Final Report

Framework Service Contract for the Procurement of Studies and other Supporting Services on Commission Impact Assessments and Evaluations
Interim, final and ex-post evaluations of policies, programmes and other activities

Evaluation of the Implementation of the 2006 Commission Communication on Business Transfers

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This document contains the Draft Final Report being submitted by the Centre for Strategy & Evaluation Services (CSES) LLP in respect of the assignment: 'Evaluation of the Implementation of the 2006 Commission Communication on Business Transfers', which is being undertaken for DG Enterprise and Industry.

1.1 Resume of Assignment Aims

The 2006 Commission Communication 'Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses - Continuity through a new beginning'[1] built on work by the European Commission and the Member States going back over 20 years with the aim of improving the conditions for business transfers in EU Member States.

'Business transfer' refers to the process of handing over a business to new owners and usually new management. In the past, this has often been thought to happen primarily on the retirement of the initial owners. It often occurs after a period of difficult transition for a business, during which its continuation and the livelihoods of those working for it can be put at risk. Even in the best circumstances, it requires significant adjustment and change and because of the large numbers of enterprises thought to face such a situation and the potentially major implications of the failure of significant numbers of such enterprises to make the transition successfully, the issue of business transfer has for some time been a matter of public concern.

Significant progress has been made over the years in relation to various aspects of the problems associated with business transfer, but the situation across Europe remains variable and a study on 'business dynamics'[2] for the Commission in 2011 estimated that each year across Europe approximately 450,000 firms are transferred and that this involves around 2 million employees. Of these, it was said, approximately 150,000 firms and some 600,000 jobs are put at risk because of inefficiencies in the business transfers system.

In view particularly of the current economic circumstances and the need to make every effort to facilitate enterprise and remove obstacles to business activity and employment, the Commission decided to review the situation on business transfers, to identify the remaining barriers in the relevant procedures and circumstances affecting the transfer of businesses and to assess the relevance, effectiveness, efficiency and utility of the relevant regulatory and administrative measures and of the support services that aim to assist enterprises in this area.

This review has been based on the collection of primary and secondary evidence through a series of activities set out in this Report, including desk research, surveys, interviews and subsequent analysis. This research has made use of the body of information and knowledge on the area that has been built up at European and national levels over a number of years.

In parallel, the Commission has organised an Expert Group, which is an important source of information, both directly and indirectly, on the current state of play in the participating countries' policy and actions

[1] Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions 'Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses - Continuity through a new beginning' COM(2006) 117 final of 14.03.2006

[2] Business Dynamics: Start-ups, Business Transfers and Bankruptcy, final report January 2011 at http://ec.europa.eu/enterprise/policies/sme/business-environment/files/business_dynamics_final_report_en.pdf

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relating to business transfer. The members of this Expert Group were nominated by national administrations. In addition representatives of associations and expert researchers in the field were also invited to contribute. Three meetings took place during the course of 2013 and each meeting has provided an opportunity to discuss with the experts the main developments with the project and to seek their assistance in obtaining information, clarifying issues and formulating sound conclusions and recommendations. The first meeting took place on 13th February 2013, the second meeting on 27th June and the third and final meeting on 28th October 2013. These meetings have allowed the evaluation team to interact with the Expert Group, both on the occasion of the formal meetings and subsequently on a bi-lateral basis, and the generous contribution of time and information by the experts has proved to be a valuable asset for the project. