the topic of business transfer. In 2001 they conducted their own market survey on the number of anticipated company transfers in the Netherlands. Over the next five years, 90,000 of the country's 650,000 companies employing fewer than 20 staff will be transferred or wound up. The study also revealed that entrepreneurs are not clear to whom they should go to for advice, arbitration or support during the transfer of their companies.

- **Keeping track of changes and consequences of law & legislation**

The Chamber of Commerce also keeps entrepreneurs abreast of amendments to laws and regulations, and applies these changes to the entrepreneur's situation. If the government revises statutory rules, reduces administrative and tax burdens, simplifies procedures or reduces inheritance tax, then this needs to be communicated to the entrepreneur in language that he can understand, so that he knows exactly how these changes will affect him.

## ***Stage 2. Raising awareness***

### ***Target group***

The public we aim to reach are in fact all entrepreneurs as business transfer may occur in various stages of a companies' life cycle:

- when an entrepreneur starts a business, it may be by buying an existing business (management buy in or management buy out);
- to achieve growth by buying a business
- sellers of businesses

### ***Channels used for raising awareness***

Entrepreneurs are made aware of the need for provisional and careful preparation of the transfer of their company through several channels:

- Chamber newspaper ('De Kamerkrant') – readership 400.000 per month
- promotional campaign in national media
- (educational) television
- Chamber website ([www.kvk.nl](http://www.kvk.nl)) - over 120.000 unique visitors per month
- by providing the information officers with tools (databases) and skills (training and education) to order to be able to inform and properly assist the entrepreneur
- by offering seminars, manuals, brochures, downloads (the suggesting solution stage).

Via all channels the same message is repeated to the entrepreneur:

“Eerst even langs je Kamer van Koophandel”

[Start by visiting your local Chamber of Commerce].

## ***Stage 3. Fact-finding/Orientation***

After the entrepreneur is made aware of the necessity to gain additional information and need of careful preparation of the transfer, the Chamber provides assistance on the website and the regional network of Chambers:

### ***Via the website***

The entrepreneur can orientate himself on the Chamber website, which contains information on a wide variety of business topics. Besides, via the website he can make an appointment to discuss his queries, register for a seminar, order a book or download brochures.

### ***At the chamber itself***

The entrepreneur can also start by visiting his nearest Chamber of Commerce to gather initial fact-finding information. During this orientation phase, the Chambers offer information discussions, seminars and manuals, all of which are designed to point the entrepreneur in the right direction.

## **Stage 4. Suggesting solutions**

### ***“First line advisory service”***

The Chambers of Commerce draw the entrepreneurs' attention during the fact-finding and preparatory phases to the need for professional guidance. The Chambers do not offer this service themselves, but point their clients in the right direction. The Chamber of Commerce provides immediate and straightforward access to the combined expertise of bankers, tax analysts, accountants and consultants. This makes the Chambers of Commerce a form of 'General Practitioner' for entrepreneurs providing a first-line advisory service to SMEs.

On a national level there are several agreements with the enterprises which we assist and whom operate and are represented in every region. From these enterprises we receive feedback on a regular basis. In the near future we think it is possible to make a service level agreement as a part of the total agreement.

- Currently the chambers approach several entrepreneurs to ask whether they were content with the service provided by the enterprises that we assist.
- On a regional level there is a warm personal network of contacts with the regional bankers, accountants en consultants.

### ***“Ondernemingsbeurs”***

In order to make the market for company transfers more transparent, the chambers host the Ondernemingsbeurs [Business Fair] ([www.ondernemingsbeurs.nl](http://www.ondernemingsbeurs.nl)), a database for buyers and sellers of businesses in the Netherlands. All the bankers, accountants and consultants working in the area of company transfers, can consult this database.

## **4. The network of Dutch Chambers of Commerce**

### ***The Chamber of Commerce: always close at hand***

There are 21 Chambers of Commerce in the Netherlands, with 56 offices. This provides a highly regionalized network of Chambers, close to the entrepreneur. Each Chamber of Commerce knows what is happening in the region, and the entrepreneur can get to his Chamber of Commerce easily and quickly.

### ***Strengths of having a regional organisation***

Most information products are designed on a national level as most issues are the same in every region. The support products are also provided in every region. In addition to this there are several regional products which cater to for specific regional issues:

- The national website ([www.kvk.nl](http://www.kvk.nl)) also contains pages with regional content.
- The Kamerkrant contains both national and regional news. National news can be regionalized by for instance adding an interview with a regional entrepreneur.

- The seminars contain the same issues (developed on a national level), but are organised with regional partners.

### ***Facilitating national organisation VVK***

The VVK (association of the chambers of commerce) is the facilitating body for the chambers and has a coordinating role in the multi-channel approach. The VVK roles are:

- providing regional chambers with marketing/ communication-toolkits;
- providing regional chambers with articles for their regional chamber newspaper (De Kamerkrant);
- developing informative products (seminars, books, manuals, brochures);
- developing and maintaining product databases;
- developing, hosting and maintaining the website;
- developing and offering education and training to information officers

### ***VVK's role in providing adequate training***

The VVK has developed over 60 different custom made trainings for the 500 information officers of the chamber. These are all concerning specific knowledge and skills for chamber employees. Almost daily the VVK trains groups of chamber employees. For general knowledge and skills the chamber employees make use of general (commercial) providers of education/ training etc.

The training programme is adjusted at the moment that the products and services provided by the chambers of commerce change. Besides, the chambers themselves signal the need for additional / amendments to the training programme following their individual assessments of employees. The project manager for Business Transfer works closely together with the educational manager of the VVK to cater for these needs.

## **5. What makes this approach a 'good practice' ?**

As pointed out in the beginning, we believe that the good practice stems from our top-of mind philosophy and long term approach:

- there should be an organisation where entrepreneurs can start their search for all information concerning their business.
- the organisation is working together/ is coordinated on a national level, but has a regional network consisting of many service points (located near to the entrepreneur)
- the organisation develops products and services on a national level, but every region adds his regional flavour to it.
- the organisation operates as generalist and refers to specialist organisations.
- the organisation combines a set of communication channels at different stages and for different goals all aimed at reaching the entrepreneur.



## **6. Some results that underline the success of the approach**

The tangible results that we can present are measurable figures underlining the fact that year after year more and more find their way to the chamber of commerce in order to get information or help:

- Increasing number of visitors on kvk.nl (currently over 120.000 / month)
- Increasing number of readers of the Kamerkrant (currently over 400.000 / month)
- Increasing number of visitors at regional chambers
- Increasing number of seminar visitors (currently over 35.000 / year)
- Increasing number of products sold (manuals, publications, downloads on internet)

In comparison to several years ago market research shows that a growing number of entrepreneurs are content with the services and products provided by the chambers of commerce.

## **6. Conclusions and recommendations**

An integrated approach is needed to make entrepreneurs aware, give them the right pointers during the fact-finding phase and enable them to take the right steps in conjunction with banks, accountants and consultants. It is also important for entrepreneurs to be aware of changes in laws and regulations that might be relevant to them.

It is good that entrepreneurs can go to a single independent organisation which provides them with first-line information, gives them data about (market) players and puts them in touch with these providers.

### **Organisational consequences**

- staff must be able to offer a combined package of products and services;
- staff must be supported with a products and services database;
- products and services must be developed and managed by national product teams;
- staff must be trained (knowledge and information skills);
- the Chambers must maintain both national and regional contacts with various market players, in order to guide entrepreneurs to various banks, accountants and consultants. It is up to the entrepreneur himself to decide which providers to use.

# David Gourarie

Club des Cédants et Repreneurs d'affaires (CRA), France

Transfer of Businesses: Actions and Achievements since 1985 by an Association of Voluntary Directors

## Summary of Awareness-Raising Activities

### 1. General Context

- **The “Market” for Business Transfers**

Structure of establishments in France according to size (Annex 1)

- The main area for take-overs by individuals is businesses with under 49 employees – after that it is mostly banks that are concerned.
- Of the 460 000 establishments with under 49 employees, around:
  - half of the directors are over 55 years of age
  - a quarter acknowledge that they do not have a transfer solution.

- **The Players**

- A dispersed, unorganised, poorly known market, with no code of ethics and a large number of players.
- Where are the businesses for transfer (Annex 2 )?

### 2. National Association - CRA - Presentation

#### **National Association for the transfer of businesses**

- NON-PROFIT ASSOCIATION
- SET UP IN 1985
- NOW RUN BY ABOUT ONE HUNDRED VOLUNTARY DIRECTORS
- PURPOSE  
To promote meetings between directors selling their businesses and potential buyers, with the aim of protecting and developing employment.
- THREE CATEGORIES OF MEMBER  
Transferors (vendors) - transferees (buyers) - experts
- 33 REGIONAL DELEGATIONS IN FRANCE (NATIONAL NETWORK)

- NETWORKS OF CLOSE FORMAL AND INFORMAL RELATIONS
- FEATURES
  - Total confidentiality (operates by code)
  - Membership preceded by a personal interview by appointment
  - Only an annual subscription is necessary
  - Neither a commission nor fees for business carried out.
- SERVICES FOR MEMBERS
  - Monthly Bulletin of new transfer offers each month
  - Internal discussion partners available (role of mentor) and personalised introductions.
  - Assistance for transferors for compiling dossiers
  - Website (access in real time to the offer file)
  - Monthly meetings of members
  - Organisation and leadership of small working groups of transferees for the joint study of transfer offers files.
  - Training courses on taking over businesses ("tool box" for four successive weeks).
- PHILOSOPHY
 

"ALL DIRECTORS ARE FUTURE BUSINESS TRANSFERORS"

a) We believe it essential to promote the idea that every director must, one day, deal with his or her succession and that this is a natural, unavoidable situation. And the sooner this is done, the better.

This is a management act whose purpose is not to "save the business" but above all to develop it and make it more secure.

It is not a question of age, but "young people" must also be made aware and helped to prepare for the two key issues, which are: PURCHASE AND TRANSFER.

b) We believe in regional development for France and for Europe to promote the transfer of businesses.

A region which does not help its businesses or the economic players in its region is bound to decline (drop in activity and loss of regional decision-making centres).

### 3. **General Awareness-Raising Measures**

- ROLE OF OUR REGIONAL DELEGATIONS (Annex 3 )

The delegates, all of whom are former business directors in their region, use their networks of relations and participate in a large number of meetings and reunions and in the general regional economic life.

- NATIONAL NETWORKS OF CRA RELATIONS

Close, personal relations exist, for instance with:

- institutional bodies (Chamber of Commerce, Employers' Union (MEDEF), regional authorities, etc.)
- old students' associations from the "Grandes Ecoles" (Technical and management), etc.

- NATIONAL AND REGIONAL PRESS

Our communication manager, helped by regional delegations, is in close contact with the media (examples of articles – Annex 4).

- CONFERENCES AND TRADE FAIRS

The association responds to all "Presentation – Awareness-raising" requests, makes presentations at fairs (example– Annex 5 – Entrepreneurs' Fair) and offers conferences on "taking over and transferring businesses" to various conference organisers.

#### **4. Awareness-Raising Measures for Vendors**

One of the communication difficulties arises from the fact that there is no "vendor" file.

Alongside national and regional press articles, which act as a general call for business transfers, three types of measure are carried out using files accessed through cooperation, since it is too expensive for an organisation such as ours to purchase lists of businesses.

- APPEAL THROUGH SUBJECTS OF INTEREST

In conjunction with a regional body which has the relevant local addresses, we organise sessions (or meetings) by invitation on programmes of interest, such as: How to effectively organise the management of business inheritance and personal inheritance.

This is done with a professional speaker and a regional or national personality to attract those invited.

- DUAL OBJECTIVE:

Get to know the people concerned so that there can be a follow-up (the next meeting will be easier). Provide tangible information, such as "this is what I did..." personal experiences go down better than theory.

- TARGETTED APPEAL "TRANSFER – PURCHASE- SALE"

till in cooperation, programmes, often combined, are carried out regionally:

- MAIL SHOTS  
"Worried about transferring your business...."
  - TELEPHONE  
The aim is to arrange a meeting, but it is difficult to get hold of the director.
  - MEETINGS BY TOPIC  
Directly linked to the transfer (more recent).
- PROJECT TO SET UP A TRAINING PROGRAMME FOR TRANSFERORS:

As mentalities change, so people become aware of the need to understand and know how to minimise the fiscal impact of a transfer and to facilitate the transfer of inheritance so as to ensure the continuation of the business.

## 5. Awareness-Raising Measures for potential Buyers

According to the statistical data available, France is not creating enough potential "buyers" to ensure the continuation of existing economic activity (small and medium-sized enterprises).

At a general level we are trying to inform and remind those who in theory may be interested of the possibility of taking over a business and the benefits of doing so. We therefore advertise in association bulletins (grandes écoles, through notices, explanatory documents, etc.) (see Annex 5) and in documents for job seekers, etc.

Alongside these small-scale, regular measures, we have also developed two permanent approaches:

- PRESENTATION/AWARENESS- RAISING MEASURES ABOUT TAKING OVER A BUSINESS (see Annex 6 )

These three-hour programmes are disseminated widely and are in constant demand (example - Annex 7). Sessions take place both in Paris (about thirty) and in the provinces, and involve groups of 15 to 50 participants.

The aim is to raise interest in buying a business and in studying approaches and aims.

- TRAINING COURSES ON TAKING OVER A BUSINESS

These courses began in October 1994 and the 26th programme is currently in progress. They have involved almost 450 executives (Annex 8) and information about them is increasingly passed on by word of mouth.

The programme comprises 28 successive teaching modules spread out over four weeks and provides participants with a "toolbox" for approaching and managing the procedures for taking over a business successfully.

## **6. To Conclude**

- The hundreds of transferors with whom the CRA has held discussions, the hundreds of potential transferees interviewed and the dozens of experts with whom the CRA has studied situations have made it possible to crystallise the needs of these various groups and build up a pool of experience which has hitherto remained unused.
- In France business transfer has not yet aroused the same interest as business creation among the public authorities.
- Similarly, the lack of organisation of this market does nothing to encourage the mobilisation of the necessary partners.
- Our rules of play should be harmonised at European level. At present they are too disparate between the different Member States and they greatly hinder cooperation between small and medium-sized enterprises in Europe, including matters relating to transfers.
- We also believe that, since the young are dynamic, it would be appropriate to help them prepare professionally for the transfer/acquisition of businesses.
- Finally, we hope that the experiences described at this congress will influence the public authorities so that they adapt our legislation to the needs of SME transfers in order to preserve and develop employment in our country.



## Toni Brunello

StudioCentroVeneto Vicenza, Italy

### The Kit.brunello-based Laboratorium

- (1) - The Kit.brunello-based Laboratorium is a **co-ordinate tool** to help governance of the Transfer of Business by single SMEs and by local organisations (*Institutions*).  
Since it is not a rigid practice, but a continuously evolving tool, it was experienced with some variations, in several situations.  
So we have chosen as **red thread** of this presentation an experience which may be defined as a "total version": the **Progetto Germogli (meaning Blossoms)** which was run by Unioncamere, in Tuscany.  
But since we think interesting to inform you about some similar concrete experiences, we shall also give a final table with some data about *the variations on the Laboratorium theme*.
- (2) - Business Transfer is actually a **hard problem both for single entrepreneurs and for** what here we call **Institutions** (private and public administrations).  
So it can be defined as a *double-faced* problem.
- (3) - Single entrepreneurs need to prepare their business continuity on time.
- (4) - Local *Institutions* should act **to avoid the waste of entrepreneurial energy and employment**.
- (5) - Unfortunately... neither single entrepreneurs nor Institutions seem to be aware about such hard, **heavy and urgent challenge**.
- (6) - A first answer to the challenge, both from a single company side and from an institutional side can be **fronting it by a focused project**, as it is proposed by the good practice we are presenting here: the **kit.brunello-based Laboratorium**.  
Its base - the **Kit.brunello** ([www.kit.brunello.net](http://www.kit.brunello.net)) - is a good practice too.
- (7) - To be clearer, we must spend some words on the **Kit.brunello, an interactive tool**, since 2000 hosted in five languages on the EU web site:  
([http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/transfer\\_business/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/index.htm)).  
**It consists of about 100 questions, focused on the processes of Business Transfer.**  
It aims
  - **to draw a personalised picture of the specific problems affecting a single business**, which is going to be transferred.If more businesses are analysed at the same time by the same tool (*Kit.brunello*) and are then correctly summarised in a general (impersonal) picture, it is also possible
  - **to get an idea of the whole situation of a group of businesses.**



Such general results may be useful (by respecting privacy rules) as a base for communication and promotion in a region.

Such action has proved to be a very useful way to increase interest on the problems of Transfer of Businesses in a local situation.

**Kit.brunello** has become the base for many interventions, of different design, specially in Italy.

- (8) - The *Kit.brunello* interviews actually allow entrepreneurs to understand the strong and weak points of their single businesses, with **the specific aim of governing ON TIME the processes of Business Transfer.**

- **How is the Kit structured? By four very personalised steps:**

- Personal Portrait (*Identikit*)
- General Situation for the Transfer
- Transfer Planning
- Transition Monitoring.

- (9) - The proposed questions are focused to help the entrepreneurs (or who it may concern) **in finding the critical issues to assure the governance of Transfer** both under a **strategic** and a **tactical** point of view.

The *Tree of Questions* concerns the following areas:

- Continuity of External & Internal Leadership
- Legal, juridical, fiscal aspects
- Financial, patrimony, insurance aspects
- Organisational aspects
- Family and company emotional aspects

**The questions are general enough, not to be only good for the Law of a specific country.**

- (10) - Furthermore, as companies can get **a personalised picture of their single businesses**, on the other side, *Institutions* can get **a general picture of the local situation**, with reference to the companies that are involved in the specific, local **Lab project**.

- (11) - ***Kit.brunello* is the link between private and institutional needs.**

- (12) - General results may be useful (by respecting privacy rules) **as a base for communication, awareness raising and promotion in a region.**

Such action has proved to be a very useful way to increase interest on the problems of Transfer of Businesses in a local situation.

- (13) - Let's finally come to **the *Kit.brunello-based Laboratorium***, which is structured as follows.

- It can be promoted and/or leaded by different social *Actors* (public administrations,
- chambers of commerce, business associations, others)
- it is a middle-term lasting practice (4-12 months)
- it harmonically includes many steps like the following:
  - **basic awareness raising and dissemination**
  - **searching, communicating and sensitising** about Business Transfer
  - **training, counselling, consulting** the single companies and/or the *Institutions*.

- (14) - The *Kit.brunello-based Laboratorium* has been first projected and experienced in Italy by the *StudioCentroVeneto Atelier on Business Transfer* with some leading Chambers of Commerce in co-operation with some SMEs Associations.

As we already said, the project we are presenting here, called **Germogli (Blossoms)**, was run in Tuscany by Unioncamere, the Italian organisation of Chambers of Commerce.

- (15) - **The steps of the Lab. Project**, also practised in **Germogli**, are the following:

(16)

- |                                 |                                               |
|---------------------------------|-----------------------------------------------|
| 1. A Survey                     | on SMEs local situation                       |
| 2. A public Presentation        | of the survey results                         |
| 3. A short Seminar              | to sensitise potential Actors                 |
| 4. Training meetings            | for SMEs entrepreneurs                        |
| 5. Personalised Counselling     | for participants                              |
| 6. A Kit assisted Self-Analysis | by single SMEs                                |
| 7. A Statistical Picture        | of the whole group situation                  |
| 8. The awareness Dissemination  | seminar, press conference, information        |
| 9. The Observatory              | feeding a permanent promotion and a web site. |

- (17) - **The Lab project strong points** are the following:

- |                              |                                                      |
|------------------------------|------------------------------------------------------|
| 1. Survey:                   | - you can start a systematic local analysis          |
| 2. Public presentation:      | - you can involve public and intermediaries          |
| 3. Sensitisation seminar:    | - you can contact your potential participants        |
| 4. Training meetings:        | - you actually train a start-group (20 SMEs)         |
| 5. Personalised Counselling: | - you start assisting some <i>critical</i> companies |

- (18) - 6. Self-analysis through *Kit.brunello*

- |                         |                                                                                             |
|-------------------------|---------------------------------------------------------------------------------------------|
| 7. Statistical picture: | - single companies <i>critical</i> issues are focused                                       |
| 8. Dissemination:       | - the whole group needs are shown in depth: it's a basic help to plan focused interventions |
| 9. Observatory:         | - press conferences, seminars, info can sow awareness                                       |
|                         | - a database can be launched, and a web site can be implemented.                            |

(10. Some focused e-learning assistance can be provided).

**The last points are linked to the first steps and close the circle.**

(\*) In 1997 EU DG23 decided to give a subvention to the " Relais Project ", presented by *Atelier StudioCentroVeneto* on Transfer of businesses. The project, run in 1998, consisted of six two-day seminars in six European countries (France, Spain, Belgium, United Kingdom, Austria, Italy) in order to discuss about Business Transfer (1<sup>st</sup> day) and to analyse and improve the *Kit.brunello* (a tool, a 1996 instrument based on a self-analysis questionnaire of about 100 questions, very focused on the specific problems of Transfer), discussing with some specialised colleagues living in the participant's countries (2<sup>nd</sup> day). Participation was important: about 500 operators from different experiences during the six first days; about 90 specialised experts in the second days. *Kit.brunello* was translated into five languages and put on the internet and on the official site of EU. A more recent version (called "R'impresa") has been elaborated, but now *Atelier StudioCentro Veneto* is going to prepare both a more "modern" version for internet, and a portal on Business Transfer, including *e-learning*.

(19) - Here is a table with some data about the various experiences where the *Kit.brunello-based Laboratorio* has been run, with some general and indirect indicators for a first evaluation.

<b>Promoter</b>	<b>Industry (Ancona)</b>	<b>API (SMEs) (Vicenza)</b>	<b>Artigiani (Belluno)</b>	<b>Artigiani (Treviso)</b>	<b>Province (Trento) (with SCF)</b>	<b>Artigiani (Venezia)</b>	<b>Artigiani Uniocamere (Verona)</b>	<b>Tuscany Germogli 2000-01 (*)</b>
<b>DATE</b>	<b>1995-96</b>	<b>1997-98</b>	<b>1997-98</b>	<b>2000-01</b>	<b>1998-01</b>	<b>2001-02</b>	<b>2002</b>	
<b>1. Survey</b>	X (50)	(later) (1.050)	no	no	X (50)	X (1.800)	no	X (112)
<b>2. Public Presentation</b>	X (90)	no	no	no	no	X (30)	no	X (10)
<b>3. Short Seminar</b>	X (30)	X (30)	X (60)	X (50)	X (30)	X (20)	X (50)	X (30)
<b>4. Training Meetings</b>	X (20)	X (20)	no	X (20)	X (20)	Y (15)	X (13)	X (15)
<b>5. Personalised Counselling</b>	(X: later) (2)	(X: later) (2)	no	no	X (20)	Y (?)	Y (?)	X (15)
<b>6. Assisted Self-Analysis</b>	(X: later) (10)	no	no	X (15)	X (17)	Y (?)	Y (?)	X (15)
<b>7. Statistical Picture</b>	X (50)	X (20)	X (16)	no	X (32)	Y (?)	Y (?)	X (15)
<b>8. Awareness Dissemination</b>	X (50)	X (60)	X (70)	X (25)	X (200)	Y (?)	Y (?)	X (80)
<b>9. Observatory</b>	X (15)	X (270)	no	no?	X (215)	Y (?)	Y (?)	X (?)
<b>Web site</b>	no (SCV)	no (SCV)	no (SCV)	no	no (CD)	(no?)	no	X (?)

**Legenda: X: already run Y: now in progress (X): later**

*(in brackets: n. of participants)*

(20) - To get more data about experiences already run:

[www.studiocentroveneto.com](http://www.studiocentroveneto.com)

[www.progettogermogli.it](http://www.progettogermogli.it)



**Workshop 3:**  
**Support Measures for the Transfer Process**



## Leif Melin

Jönköping International Business School, Sweden

### Introduction to the Workshop

I am very happy to have got the opportunity to chair an exciting workshop at this conference, **Support measures for the transfer process** (Workshop 3), and to work with the rapporteur for this workshop, Anna Maria Heidenreich.

My name is Leif Melin and I am a Professor of Strategy and Organization at Jönköping International Business School (at Jönköping University in southern Sweden), a fast growing and highly international business school with the vision to become the leading business school in Europe in the field of entrepreneurship and business renewal. Within this profile we focus on family businesses. Since 1996 I am the head of a Research and Development programme on family businesses and their strategic dynamics, with a group of ten researchers involved. In this programme an important issue is the *succession of ownership*. Maybe my expertise in this field is the reason why I have been invited to chair one of the workshops at this conference on the very relevant topic of business transfers. Anyhow, my interest and knowledge in strategic change and ownership issues in SMEs will be evident in this presentation, where I will comment on six issues regarding the transfer of small and medium-sized business firms:

- The choice of perspective: Depending on the perspective from which perspective we choose to regard transfers of SMEs, we may come to quite different conclusions regarding critical issues.
- The change of ownership: Business transfer means changed ownership that will lead to important consequences for the future of the transferred business firm.
- The new owners and their business logics: Different owners represent different logics in running a business with different consequences for the future development of the transferred business.
- The change of strategic leadership: Most business transfers also imply that a new leader takes over that will make an impact on the future development of the business firm.
- The transfer of family businesses: There are several aspects that are specific when the transfer takes place within an owner family.
- Support measures for the transfer process: Some conclusions from the above five issues regarding the theme of Workshop 3, Support measures for the transfer process.
- To conclude, I will introduce the speakers and topics of the six presentations that will take place in Workshop 3.



## Different perspectives on transfer of SMEs

When talking about transfer of businesses and, certainly, when shaping policies and developing support measures for business transfers, it is important to take a broad stakeholder perspective. Support organizations should be more clear about what stakeholder(s) they want to support in the transfer process.

If we take the perspective of *the owner(s) selling the business*, this may mean that we focus on the future financial wealth of the owner selling the business. But it may also imply that we focus on the general well-being of the former owner after she/he has transferred the business to new owners, meaning that selling a business also has a social and emotional dimension. It may be important for the selling owner to find a solution for the transfer of the business that implies that the employees and the local community can benefit from the business in the future as well.

The possible *buyer(s) of the transferred business* is an actor coming from a very diverse group of different potential new owners. So the perspective of the buyer is not homogeneous but may instead imply quite different things (as will be shown below).

The present *employees* of the business firm that is about to be transferred have a strong and legitimate interest in what type of ownership that will take over and the eventual consequences of the transfer.

The *local community* is an important stakeholder in all local business firms, and has an interest in upcoming business transfers, mainly from the local labour market point of view, hoping for maintained or increased employment in the transferred business.

Besides these four stakeholder perspectives, there are *other stakeholders* as well, such as non-owner managers in the transferred business, customers and suppliers of the transferred business firm, the banks, etc.

From this follows that there may be quite different answers to critical questions, depending on which perspective support agents take on a transfer process in their efforts to develop and deliver support measures.

## Transfer of a business firm: new ownership

Every transfer of a business firm means by definition that a new ownership takes over. Certainly it is important to give attention and support to the entrepreneurs that want to transfer their business firms. We need to increase their awareness and knowledge of the transfer process so that they can make more informed decisions about what type of transfer they want to do. We need to support them with support measures that will help them handle the different steps of the transfer process in an efficient way. But, at the same time, we should also

emphasize the other side of the transfer process, that is the acquiring side. We must be aware of the crucial role that the new ownership will have for the future of the transferred business firm. For example, if we want to develop criteria for successful business transfers, we should definitely include the eventual performance that the new ownership/management of the transferred business may show during the first 5 years following after the transfer. The strategic outcome of different transferred business may become quite different, from a very successful, growth-oriented development, to possible situations where the business (or different functions) are re-located, or, in the worst case, a final close-down of the business. Here I am not talking about these outcomes as a consequences of more or less unforeseen market forces for the transferred business, forces that always influence the future development of any business firm. Instead, the argument is that different strategic intentions, that new owners may have for the transferred business firm, will result in quite different paths of development.

The consequence of the ownership arguments is that **different, new owners represent different business logics**. Compare for example the following different types of possible new ownership after the transfer of a small business firm, and the different futures that these logics may lead to:

First we have the case with a new *owner-manager*, a new entrepreneur that takes over the transferred business. Here we can expect he entrepreneur to have a strong, personal drive to develop the business.

Then we have the situation with *maintained family ownership*, which means a business transfer that takes place within the family. Most often this means a transfer in the form of succession between generations (from parents to children, from siblings to the cousins in the next generation, etc.)

Another type of new owner after the transfer is the *partner ownership*, where a small group of new owners takes over. Such a situation is a management buy out, meaning that the remaining people in the management team of the business firm acquires the firm from the present owner-manager and continues to run the firm. Another solution is when a bigger number of employees take over the business and create a *co-operative*. Reasons for employees taking over may be that there is no other potential buyers or that the owner-manager wants to transfer the business in a way that secures the continuity of employment.

Furthermore, a possible type of new majority ownership is when *venture capitalists*, or investment firms, enter the business in a transfer situation. They transfer capital and know-how to the firm with the intention to have a financially rewarding exit not too far into the future through selling the business again. There is also the possibility that *another business firm*, e.g. a large corporation, is the counterparty in the business transfer of an SME. The motives for such an acquisition may be to get an increased market share, an increased manufacturing capacity, or some specific skills that the transferred firm

represents. Quite often this type of transfer implies that the new mother wants to integrate the acquired business into the existing organization, meaning that the power centre is moved to the headquarters of the acquiring company. If the new owner is a large corporation, then the logic of the plant economy may take over. The transferred business firm may get resources to grow significantly within the transferring company group. But the transferred firm may also become the victim of rationalization efforts, e.g. when concentration to fewer manufacturing plants takes place. It should be remembered that in large corporations that compete on the global market, the advantage of a specific localization place may be very temporary, where we have seen a lot of production that has been moved from western to eastern countries during the last decades.

Finally, we have the case where a full transfer is not taking place, i.e. where the present owner just sell part of the ownership to someone else. A very special case is when an *IPO* is initiated. The partly transferred business firm becomes a publicly listed company with a spread ownership. If the owner-manager stays in the position as managing director, the situation will change radically when the business becomes a public property.

However it is not possible to give an unequivocal definition of what good new ownership should mean, as the definition is dependent on the perspective of the transfer (see above), i.e. on what values that are guiding the transfer. The aim of a business transfer may be to maximize the capital that is made available for the former owner through the transfer process, or it may be to find a solution that is perceived to be good for the future of employees and the local community, just to mention two types of influential values that the choice of new owner in a business transfer may lead to.

### **Change of strategic leadership**

One of the very crucial consequences of most business transfers is the change of leadership. We know that a transfer of a business firm most often lead to a new managing director, and as the managing director is a leading strategist, such a change will certainly have strategic implications. Each business manager develops his/her own personal strategic way-of-thinking which influence the strategic actions that will take place. So given any specific type of new ownership that takes over in a business transfer, the choice of person to act as the new managing director will be of importance for the future development. As a new strategic leader may mean new strategies, I think this issue should be given more attention in business transfer processes. The transfer process is not only about finding the "right" new owner but also the "right" new strategic leader. My view is that neither this issue nor the "choice" of new owner are considered enough from support organizations trying to facilitate business transfers.

## **Transfers of family businesses**

We use to estimate that about 2/3 of all SMEs in Europe are governed as family businesses (based on the rather common family business definition that ownership is controlled by one family and the family is represented in the management of the business). This means that transfers of SMEs most often means transfers of family businesses, where a major alternative is to *transfer the business within the family*.

Today we have perhaps 100.000 European owner-managers in the age of 55+ that are considering their future. A very large amount of all transfers will take place in family businesses, and if these businesses are in the first generation of family ownership we know that about 1/3 will be transferred within the family. So a large number of all business transfers will be in the form of succession of generations in family businesses, a fact that must influence the development and supply of support measures from different agents supporting transfers of SMEs.

When the transfer takes place in a family business the most crucial question is if there are any family members motivated and prepared to take over the business. A transfer within the family was characterised by Mr Timonen (in his earlier presentation) as a non-market based solution loaded with a high degree of emotions and tensions within the family. Support measures for such a transfer process is quite different from the situation with a market-based solution where the owner-manager/family sells the business firm on the market to a new, external owner (even if the latter process may have emotional aspects as well).

The internal transfer process within the family includes many issues about how, when and to whom within the family to transfer the ownership. Even if tax issues still are important in this transfer situation in many countries, also the timing and the selection of successors should be more emphasized in the process. It is also important not to mix up the succession of ownership with the succession of management/leadership in family businesses that is transferred within the family. If an owner-manager look at his children to see if they meet his/her expectations as managers he/she may come to the conclusion that no one in the next generation is capable of running the business. If he/she instead regard the children as potential owners that will take responsibility for the ownership as active owners without necessarily taking the role as managers, then the conclusion may be another.

## **Support measures in the transfer process**

As this introduction hopefully have shown, the transfer process is quite complex with many stakeholders and many possible future consequences. Support measures is an important but difficult and ambiguous field of practice, with many hidden or still not noticed issues and with partly unpredictable consequences. We need a development of support agencies that focus on all different

stakeholders of the transfer process. We need support measures that can advice the owner-managers in transfer situations to make insightful decisions that they possibly will be satisfied with in the long run.

The good news here is that in Workshop 3, later today, we will have six very interesting cases presenting experiences from six different European countries. I can promise that these presentations will give new insights about possible support measures for facilitating the transfer process in SMEs.

We will start with Chris Martin and David Heppenstall (UK) and their joint experiences, in their roles as a consultant and an owner-manager, about *Knowledge-based mentoring support*.

Then Rob van Engelenburg (NL) will share his experiences with us from a national program on *Co-ordinated support on business transfers in the Netherlands*.

The next presenter, Luis Sánchez (ES), report about an educational support measure, an *Advanced programme for the consolidation of the family firm*. Pertti Korhonen (FIN) presents experiences from a regional development program, *Passing the baton - a support service for business transfers*.

Muriel Decout (F) will illustrate alternative types of new owners in business transfers in her report from a *Support scheme for the transfer of businesses in the form of cooperatives*.

Finally Peter Dalkiaer (DK) will present some promising experiences from [www.ticmarked.dk](http://www.ticmarked.dk) - *a market place for sellers and buyers of SMEs*.

You are all very welcome to Workshop 3!

## **David Heppenstall**

W H Darby Ltd, United Kingdom

## **Chris Martin**

Chris Martin & Associates, United Kingdom

### **Knowledge-Based mentoring Support for SME Owners in different Succession Situations**

#### **Research Basis**

A range of support approaches suited to different specific succession situations has been developed from action research undertaken in the UK West Midlands over the past four years. The research was sponsored by Birmingham City Council Economic Development Department, the Knowledge Management Centre of the University of Central England Business School and the DTI Small Business Service. It is the basis of a PhD thesis on ownership succession from an intellectual capital perspective submitted to the University of Central England by Mr Chris Martin (Chris). This paper focuses on the knowledge-based mentoring support provided between January and July 2001 by Chris for Mr David Heppenstall (David), the owner of a small insignia manufacturer company (the Company).

#### **Company and Ownership Background**

Our specific example of knowledge-based mentoring support is for David's small insignia manufacturing business on the edge of the jewellery quarter in Birmingham. The Company is jointly owned by his David and his wife, Sally, and was bought from Sally's father in the early 80's. It makes insignia including die-pressed medals, badges and hand-made regalia that frequently incorporate enamel finishes. It has a broad customer base and a small number of prestigious customers who periodically place large orders for specialist products. The Company has a workforce of 25 possessing the wide range of skills and aptitudes needed to manufacture its product range. Considerable co-ordination of activities is needed, both internally and with specialist sub-contractors. David and his wife, Sally, are both involved in the business, David as managing director and Sally taking responsibility for order processing and purchasing. A production manager undertakes much of the production planning and co-ordination, but David undertakes the other key functional activities, including sales.

## **Choice of Support Approach by Chris**

Succession support can involve a wide range of approaches including those provided by family business counsellors, occupational psychologists, financial advisers, business advisers and specialist succession consultants. Effective support starts with a diagnostic stage that identifies the succession situation. The overall framework for understanding succession in Attachment 1 has been developed for identifying different succession situations. An appropriate approach is then adopted which also reflects the way in which owners perceive their succession situations.

In our specific example, the diagnostic stage was undertaken informally with Chris establishing that David was not considering family or internal succession and needed to fund his retirement income. David could not see, however, how to exit without closing his business. As limited time and funding were available, Chris proposed a structured mentoring programme consisting of six two-hour face-to-face sessions spread over six months focusing on core competencies. The underlying core competence and intellectual capital analytical model was not explained to David who, as an entrepreneur, was interested in the practical application of the model and results, not theory.

### **Mentoring Project**

The purpose of each mentoring discussion was set out in advance and designed to lead progressively to insights into David's succession situation as follows:

**Meeting 1:** To introduce Chris to the Company's activities and expertise. To explain the nature of core competencies to David and provide background reading.

**Meeting 2:** To identify core competencies and assess their relative strength and importance

**Meeting 3:** To identify David's personal contribution to the companies core competencies and how each could be replaced

**Meeting 4:** To identify alternative exit routes

**Meeting 5:** To establish what needs to be done to make particular exit routes possible

**Meeting 6:** To develop an ownership succession action plan designed to underpin a number of preferred exit route possibilities

David was also provided with readings, case study material and pro formas, which complemented and supported the mentoring sessions.

In the event the sequence of the programme was adhered to, although more time was spent on the initial sessions to establish the core competencies and

Meetings 4 and 5 were combined. At the end of the project, David was able to carry his planning forward without needing further assistance.

## **David's Experience of the Mentoring Project**

### **Before the Process**

Before I was introduced to the project I had no plan for succession, and only a few vague thoughts. They were:

- The business was not saleable because:
  - it depended on me and I was indispensable.
  - it was in a niche market, and therefore it would not be of interest to outsiders.
- One of my children might take it over.

As I needed to generate money to fund my eventual retirement, I recognised that I needed outside help. But, who to ask? My Financial Advisor had no knowledge of the issues, apart from suggesting selling to a competitor. I followed this up, but made no progress because I told prospects that the business depended totally on me.

I then met Chris while he was involved in his research project, and I persuaded him to include me.

### **David's Perception of the Process**

Chris has outlined the process from his perspective in the previous section, but the impact on me was quite specific. The main building block was the idea of 'Core Competencies' of the Company. To understand and identify these required me to think about the Company in a different way, and whilst it was difficult to do, the rewards were well worth the effort.

Once I had understood the Company's Core Competencies, I was able to make the next step of identifying viable options and even ranking them in order of preference.

This then gave me the information to begin to plan, and to keep in mind the other options available, so the plan did not depend solely on a single strategy.

At the end of the process I thought that all that was required was for me to finalise the plan and implement it. However, as time has passed, I have realised that the end of the project did not bring an end to planning and achieving a successful transfer of the business may still take a number of years to accomplish. What has happened is that I have continued to develop the plan, change it according to circumstances and be flexible in my thinking. I now have



more options available than I could have imagined two years ago, and the process of moving towards a successful transfer is now self-sustaining. We have had three offers for the business from prospective purchasers but at levels reflecting poor world-wide economic conditions and so have decided to wait until things improve. Before this project we would not have had the courage to wait.

### **Significant Turning Points**

Understanding the Company's Core Competencies enabled several significant turning points to be achieved. The three most important were:

- The understanding that I was not essential to the future of the business.
- That there was a huge amount of knowledge in the company both in the form of systems and in the form of knowledge held by the workforce.
- That the workforce was not a financial liability, but was where most of the value of the Company resided.

### **Benefits Obtained**

The main benefit of the process was that it made me appreciate the value of the Company. This has served to protect the workforce, because if I had sold to a competitor, or given the Company away, some if not all of the workforce would have been made redundant.

The second benefit is that I now know there is a strong link between success and succession. There is little point in planning for succession if the Company is allowed to decline. Successful performance now is the key to a positive succession outcome, and this further protects the workforce and their knowledge.

The third benefit is that it has improved my chances of achieving my personal goals for retirement.

### **Outcome of Mentoring Support**

The mentoring process resulted in identifying the Company's core competencies and intellectual capital. Chris provided initial structures and examples and challenged David's thinking until, eventually, the picture summarised in Attachment 2 emerged. Understanding how the Company's human, structural, and customer capital underpinned the core competencies provided David with the insights needed to understand how the business depended upon him personally and where its strengths lay. This opened up insights into exit routes, with David using the mentoring as a learning experience resulting in his starting to see succession as a positive opportunity.

### **Evaluation**

Succession support can be evaluated in terms of relevance and appropriateness to the situation, the effectiveness of the method used and impact.

The support was relevant to David's search for an exit route and appropriate to the size, structure and niche nature of the Company.

The effectiveness of the support was evaluated by using a questionnaire to determine whether the support clarified succession issues, identified and developed exit routes and led to the development of a succession action plan. The questionnaire also enquired how the support could have been improved. Although the support provided was effective and more than met David's initial expectations, the questionnaire highlighted David's difficulty in understanding and identifying core competencies.

The overall impact of the support was positive and moved David from a position where he thought the business was not saleable as a going concern to being able to initiate a new owner search activity through an intermediary.

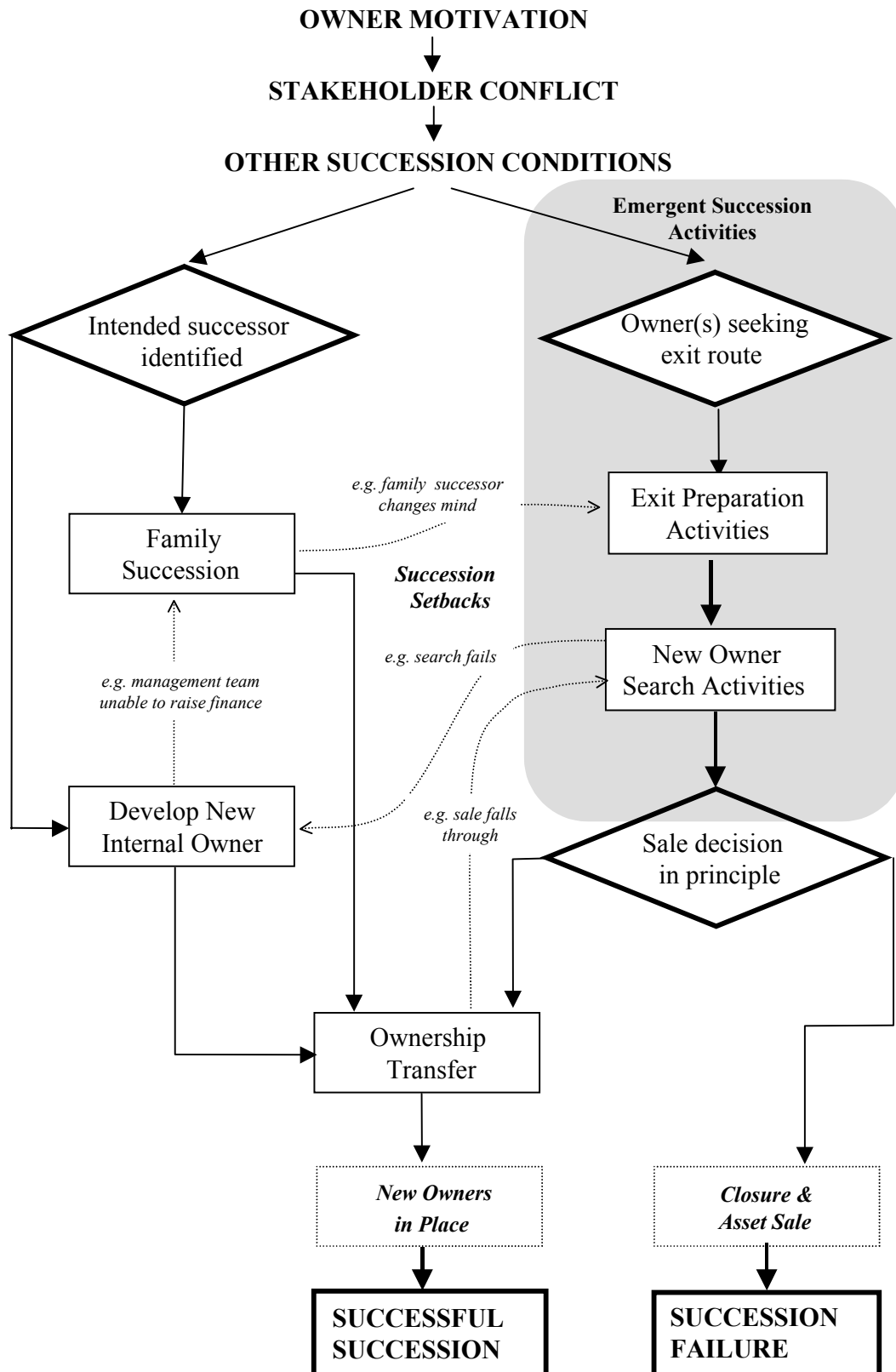
### **Transferability of Approach**

Three aspects of the approach are transferable to a wider range of succession situations:

1. The structured, knowledge-based owner mentoring approach to identifying core competencies and underlying intellectual capital can be used in other small owner-managed niche businesses
2. The identification of core competencies and underlying intellectual capital to understand fundamental succession situations and develop owner exit routes. The approaches to identifying core competencies and intellectual capital need, though, to be appropriate to the size, structure and knowledge characteristics of the particular business
3. Using an overall framework of succession processes as the basis of a diagnostic approach to identifying an appropriate source of relevant support

The approach is being developed into a set of structured tools for identifying core competencies and intellectual capital that other consultants and business advisers can use.

## Attachment 1 - Framework for Understanding SME Ownership Succession



Source: C J Martin unpublished PhD thesis submitted to University of Central England

## Attachment 2: Insignia manufacturer - Competence-based Intellectual Capital Analysis

HUMAN CAPITAL		STRUCTURAL CAPITAL		CUSTOMER CAPITAL	TANGIBLE ASSETS
Owner	Employees	Soft	Hard		
<b>Core Competence 1 - Manufacturing flexibility:</b> <i>Able to flex manufacturing to accommodate the irregular requirements of two large specialist customers and keep them reliably informed about each project's progress on the personal basis they value</i>					
Owner's ability to handle customers, make process innovations and motivate staff and sub-contractors		Total commitment and dedication to the success of the projects. Project "buzz" created	Existing systems used to set up project planning and control systems	Has a good reputation with this very small group of specialist customers	Balance sheet strength enables overdraft funding for project working capital when needed
<b>Core Competence 2 - Responsive customer relationships:</b> <i>Able to supply products through hassle-free, low risk responsive relationships with a wide customer base involving responding rapidly to new enquiries, processing repeats quickly (die locations, effective office systems), handling queries and advising deadlines</i>					
Owner's knowledge of how to quote and sell the company when quoting	Supervisor's knowledge of the die system Staff admin. system knowledge, expertise in dealing with people and appreciation of the importance of feedback	Culture of customer care, liking to make them happy and meeting their expectations through delivery, quality and communications	Administrative and accounting computer information system. Dies and tooling catalogue	Growing market reputation in several sectors	Computer system helps support commercial relationships
<b>Core Competence 3 - Economic, customised manufacture:</b> <i>Able to manufacture economically, and flexibly, a customised range of insignia etc. using the most appropriate techniques and specialist sub-contractors. Able to understand the limitations of the company's processes and use strengths and knowledge creatively.</i>					
Owner's vision for design and pricing. His problem solving ability and judgement of what is possible	Supervisor's knowledge of processes and sub-contractors, ability to switch priorities to satisfy production requirements	Culture of flexibility and being better than competitors. Stubbornness and a 'refusal to admit defeat'	Computer system for works instructions		Range of presses, enamelling equipment, workbenches and plenty of space
<b>Core Competence 4 - Relationships:</b> <i>Able to get the best from employees and sub-contractors who all know each other and able to work together when needed.</i>					
Owner's motivational skills	Supervisor's 'people' skills	Family firm attitudes; flexible working, customer satisfaction			
<b>Core Competence 5 - Adaptive ability:</b> <i>Able to recognise market changes (favourable and unfavourable) and opportunities to modify and develop processes accordingly. Able to learn, adapt and keep one step ahead of the competition.</i>					
Owner's awareness of market trends and ability to respond in poor situations		Culture of being leaders, not followers. Attitude of 'can do' and 'will do'			



## **Rob van Engelenburg**

Raad voor het Zelfstandig Ondernemerschap (RZO), the Netherlands

### **Co-ordinated Support on Business Transfers in the Netherlands**

At first I would like to thank the organizers of this Seminar for the opportunity to give this presentation but especially for choosing such an important topic – business transfers – as the central theme of this conference.

My short presentation will be focused on the following items:

- Background and importance of business transfers,
- Current situation in the Netherlands,
- Co-ordinated support: a pilot project,
- Evaluation,
- Recommendations.

The organization I am working for is called the Council for Entrepreneurship in the Netherlands, a small public, independent organization, financed by the business sector, in order to stimulate entrepreneurship. Business transfer is one of the projects we work on, at a European level as well as national. The pilot project I will tell you about (awareness raising and advising, from separate projects to a systematic approach) is one of the activities in this field. Other activities are: publications and seminars on business transfers, research on succession, policy advice, public relations to strengthen the item and improve the image of family businesses, a knowledge- or action centre and the creation of a university chair.

#### **1. Background and importance of business transfers**

Let us first look at some figures on business dynamics. In the Netherlands - in 2001 - around 700.000 enterprises were economically active. In that year the Chambers of Commerce registered almost 60.000 start-ups and on the other hand, almost 55.000 enterprises ended their activities. About 10% of these abolished companies go bankrupt, so the vast majority closed down. Due to the fact that the Chambers of Commerce operate a juridical and not an economic database it is important to know that not all registrations are economically active. Based on different sources we estimate that yearly 20.000 companies are transferred. The economic importance of business transfers is at least equal to or even exceeds the start-ups. As we urge entrepreneurs to start preparations on business transfers – also due to legal and tax rules- at least 5 years ahead, in principal some 100.000 entrepreneurs should be in some sort of preparation phase. Practice, however, shows a different picture with at least 10% to a maximum of 30% of business closures of viable enterprises due to improper preparation on business transfer. This leads to a massive loss of employment,

entrepreneurship, capital etc. With a proper, in time, preparation this can be prevented. Why do we emphasize this? The reasons vary:

- For the SME entrepreneur a business transfer or succession is “a once in a life time event”, and he has no in company support direct available,
- The process of business transfer is lengthy and complicated and has many pitfalls, and a huge total damage risk,
- There are numerous – partly personal - reasons why the ageing entrepreneur is reluctant to start preparing his succession,
- Not only society is ageing: the demographic clock is also working for the entrepreneurs (about 1 out of 5 is over 55 years old in the European Union),
- The numerous entrepreneurs from the baby boom generation are retiring and will be confronted with business transfer,
- The natural bond between enterprise and entrepreneur is loosening and will result in serial entrepreneurship, early retirement and more business transfers.

When we look at the policy level we see, at least in the Netherlands, lots of information and research on start ups exists for this group as well as a clear support structure with a key role as “first stop shop” and awareness raising for the Chambers of Commerce, many instruments like business plans, check lists, diagnoses, tool kits etc.. Many activities (like workshops, seminars, tutor assistance) are organized and a clear guiding system to the support of other organizations is established. What we have reached in the start up field is exactly what we lack in the field of business transfers. This is strange because business transfers are at least as economically significant as start ups.

## **2. Current situation**

Buyers and sellers of firms are not on their own in the Netherlands. On the contrary. There are many banks, advisors, accountants, juridical and tax specialists, Chambers of Commerce, sectoral employers organization, acquisition and merger specialists, regional development organizations etc, offering support. They organize, for instance, once in awhile only for their clients or members an information meeting. What is the problem?

The main problems are:

- It is only focused on their clients; the message may be given by a private organization with a (suspected) special interest,
- There is a lack of co-operation between the organizations,
- Activities in a region are planned on an ad hoc basis, with hardly any links between information, awareness raising and advising.
- Mainly selling entrepreneurs are invited.

This leads to a situation, which is far from ideal. There is limited transparency for the involved entrepreneurs. For instance, the support system starts with general information, while it remains not clear what the

different advisors and financiers really do under what conditions. This lack of structural approach and co-operation also leads to limited tools for the entrepreneurs and overlap of activities.

### **3. An alternative approach: the pilot project**

On initiative of the Council for Entrepreneurship (RZO) we started a pilot project together with the Rabobank and BDO accountants group. We developed a support structure based on the different levels of preparation on business succession in family businesses, so it is structured based on what entrepreneurs want ("demand oriented"). We took succession in family businesses as a more complicated example of a general business transfer to third parties. The idea was that the structure had 3 levels. The first phase was to provide general information about the succession process, the pitfalls and solutions.

The meeting was characterized by: a broad intro followed by short introduction on various themes and limited space for questions. Central questions: "what to expect, the do and don'ts, and how to handle". Invited where the current entrepreneur, his successor and their partners. About a month later- in the second phase- a workshop was held where more specific information was given with a case study as a tool for opening up questions about their own situation. The focus was on practical information from and for the entrepreneurs in a very interactive way. At the end of this session the participants could arrange meetings for individual advise with the different advisors (third phase).

The pilots were organized in a regional context with the Chamber of Commerce of Leiden and in a sectoral one with the Dutch Sectoral Association of Bakers. It was an advantage that these organizations are independent and not directly involved in the business transfer result. In both regional and sectoral pilots, the 4 organizations worked closely together in promoting, taking care of different aspects of the program (like economic, emotional, financial, fiscal and juridical aspects on business transfers) and follow-up. The entrepreneurs, successors and partners were focused on the program on various ways. Press releases, interviews, mailings and articles in the magazines of the organizations were used to draw their attention.

### **4. Evaluation**

In total more then 200 people attended the 2 information meetings and 2 workshops. The content, accommodation and length and timing of the meetings (late afternoon / beginning of the evening) were judged positively. The overall mark for the meetings was more then a 7,5 till an 8 (out of 10). The more interactive workshops, with more individual added value for the entrepreneurs and their relatives were considered as an eye opener. The active participation of the partners in the sessions was promising. The audience was specially interested in taxation, value and price of the company and the so-called "dual aim" discussion on combining harmony in the family and continuity of the firm during succession in a family business.

The regional approach with the Chamber of Commerce was slightly more successful in awareness raising. The Dutch Sectoral Association of Bakers



was a little bit more successful in the workshop. The participation of the partners was important, in the sense that they use to have a broader scope of stronger and weaker points of the firm. Due to their role in the smaller family business (administration, finance, contacts with suppliers and clients, etc) they have a clear overall view on the business.

## **5. Recommendations**

The Council for Entrepreneurship and the Chamber of Commerce Leiden have documented all material for the meetings. Agenda, program, introductions, papers, public relations, press release, evaluation, etc etc, were all put together in a booklet. This script was recently sent to the other Chambers of Commerce and sectoral organizations in order to inform them about the successful approach and stimulate them to do the same.

Till now organizations for entrepreneurs in transport, fashion / textile and metal as well as various Chambers took similar initiatives.

The advantages of the pilot are:

- Stimulating co-operation between public and private organizations in this way reducing overlap and creating a transparent first stop for support,
- The starting point for support is the (different) knowledge level of the involved entrepreneurs,
- Instead of an ad hoc approach, a structural approach based on combining information, awareness and advice,
- The succession of a family business is not an event but a process, with at least involvement of various members of the family,
- Cases based on practical situations are the backbone of the meetings.

This way, the Council for Entrepreneurship, working together with other organizations, aimed at improving demand and supply of information and advice on a very important and complicated aspect of business transfers.

This is not only in the interest of the involved entrepreneurs, but also for entrepreneurship and business dynamics!

# **Luis Sánchez Henriques**

Escuela de Organización Industrial (EOI), Spain

## **Higher Programme for the Consolidation of Family Businesses**

### **1. Institution**

#### **1.1. History**

EOI was founded in 1955 and is therefore the oldest business management school in Spain and one of the oldest in Europe. From 1997 its sponsors have been the following institutions and firms: Ministry of Science and Technology, which holds the protectorate; “*Confederación Española de Cajas de Ahorro*” (CECA, Spanish Confederation of Savings Banks), “*Ericsson*”, “*Fundación Vodafone*”, “*Fundación Retevisión*”, “*la Caixa*” (Spanish bank) and “*Oficina Española de Patentes y Marcas*” (Spanish Patent and Trademark Office). EOI is a founder member of the European Foundation for Management Development (EFMD) and “*Asociación Española de Escuelas de Dirección en Empresas*” (AEDE, Spanish Association of Business Management Schools; an associate member of the European Foundation for Quality Management (EFQM) and the “*Consejo Latinoamericano de Escuelas de Administración*” (CLADEA, Latin American Council of Business Administration Schools).

#### **1.2. Mission**

“To be a benchmark institution in the training of graduates and managerial staff in business management, technology, the environment and SMEs”. This mission is achieved by developing training programmes and lines of research in all those areas related to the EOI’s basic activity, which are demanded by society in general and by firms in particular.

#### **1.3. Principal centres**

EOI’s two principal centres are in Madrid and Seville, and since 1991 it has been delivering educational programmes in Argentina, Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico and Venezuela.

#### **1.4. Areas of activity**

EOI currently work in six different areas: Enviroment, New Tech., Enterprise, On line, Sme’s area , America.

#### **1.5. SMEs Area**

Since 1989, EOI has been developing a series of programmes to promote the setting up of firms and the consolidation of SMEs, and has thus become

a pioneer in this field. Fifteen years on, EOI is still the core benchmark for all SME issues.

The prominent feature of these Programmes for the Setting up of Firms, is the large number of firms set up and operating, over 2,900, providing a large number of new jobs.

A special characteristic of these Programmes is the individual attention and involvement with each of the participants to enable them to start their own business.

## **2. Higher Program for the Consolidation of Family Business**

### **2.1. Introduction**

It is estimated that in the next ten years, around 830,000 Spanish family firms are going to pass the “baton” on to the next generation. This moment is extremely delicate because of the number of social/family, organisational and economic factors involved, and it is indeed the social/family factor that is the most delicate.

The high mortality rate of family firms (the double of non-family firms) very clearly highlights the importance of rigorously planning the whole succession process and its various aspects, all of them mutually dependent.

<b>Table 1 Significance of the Family Firm in Spain</b>	
<b>Magnitudes</b>	<b>Values</b>
Number of firms	65-70% of all firms
Employment	60-65%
Contribution to GDP	60-65%
% of FF among the largest 1,000	20%

Source: F. Casado: “Introducción” in *Alta Dirección*, no. 202 Nov-Dic 98, page 393

- in Spain (1992), 22% of 1,000 large firms are FF
- in the USA, 35% of the 500 largest firms are FFs, (*Business Week*, 1988)
- in the United Kingdom, 76% of the 8,000 largest firms are FFs, (Leach, 1990)
- the 102 firms in the Spanish *Instituto de Empresa Familiar* represent 8% of Spain’s GDP.

<b>Table 3 Probability of Successful Generation Transition</b>						
<b>Between</b>	<b>SPAIN</b>		<b>EUROPE</b>		<b>USA</b>	
	Regard end prev.stage	Regard end 1 <sup>st</sup> generation	Regard end prev. stage	Regard end 1st generation	Regard end prev. stage	Regard end 1 <sup>st</sup> generation
The 1 <sup>st</sup> to 2 <sup>nd</sup> Gen.	10-15%	100%	20-25%	100%	30-40%	100%
The 2 <sup>nd</sup> to 3 <sup>rd</sup> Gen.	30-35%	4%	50%	11%	50%	15%
The 3 <sup>rd</sup> to 4 <sup>th</sup> Gen. and subsequent	50%	2%	70%	8%	70%	11%

Source: Amat Joan: *"La Continuidad de la Empresa familiar"*, 1998, Ed.Gestión 2000. page 21 and own work

## 2.2. Objectives

To give an opportunity to:

- a) The family firm owner to review the firm's situation as regards the generation changeover using the advice of experts in succession processes. This will enable him to check his particular position in relation to each of the relevant aspects of this process, as well as the steps to take in each of the areas (legal, patrimonial, organisation, family relations, training of the successor, etc.). Thus he can successfully complete the operations allowing him to plan first and then implement the succession.
- b) The potential successors to visualise the possible firm that they would like to run in the future.

## 2.3. Profile of applicants

- **FF owners** who want to use the succession as a relaunching-pad for their firm.
- **Potential candidates to succeed** the owner, who wonder whether or not to professionally join their elder's firm.
- **Successors already integrated** in the firm (and/or professional directors) who want to design a strategic plan for the future course of the firm.
- **Board of Directors Members** who, as yet not working in the firm, want to enhance their knowledge of the firm in order to judge the governance alternatives more effectively.

## 2.4. Methodology

### 2.4.1. **Characteristics**

- This programme has been conceived for predecessors and successors and it contains specific matter for each of the participants.
- The contents are delivered in two different scenarios: the classroom (two half days a week, usually Friday evening and Saturday morning) and consultancy sessions at the participants' firms\* (from Monday to Friday at midday by appointment).

- Of the two half days a week in-house (classroom), one is for the conceptual DIAGNOSIS of the firm and the other for discussing the fundamental issues that affect the Family Firm (FAMILY FIRM FORUM).
- The Predecessor has his own individual consultant who has experience in providing advice on the problems related to managing the succession (Analysis of the Context of the Succession, applied to the case in question).
- The Successor has individual consultancy sessions at the firm with the Strategic Plan Director who shows him how to prepare the Plan.
- The owners who have used the scheduled sessions will receive two confidential reports prepared by the Family Consultant and the Strategic Plan Director at the end of the Programme.

#### 2.4.2. Contents

##### a) Module on succession management

###### **Diagnosis for the Succession**

- The future Business Situation of the firm
- The Firm and predecessor's Finances for the succession and the predecessor's retirement
- Legal Structure of the Family firm Anticipatory measures for the employee and patrimonial situation, and successions/gifts
- Tax Assessment of the Family Firm for the Succession

###### **Family Firm Forum**

One of the weekly in-house sessions (usually Saturday mornings) is for discussion and guidance on the core problems of family firms. The following matters are analysed:

- The Family Firm: Why it is different
- Major pitfalls in the Family Firm
- Succession in the Family Firm
- Tax Planning of the Firm and Family
- Governance and Management: Governance Organs in the Family Firm
- Development of Family-Firm relations: Family Protocol
- Inheritance Right
- Spouses and non-family Directors
- Ethics in the Family Firm
- Communication problems between brother and/or cousin partners

###### **Analysis of the individual context of the family firm for the Succession process**

An expert consultant in the handling of problems that arise in the succession of family firms will help each of the owners who want to structure their succession process.

##### b) Weekly programme

Duration: approximately two and a half months.

### **c) Strategic Plan Module**

If a Strategic Plan is a basic instrument for the smooth development of any firm, for a Family firm facing the succession of its owner, it is even more important. It allows the successor to gain in-depth knowledge of the firm that he is going to receive and project it to the future, and the predecessor to evaluate the successor's capacities in action. It is here where the role of the Strategic Plan Director as moderator is crucial.

#### **2.5. Lecturers-Consultants**

The programmes are delivered by a team of EOI lecturers-consultants, experts in the different programme areas. These experts as well as transmitting knowledge about managing the family firm from an extremely practical point of view, also act as consultants in their specialist subject.

#### **2.6. Venue**

These programmes are delivered in all the Autonomous Communities and in any of their localities where there is a desire to strengthen the corporate sector. There will be appropriate advertising of the programmes in the local press so that those interested can know the course dates beforehand.



## **Pertti Korhonen**

Employment and Economic Development Centre of Lapland, Finland

### **Passing the Baton - A Support Service for Business Transfers**

#### **Introduction**

Studies recently done in Finland show that family business transfers will amount to 51,000 within the next few years. Although two thirds of the companies are family businesses, a successor will be found from the same family in only one third of the cases.

Studies also suggest that only 20 to 40 % of family businesses actually plan for succession even though the entrepreneur is making perhaps the most important decision in his/her life – to give up a life's work. To the same extent the successor must also decide on the major part of the rest of his/her life. One reason for this absence of planning may be found in the lack of discussions between parents and children in the entrepreneurial family. According to studies done quite recently in Sweden parents and children spend on average only 10 minutes per day in discussion.

To activate more discussion in families, to speed up and to plan for well prepared successions and to safeguard the continuity of business activities for Finnish SMEs, the Ministry of Trade and Industry and the Economic Development Centres (TE-Centres) ruled by MTI, provide firms with a subsidised support service, known as Passing the Baton.

TE-Centres, which have in the past few months already helped more than 50 companies to make a successful business transfer, provide firms with synergistic advantages compared to other service providers. During the succession process TE-Centres can give grants for "hard" investments and "soft" development grants as well as improving the successors business skills through management training and counselling. In addition TE-Centres cover the whole country and have established a long tradition as a versatile developer of SMEs.



## Background

The key elements in the succession are the entrepreneur, the successor, the firm and its ownership and the business (figure 1).

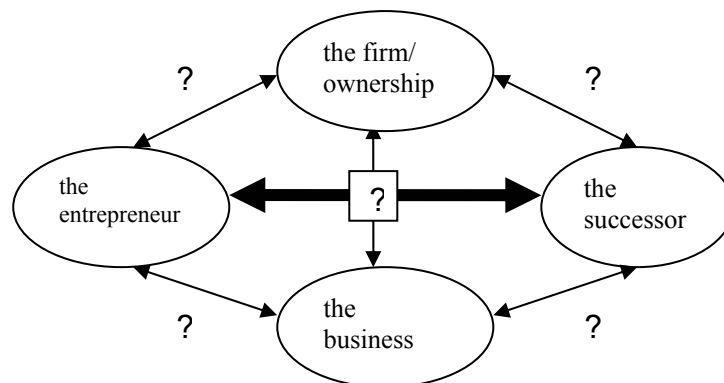


Figure 1 Key elements in the succession

The above model and the five problem areas which the question-marks symbolise, was the starting point when the support service for family business succession planning was designed in Finland.

The two major actors in the succession are the entrepreneur and the successor; the former planning to discontinue his involvement in the firm and the business and the latter preparing to replace him. The question marks in figure 1 highlight the major potential problem areas that must be dealt with when a succession is planned. These areas may produce some uncertain outcomes. The arrows in figure 1 show that the entrepreneur must plan for his future withdrawal from the firm and the business while his successor must plan his future integration into the firm and the business. While these aspects are crucial, one of the most important issues is the relationship between the entrepreneur and his successor, which the central arrow marks. If this relationship does not function properly during the planning and implementation of the succession, the other aspects are unlikely to function either.

All four components and the relationships between them are crucial elements in the succession process, but the entrepreneur and the successor appear to have slightly different views about where the potential major problems are likely to arise. Entrepreneurs are mostly concerned about issues relating to the firm, while successors are mostly concerned about their own relationships to the entrepreneur and the business. Entrepreneurs seem to be aware that they may be a major potential problem in the succession process but they do not believe that their successors feel that the problems are related to the successors ability to run the business. In other words, both the entrepreneurs and their successors have different beliefs and assumptions about the thoughts and views of each other. I believe this is so because these kinds of issues are very sensitive to discuss in a family and as noted earlier, the entrepreneur and his successor generally don't discuss enough together.

## ***Passing the Baton – a support service for business transfers***

*Passing the Baton* – a support service in the succession process is described in figure 2. It shows that in addition to the support service you need to ensure the successor's ability to run the business successfully. Also you need to secure a soft landing for the entrepreneur, who will give up his life's work.

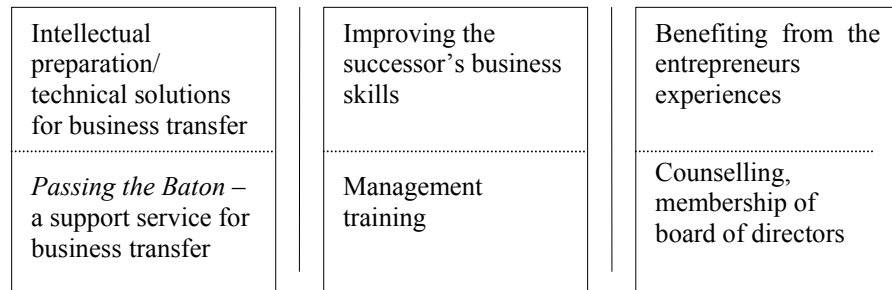


Figure 2 *Passing the Baton* – a service as a part of the succession process

The experience shows that generally 80 to 90 % of succession issues is about intellectual preparation and this preparation takes 3 to 5 years before implementing technical solutions. Though technical solutions are, of course, important in themselves, the major focus of the succession process should be on the intellectual preparation and development issues inside the company to make sure, that the company can be successfully run by the successor following succession.

In the intellectual preparation, the key role in Finland is played by firms like bookkeeping companies, accountants/auditors with whom entrepreneurs associate and deal with on daily basis and whom they trust and ask advice. A programme for training these kind of "Change Agents" has been initiated in Lapland by the TE-Centre and a workbook (see attachment 1) is in course of production to help the intellectual preparation work.

### **What is *Passing the Baton* service?**

- Countrywide service delivered by 15 TE-Centres throughout Finland to implement a systematic and controlled succession in SMEs
- 1-2 experts per TE-Centre
- 

### **Objectives of the service at company level**

- Help to carefully prepare a timely succession
- Help to make choices/decisions in the succession process based on proper analysis
- Highlight matters that require further clarification

The service is not suited

- For acquisitions
- To take different and separate actions

### **Who is the target group/beneficiary?**

- SMEs with succession in view and when the entrepreneur desires
  - to get expert help in looking into alternatives
  - to ensure continuity and to develop the business
- No sectoral limitations

### **Content of the service**

The service comprises the following component parts:

- Basic analysis (see attachment 1)
- Determination of the value of the firm
- Clarify tax and legal aspects
- Financing alternative methods of the succession
- Written plan for succession with recommended measures

### **How to implement the service?**

- As a confidential company based consultancy service by highly skilled experts fully qualified and certified for *Passing the Baton*. Experts are trained specialists having provided evidence of practical experience.
- Service is requested by entrepreneur from TE-Centre.
- Implementation period 1-3 months

### **Extent and pricing of the service**

- Price for the service is € 840 per company (3 days).
- Price for extra days is € 300 per day (1-5 days).
- Value Added Tax (VAT) is 0 %.

### **Improving Successors Business Skills**

It is important to ensure that the successor's practical business skills are good enough to run the business. This can be done e.g. by activating successors to participate in management training programs and learn from the experiences of their own and their business colleagues.

### **Soft landing for the entrepreneur**

From the entrepreneurs point of view it is important to get a soft landing, because they are giving up their life's work. It is also important that the business continues to benefit from the considerable knowledge and experiences that entrepreneurs have. One way to do this is to use entrepreneurs as a member/chairman of the board of directors. They can also be used e.g. as a sparring partner for entrepreneurs or new beginners. Whether they should play that role in the family company or in another unconnected company is debatable.

## Conclusions

According to different estimates up to 51,000 family businesses in Finland will experience a business transfer within next few years. Although two thirds of them are family businesses, only one third will have a successor from within their own family. One reason for this can be the lack of discussions/dialogue between parents and children in entrepreneurial families and because the issue itself is very sensitive, there are a lot of conflicting perceptions and assumptions about the thoughts and meanings of the entrepreneur and his successor. This means that discussions on succession planning are often avoided or deferred until it is too late. Finally, time will force decisions on families and everybody knows that time –without the influence of your own- is the worst possible decision-maker.

For the reasons mentioned above it is important for business support organisations and other actors to encourage entrepreneurs to plan in time for succession and not to needlessly loose profitable firms and jobs. In achieving this goal services like *Passing the Baton* developed by MTI and delivered by TE-Centres in Finland can be one useful tool.

Not only is succession important but also ensuring that the successor has the necessary business skills to run the company successfully. Similarly it is important for entrepreneurs to get a soft landing in their retirement.

## Attachment 1

### WORKBOOK – Issues to be examined:

#### Succession as an alternative

- The structure of the family
- The roles of the family members
- The family atmosphere
- The meaning and importance of the business for the family
- Aspects of the future of the business for the family
- Facts about the business
- Planning the transfer of management
- Choosing the successor
- Planning the transfer of ownership
- The role of the older generation after the change

#### Selling as an alternative

- Preparations for selling the business
- Realisation of the sale
- Activities after the sale

#### Winding up or liquidating as an alternative

- Winding up or liquidating the business



## **Muriel Decout**

Confédération Générale des SCOP (Sociétés coopératives de production),  
France

### **Support Scheme for the Transfer of Businesses in the Form of Cooperatives**

The scheme I am going to present is carried out by the Confédération Générale des SCOP (The General Confederation of Production Workers' Cooperative Societies), which is a trade association comprising 1 300 businesses (30 000 employees). They all have the legal status of a cooperative. These commercial businesses comply, under French law, with a set of specific rules, which require, among other things, that a majority of the capital should be held by the employees, there are equal voting rights - one man, one vote - profits are distributed in a way which will promote the financial consolidation of the business and the remuneration of work, and reserves are indivisible. The purpose of our organisation is to promote the creation of cooperatives and one of the ways we use is the transfer of businesses to employees.

The Confédération Générale des SCOP is a private organisation financed by its members but it also receives public funding for the performance of certain measures of general interest. It is represented throughout France via twelve local associations which have teams of general consultants. Generally speaking, these are people who have received training at a school of commerce and who are recruited after a few years of professional experience. Their jobs will consist of supporting the creation of cooperatives, advising the directors of existing ones, monitoring their management indicators, providing training for directors and members and carrying out annual audits of each SCOP. The most experienced participate in takeover and transfer operations and in SCOPs in difficulty.

Our work regarding transfers is therefore permanent and is carried out throughout France. I will therefore endeavour to describe our approach, which is intended to be comprehensive.

There are five stages to this work. A general consultant will be the designated go-between between the parties transferring the business and those taking it over. This consultant will coordinate the participation of specialists in different fields, depending on individual needs, such as lawyers, financial experts, specialists in the trades concerned, recruitment specialists, etc.

The five stages are:

- Detection of transfer opportunities
- Validation of the membership of the parties participating in the project
- Validation of the feasibility of the project
- Finalisation of the project
- Implementation.

### **Detection of transfer opportunities**

Our objective is to work with the parties transferring the business and the employees who will potentially take it over as far upstream as possible, which is why we are taking steps to identify them. We have tested two types of targeted detection measures in specific geographical areas:

- **First trial: Awareness-raising of institutional decision-shapers (Aquitaine)**

This operation consisted of contacting all the professions working in the field of business transfer (judges in commercial courts, accountants, notaries, lawyers, bankers, etc.). We assumed that since they were in direct contact with directors, these people would be bound to know who would be retiring within five years and who did not have a solution regarding the transfer of their business. Our aim was to raise their awareness to the idea that the solution of a cooperative could in some cases make it possible for businesses to continue which were otherwise likely to disappear. Apart from the specific legal structure, we proposed a system of financing which should allow the employees to set up a remunerated savings account (CODEVI) managed by the cooperative fund. At the time of the business transfer, the amount saved was increased by the Confederation's financial tools and by the bank. This resulted in €14K per member employee. In addition, all the bank financing obtained was guaranteed by a mutual guarantee association (SOFARIS).

This scheme could only work if the project was studied two or three years before the transfer.

Although the operation resulted in many contacts, it produced only a few transfers, since the projects presented to us were mostly ones which had been searching for a solution for several years and where a transfer was still possible it was urgent. Unfortunately, very often we were dealing with owners who had been looking for a buyer for four or five years and consequently they had stopped investing, had not replaced employees who had left and were making no more commercial effort. They therefore presented us with businesses whose continuity was highly compromised. In fact it emerged that the authorities had initially sent us the projects that they had had on their files for a long time and for which no solution had been found. The operation was finished almost three years ago and, thanks to its efforts, the transfer projects submitted to us now arrive at a much earlier stage.

- **Second trial: Awareness-raising of cooperative directors (Ariège)**

Another method used in Ariège, a department situated in the Pyrenees in a rural, mountainous area, arose more spontaneously. Seven years ago there were only one or two small cooperatives. At that time a director of a public works company transferred his business to his 25 employees. At the suggestion of the financial director, the operation was carried out in the form of a cooperative. In the ensuing months, following bankruptcy, a construction firm was taken over as a cooperative. After that, the two directors decided to make their presence felt among the professional authorities and to present the status of cooperative whenever possible. They spread the idea that this formula could help prevent the disappearance of businesses when the owners retired and thus maintain economic activity in the region.

Since the businesses in question perform well economically and are among the biggest in the region, other businesses have listened to them. Cooperative take-overs by employees are now included in the normal range of options and there is a clear path to follow.

At the moment there are about fifteen cooperatives in Ariège and the five biggest businesses in the construction sector are cooperatives.

I will illustrate my presentation of our working method with two examples which have resulted from these two methods of detection:

Meuble LAPORTE, carpenter and cabinet maker in Aquitaine (9 persons)

Électricité ARIEGEOISE, construction electrician in Ariège (15 persons)

**Screening the parties involved**

When we have found a business owner who wishes to transfer his or her business, we present the solution of a cooperative as one of the options and check whether he or she is open to the idea. If this is the case, we will interview the director about the business and the transfer scenario envisaged.

*In the case of Meubles LAPORTE, the director had had an evaluation carried out of his business and had decided that if he had not found a buyer after at most six months he would close the business and sell the equipment. He was not opposed to the business being taken over by the employees, but thought that none of them had the skills to manage it.*

*In the case of the electricity company ARIEGEOISE, the director wanted to compare a number of solutions and intended to retire two or three years later. He was prepared to train his successor if necessary and was very keen to find a solution that guaranteed local jobs.*

The next stage will consist of presenting employees with the possibility of buying the business and the idea of a cooperative. For us this means a new focus for our intervention, in which we have to describe what the operation involves. We have to make it understood that one of the options for the



business may be for it to buy itself and that a cooperative is one of the possibilities. We explain the advantages and the limitations. It is not a question of presenting it as a miracle solution or of believing that it is suitable for all situations.

What we propose at this stage is essentially to explore one option. However, at the same time, it is pointless to study this idea if a significant proportion of the employees are not interested.

We also explain how we can support the project and we undertake to terminate the process if the conditions for the continuation of the project are not met. Obviously it would be nonsense to set up a cooperative if the conditions for its creation seriously compromised its continued existence.

After time to consider the matter and time to answer the questions which systematically arise over the following days, a support contract is proposed which formalises how we will support the project and makes it possible for us to assess the employees' commitment.

*The employees of the firm Meubles LAPORTE, which is located in a rural area, were very worried at the idea of the imminent closure of the firm and eight of the nine employees said that they would be interested in studying our option. However, it became apparent that relations were very tense between the owner and the employees and there was a lot of suspicion as regards the owner's intentions.*

*The owner of ELECTRICITE ARIEGEOISE himself wanted to present to his employees the idea that they should take the firm over. He wanted the accountant to present the conventional forms of transfer and us to present the cooperative. The employees were also informed that a large business had made a purchase bid. All 15 employees wanted to study the solution of a cooperative in greater depth.*

### **Feasibility study**

At this stage, we carry out an overall audit of the business, identical to those carried out in any business purchase. It is essential to gain a thorough knowledge of the business, to evaluate it, to know what investments are to be expected, to check whether a potential director exists within the company and if not to define the profile of one, and to assess the commercial potential of the business and its development prospects.

What perhaps makes us different in our working methods is that, in addition to the work of our consultants, we are in close contact with the employees, who are obviously very involved, and we ensure that other directors of cooperatives in the same sector of activity frequently participate. As often as possible, one of these directors will be asked whether his SCOP can become a member of the future cooperative and whether he can maintain close relations with the future director.

At the end of this stage, we define what we believe will be the conditions necessary for carrying out the operation successfully. This concerns both the transfer price and the arrangements for the director's departure, recruitment

needs, investment needs and the minimum contribution of the employees in the financing of the project.

Obviously certain points can be negotiated, but this sets the framework and allows the three parties to determine whether or not to continue to work together.

*In the case of Meubles LAPORTE, the audit confirmed the need to recruit a director, the evaluation of the firm was quite different from the price asked for by the owner, and large-scale investment was essential. The deadlines imposed by the vendor were not viable. After discussion, the vendor agreed to reconsider and wanted to negotiate the price. A cooperative of 70 persons producing furniture of a very different style, located about 20 kilometres away, agreed to become an external member and thus to participate in the capital.*

*In the case of ELECTRICITE ARIEGEOISE, the director had an evaluation carried out by his accountant and although it was more favourable to him than ours, he said that he would accept ours. Negotiations were to focus more on payment deadlines. The audit also confirmed that there was no future director within the business and the vendor undertook to remain in joint control of the business for six to twelve months after the arrival of the new director in order to train him. A SCOP of 50 persons carrying out the same activity 60 kilometres away became an ordinary member and a member of the board.*

### **Finalisation of the project**

At this stage the project will be finalised. The employees will confirm their membership by making a firm commitment to subscribe to the capital, the draft protocol of sale and draft cooperative statute will be drawn up, the financial bodies will be approached and recruitment of the future director will, if necessary, begin. The future members will receive membership training focusing on cooperative management and cooperative operations. This is a delicate stage, since the deadline is approaching and hold-ups appear as a result of demands or expectations which had not been expressed before. Issues on which negotiations had not been concluded have to be resolved. New participants, in particular the financial bodies and the possible future director, impose new constraints.

For the employees, the commitments take shape and for the vendor the time when he will no longer be in charge approaches. It is also the period in which the vendor will inform the business environment of the change and will present his successor to clients, suppliers, bankers, etc. The rate of progress is rarely seen as good and events are perceived as too rapid or too slow.

*In the case of Meubles LAPORTE, negotiating the price was very difficult. Finally a compromise was found whereby the vendor agreed to a reduction in his price, payment of the cost of bringing machinery up to standard, non-inclusion of the sawmill activity and vendor credit. Tension between the*

*employees and the vendor ran very high, with each party constantly threatening to abandon the project.*

*This climate did not help with finding a new director. The first person who had been selected dropped out a few weeks before the transfer was signed, resulting in the need to renegotiate the deadline with the vendor. Finally, a former head of workshop who had left the business ten years earlier accepted the position, but his development project for the business required new investment. The business plan therefore had to be reviewed. In the end the whole transaction was completed a few months later than initially planned.*

*In the case of ELECTRITE ARIEGEOISE, the main difficulties concerned the formalities. Indeed, the director felt that his commitments did not necessarily have to be written down. Mutual trust between him and his employees and the economic soundness of the business helped overcome the difficulties. Since he himself was staying at the head of the SCOP in order to find and train his replacement, the director agreed that 50% of the purchase price should not be paid until after his departure.*

### **Implementation of the project**

Once everything is settled on paper, the project can take place. The general meeting for the transformation or establishment of the business must be held according to the legal form that has been selected and procedures put in place for the management, cooperative operating, legal monitoring and organisation of the business, so that it can begin to operate normally as soon as possible. This is a stage where our presence is very necessary. In addition to the daily management of the business, a series of legal steps have to be carried out (quite a lot of work for us) and we have to stay in touch with everybody, ensure that the commitments of the various financiers are met within reasonable time limits and help bring a new team into being. It is a period in which the behaviour of the employees, who have become members, changes, usually because they feel more involved and therefore more motivated, but sometimes because they do not really understand their new status. It is also necessary to monitor activity closely in order to check that the commercial side continues to run smoothly.

*The first few months of SCOP LAPORTE's existence were quite difficult, because the order book proved to be in a poor state (to attract business in the final few months, the director had dropped prices) and the employees had difficulty finding their feet in the changeover from very authoritarian management to shared management. The new director wanted to move very quickly towards new markets which involved considerable changes in terms of production methods and this met with some resistance. After quite a disastrous first half year, the situation began to stabilise and the first financial year resulted in a balance and the second produced an acceptable result. We are sure that the third year will be successful. Having said that, it is true that both the products and the customers are now different and some of the member employees are frustrated about this.*

*For ELECTRICITE ARIEGEOISE, the transition took place without any particular difficulty. The vendor recruited his successor at the end of the second financial year, trained him for a year then left the business. The new director has directed the SCOP for three years and there have not been any particular difficulties since the transformation.*

Once a SCOP has been set up, support is provided in various ways. On the formal level, the consultant who is to monitor the cooperative will start a trend chart which will provide monthly information on the business's situation and its prospects. At the beginning, regular visits will be made to check whether or not everything is running smoothly and to set up legal, social, financial and commercial monitoring. Each year an audit will also be carried out in each cooperative.

Where necessary, the consultant may call upon a specialist from inside or outside the Confederation to answer specific questions. The Confederation also includes the three trade associations of the most represented trades (i.e. construction, mechanical engineering and electronics, and communications) which may intervene on aspects related to these sectors.

On the more informal level, directors will participate in meetings with other cooperative directors to discuss their businesses, their practices and their difficulties, so that individual directors do not feel isolated when confronted with a difficulty.

The Confederation uses its financial resources to participate in the financing of SCOPs in the form of capital, operating funds and bank guarantees, thus supporting them in this way too.

Finally, training courses are organised for directors and cooperative members.

## **Conclusion**

Our organisation currently carries out 20 to 30 operations of this type each year and about the same number of takeovers of businesses in difficulty (undergoing legal proceedings). This represents a big investment in terms of human resources, plus significant financial support. However these are projects where there have been very few disasters. Our greatest difficulty is in detecting businesses sufficiently early to work in good conditions. Also, our solution is obviously suitable only for businesses which have a team of employees prepared to get involved in the project.

Those who have followed our approach have considered the following points particularly positive:

- Comprehensive intervention coordinated by specialists
- Financial support
- Consideration of both parties
- Long-term support
- Contact with other directors



## **Peter Dalkiær**

TIC Kobenhavns amt, Denmark

[www.ticmarked.dk](http://www.ticmarked.dk) - A Market Place for Sellers and Buyers of SMEs

### **Background**

In the mid nineties transfer of businesses were starting to be a hot issue. Several surveys in Denmark showed that more than 2/3 of all business transfers were going to take place outside family or to employees.

In 1997 TIC - a Danish public non-profit SME business organization, sponsored by the Ministry of Economic and Business Affairs and Regional Counties - opened up an extranet database for sellers and buyers of SMEs connecting TICs 18 regional offices.

At the same time some banks, brokers and accountants have started their own internal databases for sellers and buyers of SMEs.

In 1998 TIC was preparing an Internet site for advertising different seller and buyer prospects. With the objective of establishing a mutual national host database covering all advisers and intermediaries working within the transfer of businesses TIC made contact to some of the other databases operators for the possibility of cooperation.

With this objective a group was formed consisting of TIC, Deloitte & Touche, KPMG, Danske Bank (largest bank in Denmark), two business broker companies and an employers organisation and with TIC as the leading impartial body.

Creating the necessary IT-system itself did not take very long, but creating the rules and procedures around a mutual database where all the different intermediaries involved in business transfers might be satisfied took nearly 6 months.

In September 1999 [www.ticmarked.dk](http://www.ticmarked.dk) was launched.

### **System**

Besides being an Internet based market place for buying and selling SMEs it is also possible to seek (equity) finance and investors might offer (equity) capital. The market place is open to everyone with Internet access.

It has to be easy to search in ticmarked.dk. Most are self-explanatory and there are not too many different steps to go through before reaching relevant prospects.

The criteria for searching prospective buyers and sellers are trade (NACE-codes), geographical location, sales, number of employees and amount of capital. All companies, buyers and investors are described anonymously but with reference to the intermediary that made the registration.

In order to secure the quality of ticmarked.dk only approved intermediaries are able to register sellers and buyers into the database. All initial contacts go through the intermediaries, who also will provide their normal supplementary services to the clients.

The system offers a variety of possibilities for background information and statistical storing. Matching of buyers and sellers is done automatically by comparing the main criterias for each prospect and the intermediaries are informed of any new entries to the market place by e-mail.

## **Organization**

A written agreement with all intermediaries is signed stipulating the rules and procedures, among other things what has to be investigated before sellers or buyers are being registered.

The intermediaries pay an annual fee of 15.000 DKK (= 2.000 EUR) and 3.000 DKK (= 400 EUR) for each additional branch affiliated with own password. It is free of charge for the individual prospect registered.

The main issue for ticmarked.dk has been to gather all sellers and buyers of SMEs into one place for looking. Therefore it is very important to secure an independent daily control of the activities, which all the different intermediaries rely upon.

There has been used great effort upon simplifying and automating the system. Generally most of the intermediaries know that fees charged to the SMEs for assistance are of a limited potential size. Therefore a growing part of the system operates with automatically matching and information systems

In the beginning from September 1999 and until autumn 2001 TIC was the administrative and controlling part. In November 2001 the ownership, the administration and the control of ticmarked.dk was transferred to a completely independent association consisting of all the intermediaries affiliated to ticmarked.dk.

To day the board of directors for the association are consisting of representatives from a large account company (PricewaterhouseCoopers), the largest firm of solicitors in Denmark, a Regional Bank, a large broker company, Chambers of Commerce and TIC.

The database ticmarked.dk is not only a tool for connecting sellers and buyers. Just as important is the networking between the intermediaries. Since the start in 1999 the intermediaries have been gathered twice a year to seminars where as well topics within business transfer as the development of the cooperation between intermediaries have been discussed.

## **Statistics**

The mentioning of figures requires standard setting of size. With a population of 5,4 mill. Denmark is small in an European context.

To day about 80 intermediaries are affiliated to ticmarked.dk. Intermediaries are coming and going and since the start in 1999 about 120 intermediaries have been affiliated. Having chosen to demand a yearly standard fee implies that intermediaries have to have a certain business transfer activity (and therefore hopefully experience) before worthwhile joining.

During the last year more than 900 sellers and buyers have been registered in the database. There are constantly shown around 625 different sellers and buyers. It is important to secure a certain turn-around. The aim is at least 33% a year.

Over the period July 2000 to July 2002 more than 225 prospects have been registered sold. Looking at the total number of prospects in the database over the same period of time shows a "hit rate" of 18 %, which we find very satisfactory.

In the beginning and until late 2001 the number of visits to the site was varying between 5.000 - 9.000 a month. But from beginning 2002 the monthly visits increased to 12.000 - 20.000. Advertising and articles in newspapers together with the improved knowledge of the database are considered the main reasons.

Since April 2001 the market place has been extended to cover Southern Sweden, Northern Germany and Europe in general. To day there are 16 Swedish prospects, 3 German and 3 from other European countries registered in ticmarked.dk.

## **Finance**

The investment in creating ticmarked.dk has been done through public subsidies and through the starting intermediary group's contribution free of charge. The direct IT-costs in establishing the database has been around DKK. 400.000 (EUR 50.000) and during the last two years the costs for additional IT development and up-grading have been around DKK. 550.000 (EUR 70.000).

For the moment the total yearly cost of running the ticmarked.dk is DKK 750.000 (EUR 100.000) with approximately 1/3 for marketing/advertising, 1/3 for IT maintenance/improvements and 1/3 for administration. To day the only income is the fees from the intermediaries, but it is considered to open up for different other types of Internet incomes such as banner advertisements etc.



## Future

ticmarked.dk is gradually becoming a natural rallying point for all advisers involved in the transfer of businesses. Therefore further developments are aimed towards establishing additional services linked to business transfer seminars, courses, meetings etc. offered by the advisers. Also a library containing relevant information, articles, books etc. regarding business transfer is considered.

As a consequence of the on going work of the Expert Group in Brussels several bilateral contacts with other European databases have been made. The global market situation creates the demand for cross-broader databases as also stated as one of the recommendations from the Expert Group. During the last year several contacts has been made especially between the [www.ticmarked.dk](http://www.ticmarked.dk) and the German database - [www.change-online.de](http://www.change-online.de) - administrated by DtA (Deutsche Ausgleichsbank) together with other partners like the DIHK (Deutscher Industrie- und Handelskammertag).

It has been astonishing to realize the similarity of the two databases even though they have been established quite independent of each other. There has already been used some efforts in combining the different European host databases with each other. A main issue in this context is using the same Internet address/name and only varying the different country codes.

To day most of the EU member states have registered a common name for their present or future sellers and buyers database. Besides the country names and codes the com, info and net have been registered together with the common name MATCH-ONLINE.

In Denmark we are looking forward to a future name not as [www.ticmarked.dk](http://www.ticmarked.dk), but as

**[www.match-online.dk](http://www.match-online.dk)**

as the first step towards a future integrated system and improved networking within Europe.

## **Panel Discussion**



## Panel Discussion

Panellists: Mr. Andrea Bonetti, President, UEAPME (European Association of Craft, Small and Medium-sized Enterprises); Mr. Gábor Gérvy, Hungarian Ministry of Economic Affairs; Mr. Gunter Kayser, Institut für Mittelstandsforschung (SME research), Bonn; and Mr. Hanne Timonen, entrepreneur, Finland.

Mr. Gérvy said that in Hungary, founding an enterprise meant leading an autonomous life. In Hungary, but also in other candidate countries, he reported, there was a large number of potential entrepreneurs full of “entrepreneurial spirit” in every sense of the word.

The „mortality rate“ of start-ups is still relatively high in Hungary. 13% of newly founded companies cease to exist within the year of their foundation, another 10% during the subsequent year. However, 50% of start-ups stay in business for more than 5 years. For Mr. Gérvy, entrepreneurial training facilities might be an interesting support measure.

Although Mr. Kayser believes that market transparency in the context of transfer of businesses has already improved a lot, he thinks that the general public needs to be further sensitised to the subject. This issue needs to be dealt with more on a regional level, in particular with regard to small and medium-sized enterprises, as SMEs are active mainly on a local level.

In the future, the entire transfer process should be geared to bring together more effectively businesspeople willing to take over, on the one hand, and entrepreneurs, sensitised to the subject, on the other hand. To this end, we will require experts, i.e. people with knowledge and competence in this very field, who are sensitive enough to coach such a critical process.

Transparency was one subject discussed. Another important question raised was how very small companies, absorbed by their “day-to-day business”, with very little information at hand, may be supplied with the knowledge they require.

Mr. Bonetti stated that the seminar marked an important step towards sensitising local, regional, and national SME representatives. The exchange of best practices is a most efficient tool. Employment, more start-ups and growth are priorities in all EU member States.

Awareness of business transfer processes has increased because failures result in the loss of jobs. It must be remarked in this context, that 99% of all EU enterprises are SMEs, and that about 66% of all jobs are accounted for by these companies.

The following aspects are important for the transfer of businesses:  
a „soft landing” for the entrepreneur leaving his company; the role of business associations and the development of targeted support programmes; personal (face-to-face) contacts and psychological support for sellers and buyers; creation of platforms and networks, above all for entrepreneurs not confident in the use of new technologies; harmonization of laws and tax regulations, at least within limited areas.

Mr. Timonen pointed out that public awareness-raising processes concerning the transfer of businesses might best be triggered off by stories about family businesses and family ties within companies, but not necessarily romantic success stories. It made sense and was promising to share experiences and learn from each other. Interesting cases always foster the learning process – this is particularly true for this subject matter.

One potential problem is the fact that SMEs tend to be somewhat reserved when it comes to dealing with the media. However, stories turn into interesting cases only when publicized. Organizations representing SMEs may achieve a lot for them by making good media relations a priority.

## **Closing Remarks**



## **Andreas Mitsis**

Secretary General for Industry of the Greek Ministry of Development

### **Intervention**

Ladies and Gentlemen,

A Greek proverb says that “wise parents’ children should better cook before they get hungry”. That’s what we are all required to do I’m afraid.

I have been appointed recently as the State Secretary for Industry, in the Greek Ministry for Development and one of my priorities, became very soon the mastering of the European policy for SMEs, as well as the elaboration of similar policies for Greece.

SMEs for Greece, serves as the backbone of our economy, hence all the issues related to them come at the forefront of our policies. The SMEs subject is also becoming very important to us, in a view of the forthcoming Greek Presidency during the first half of the year 2003.

I accepted the recommendation made by my team to attend this seminar, because it offers me the opportunity to see and assess the excellent work of the European Commission in cooperation with the Member States on the BEST projects, but also to brief you on the recent progress we have made in the field of business transfer.

We all agree I believe that the transfer of business involves emotional, fiscal, social, legal, administrative, and awareness issues, which have to be tackled with appropriate actions and policies on National and European level.

The issue of the Transfer of Business is very important for Greece as well, because the vast majority of our enterprises are small and very small and their existence depends exclusively on their owners.

A great number of these owners belong to the post war generation and are beginning or have already reached the age of retirement. Therefore, they are faced with the dilemma either to cease the activity of their enterprise or to secure its continuity by transferring it to their relatives or by selling it to third parties.

The fact is that at present most of these enterprises are forced to close down rather than to be transferred.

Of course it is our policy to facilitate the continuity of such businesses since this has positive effects both on the economy and on the employment.



As it is mentioned in the report, Greece has already made some progress in order to encourage the owner to transfer his business in case of retirement. To be more specific, the transfer of a sole proprietorship, shares of a sole proprietorship or a general partnership to the entrepreneur's spouse or children due to retirement are tax free as of 1st January 2001.

In addition, we are currently working on a new draft law concerning tax reform. According to this law the inheritance tax on the value of an enterprise to be transferred as well as the tax imposed during the selling of an enterprise are greatly reduced. We will be able to provide to the Commission more detailed information on this matter as soon as the law is passed from the parliament. But I can assure you that the cut will be worth it.

Moreover, in this month we passed a presidential degree safeguarding the employees' rights during and after the transfer of business. This is another step towards the right direction.

Since a lot of people are interested about Greece preparations for the European Presidency, let me now brief you about our plans regarding SMEs and other related issues, during the Greek Presidency. In particular, the following events will be organised:

- A European Forum with the subject "**Small Businesses and Young Entrepreneurs in the Knowledge-based Economy**" which will take place in Thessaloniki at the beginning of February.
- Two workshops related to **electronic business and SMEs**. The first will be held in Athens on January with the subject "**Setting targets for e-business policies**" and the second one in Crete in May on the subject "**Good practices of e-business policies in support of SMEs**"
- **A week events on entrepreneurship** within the framework of a European Commissions initiative. The dimension of transfer of business, when appropriate, will be taken into account, in the events mentioned.

At the Competitiveness Council, which will take place in March 2003, in Brussels, the following issues are foreseen to be discussed and possibly have conclusions on:

- The 3rd Progress Report on the implementation of the "European Charter for Small Enterprises" as well as the relevant Best projects and other community measures in support of small business in general.
- The Green Paper on Entrepreneurship which will be published by the Commission at the beginning of next year.
- The Commission's Communication on the progress and achievement of the e-Europe and Go-Digital initiatives that focus on the adoption and use of e-business by SMEs.
- The Commission's Communication on the Transfer of Businesses

And also in other issues on enterprise and industrial policy that will be brought in the two Competitiveness Councils, we will take into account the dimension and the special needs of SMEs.

Also in our plans we have the establishment of an Academy for Young Entrepreneurs as well as the appointment of a National SMEs' Envoy (in fact Mr Summa, European SME Envoy, is visiting us upon my invitation this Wednesday to discuss this matter among other issues).

We also examine the possibility of facilitating an electronic market for the transferring of enterprises.

As a final remark, I would like to thank the Austrian Federal Ministry for Economics and Labour and the European Commission for the opportunity they gave me to address the above issues and also to congratulate the organizers and the speakers for their excellent work.

I hope, for those of you who are going to participate in our events during the Greek presidency that you will find the same warm hospitality and high quality work as we had today.

It was a very enriching experience for me to participate in the seminar and I will do my best in my authority to implement appropriate measures in Greece for the important issue of transfer of businesses.

Thank you very much for your attention.



## Heinz Zourek

Deputy Director-General  
European Commission, Enterprise Directorate-General

### Closing Remarks

I would like to start off by thanking and expressing my gratitude to a lot of people, first and foremost to our hosts. Thank you Mr. President for inviting us to this rather inspiring working premises. I would also like to thank the Ministry for looking after the organisation, which, thanks to Mr. Krebs and his team was really remarkable. Not only the working methods and the working environment but also the social events have been organised excellently. Yesterday evening was a big surprise, allowing us to enjoy both the marvellous paintings and then the fine cuisine. I would also like to thank the rather small but determined team under the guidance of Mr. Doulík in DG Enterprise, in particular Cornelia Oud and Kirsi Ekroth-Manssila for having brought together the content of this seminar.

My feelings about the seminar are extremely good. I must admit I missed the morning session not because I stayed in bed too long, but because there was a press conference which took three times longer than we thought it would take because of the big interest shown by, in particular, the Austrian media. Nevertheless, this is a sign that the issue of the transfer of businesses is meeting with interest when presented to the press. They immediately asked questions, showing great interest in the subject and I think this would be an experience that is worthwhile repeating in other Member States. The seminar was a success in the sense that you all showed so much interest. You really outnumbered by far the expected number of registrations.

It was also surprising how easy you found it to make contact amongst yourselves and between representatives of different businesses in the audience. I hope therefore this seminar also served as a platform for making contacts. I must say it was also a success from the point of view of the atmosphere that prevailed in all the workshops and I hope that the expectations you had when you came to participate at this event have been matched.

The three main subjects or issues that prevailed from all the presentations and interventions are: 1) that the raising of awareness of all those that have to contribute to a successful transfer of business is a core for the deliberations and future development, 2) that support counts, in particular professional advice, but that the whole transfer of businesses could perhaps become a business of its own. It isn't going to be something that has to be subsidised throughout, but there are elements where the support from either professional organisations, from the Commission or from national governments would be helpful. There is a lot already there that only needs to

receive a little push. 3) The third element where I think a consensus has been reached was that one has to take a holistic approach to this issue and that you shouldn't underestimate the emotional aspects that are linked to it. If you don't get the emotions right then the figures won't be right either. This is a very important message because usually we don't take emotional aspects much into account in the business of enterprise policy. The message is clear. The transfer of businesses needs to receive the same level of attention from all those concerned as start-ups already do.

Particular interest should be shown by politicians because when we look at the goal of creating or improving competitiveness on the one side, it isn't wise to waste resources by letting an enterprise close while a start-up takes place 500 meters away just because they don't know of each other. The second interest is on creating employment. We have learnt that on average the performance of taking over an existing enterprise or business outperforms a start-up by 150%. With a simple calculation we can say that on average five jobs are linked with an existing business that is open for transfer while on average two jobs are created with a new start-up. So the difference is 150%. This counts in figures for creation of employment. I just want to repeat that since 2.4 million jobs are affected by business transfer, it is important that there is something that can be done without adding much effort, only some good ideas on how to promote transfers and to spread the news and information. This is relevant to both sides, those that are to offer and those that are perhaps interested in taking over.

What is the Commission going to do? Well, we certainly will not impose a tax harmonisation exercise, because first of all we wouldn't achieve it and secondly we wouldn't be allowed by Member States to do so. If I may just comment on Mr. Bonetti's statements which I liked very much. I only want to make one remark: you always mentioned the Commission and the Council in your speech yet you never mentioned the European Parliament. The European Parliament is, however, an important player in defending the interests (or should be an important player in defending the interests) of small and medium-sized enterprises. Many Members of Parliament claim to be very close to SMEs or to run them on their own, but nevertheless they never hesitate to vote on legislation which imposes new obligations on SMEs without having a close look at the impact.

What we can do, as the Commission, is to play our role and provide a reasonable impact assessment on proposed new legislation, but we have to defend the most appropriate and the less cumbersome projects through the whole process both in Council and in Parliament. To lobby the Parliament you need big organisations of small enterprises and determined efforts. Sorry for pointing this out, but I thought it was regrettable that you didn't mention them. What the Commission is going to do now is to continue promoting the subject of the transfer of businesses and try to raise public and political awareness although it might cause some criticism from the floor, from the technical to the political level. But you will not achieve any rapid improvement of the situation if you don't create political awareness. And peer pressure amongst Ministers perhaps helps more than the knowledge spread

amongst professional advisers, so there is a need to add it to the agenda of Ministers and to make sure that it figures among the questions that are asked at the press conferences. You could also perhaps encourage some journalists to investigate this by giving them real success stories to report on. We will try to be as instrumental as possible in this context.

The second consequence that I can draw from this is that we would like to integrate the advice and the contribution that we have got from you yesterday and today and we will try to help Member States should they wish to continue to implement the recommendations of 1994. We have just learnt from Mr. Mitsis that the Greek presidency will take the opportunity to start to do something more because it doesn't like to be in the column with the most red blocks in this scoreboard. But it wouldn't be sufficient, as I've learnt from this conference, if you were to just look at the present community. We have to make a determined effort to also look at the appropriateness of the old recommendations or what is missing with regard to the candidate countries and the new Member States in two to three years time because then we will have to see whether what we have now on the record is still valid or whether we should add something to it, or whether we should create some other support measures that particularly address this problem. This is the third consequence.

We will of course also try to put into practise those recommendations that are addressed at a European level in the Expert group's recommendations that are now available. What we can also offer to do is to try to put everything that could be of interest to the whole community dealing with the transfer of business on the web. This would be a very practical and helpful investment from our side, allowing you to access whatever you would like to investigate further without wasting valuable time looking all over the place. I think that the main message that we have to give at a political level and to all the businesses interested in this is that the Commission is determined to promote the link between success and succession and this will be our main theme for the future on this subject.

Thank you.



## **Richard Schenz**

Vice-President of the Austrian Federal Economic Chamber

### **Closing Remarks**

I should like to pass on the apologies of Mr Leidl who is currently on a visit to Italy with the Austrian Federal President, and to convey his best wishes to all seminar participants. He regrets very much being unable to attend this seminar given the fact that its findings will be considered by many entrepreneurs in their decisions on their company policies and will also be taken into account by the various bodies of the economic chambers.

The Federal Economic Chamber declared 2002 as the year of business start-ups, and it is only appropriate to declare the year 2003 that of business transfers, because we have seen that take-overs are in most cases more successful than start-ups. Therefore, our goal is to further improve the range of support services offered that will contribute to the success of such transfers.

Yesterday and today we studied the process of business transfers in great detail. This topic was not really important to my generation until a few years ago, because the economy was flourishing and the post-war generation of entrepreneurs were in their "prime". In the meantime, the environment for entrepreneurship has undergone profound changes. The dynamism of economic change has gathered considerable momentum, and Europe is at present experiencing a transformation from the industrial age to the era of a knowledge and service based economy. This transformation has not only manifested itself with particular force in Austria, but elsewhere as well.

In 1989, the iron curtain was lifted and the countries of the former eastern bloc started to open their borders, which significantly accelerated structural change, especially in Austria's border regions, and contributed to a rapid additional growth of the Austrian economy and to the creation of a markedly increased number of qualified jobs. In 1994, the results of the so-called Uruguay Round of the WTO were implemented. We are now facing another round of deregulations of international trade.

1995 saw the accession of Austria, Finland and Sweden to the EU, which further speeded up structural change as a result of fiercer competition. In less than two years from now all our neighbouring countries will be admitted to the EU.

This process will bring in its wake an expansion of the cross-border division of labour, at least in the border regions, lead to ever keener competition and trigger the acceleration of structural adjustments. This is, of course, the specific challenge Europe faces, but what is more, it is also its particular



opportunity. The economic performance of the candidate countries demonstrates the dimensions of these opportunities. At present, we within the EU can only dream of the economic growth rates recorded by our neighbouring countries. Thanks to our country's geographical location we can expect regional and sectoral development at a significantly faster pace in the immediate future.

This higher speed of economic growth will evidently have an impact on sectors which, according to a study conducted by the Institute for SME and Trade Research, are hardly attractive for transfers of enterprises and are currently undergoing a restructuring process. After the discussions of yesterday and today this should clearly prompt us to consider by which means Austria can heighten its competitiveness as a business location, how entrepreneurship can be made more attractive in our country and how – and this brings us to the core topic of our seminar – business transfers can also function in lines of industry which are exposed to ever greater pressure for restructuring.

You could replace Austria by any other EU Member State – most of these trends would apply to our neighbouring states as well.

As Mr. Zourek, the Director-General, pointed out at the press conference, Austria does not figure prominently on the list in terms of promoting business transfers. This is certainly true to some extent and the European benchmarking exercise should help us, in particular, to redouble our efforts. Nevertheless, we have been able to bring considerable new dynamism to transfers of businesses over the past few years. The study is an impressive demonstration of this fact. This new dynamism can be ascribed to a number of initiatives taken by the Austrian federal government and the Federal Economic Chamber in recent years.

As an example of a regulatory climate conducive to transfers of businesses, allow me to mention the unlimited extension of the Act on the Promotion of Business Start-Ups, and the raising of the tax-free ceiling applying to proceeds from the sale of enterprises to € 7,300. At the same time, the ceiling for exemption from inheritance tax and gift tax was raised to € 365,000. Under social insurance law, the minimum assessment base for contributions to the national health insurance scheme by small enterprises was lowered.

In the first two years after a start-up, young entrepreneurs pay significantly lower contributions. The provisions governing in-company old age pensions, in Austria known under the buzz phrase of “new severance pay arrangements”, will significantly facilitate transfers of businesses in the medium term as liabilities for severance pay will no longer fall due at the time when the transfer takes place as was the case previously.

The Federal Economic Chamber itself has also made a major contribution. We have abolished the registration fee for companies and reduced membership dues by an impressive 30 per cent. At the same time, we have considerably strengthened our start-up support services in all Federal

Provinces. These start-up services offer team support; after all, in 2001, 741 cases of counselling on business transfers were recorded, with a total number of approximately 5,200 transfers. You can read up our guidelines for business transfers in the room next to this one and test the two online facilities at [www.nachfolgeboerse.at](http://www.nachfolgeboerse.at) and [www.gruenderservice.net](http://www.gruenderservice.net). Yet this initial success is no reason for us to rest on our laurels. In the years to come, conditions will have to change drastically under the impact of Basle II, especially for the financing of small enterprises, even though the new provisions will not be as drastic as originally feared.

Support services offered to entrepreneurs who want to transfer or take over a business will have to be improved further, in line with the document "Top Class Business Support Services" which was published by the Directorate-General for Enterprise. At this point, I should like to pay tribute to the Commission for having chosen this topic for an EU-wide debate, thus making entrepreneurs who intend to transfer their businesses and potential young entrepreneurs aware of the possibilities. The way in which this process is conducted, namely on the basis of benchmarking and best practices, is a reasonable approach that will allow us to deal with such problem cases more effectively in future.

In Austria we are confronted with the problem that 72 per cent of the funding needed for running an enterprise still comes from loans, whereas the EU average for loan financing is 40 per cent. Thus we must mobilize additional capital for small and medium-sized enterprises. A number of options are available in Austria which will help small enterprises to move away from the relatively costly loan-financing approach. If no financing instruments other than lending facilities are available, there will be practically no innovative businesses in the future. Therefore other categories of risk money have to be made available.

I do not wish to list all the items which require further improvement, let me just mention one specific area in which they are concentrated: investment legislation should also be modified in order to promote business take-overs. It is inadmissible that a new auditing procedure for conformity with the law, requiring a considerable input of time and money, has to be applied to investments previously made in conformity with existing laws.

Financial support models for small companies are legion. Our department for young entrepreneurs has devised the system of "double equity", under which private investors double the equity of enterprises via financing agencies, so that the former can obtain loans at favourable terms because of their stronger equity base.

We will support the platform initiated by Minister Bartenstein, and take an active part in it. The Federal Economic Chamber will organize 25 conferences and seminars on business transfers this year, in order to provide relevant information to those of our members who are affected by transfers.

Let me summarize: If the EU can find good solutions, then we will be able to achieve the Lisbon goals with greater ease; namely to make Europe the most

dynamic knowledge-based economic area. We are very proud that this seminar took place on the premises of the Federal Economic Chamber, because business transfers constitute one of the core subjects dealt with by our organization. Please accept my sincere thanks for having attended this meeting.

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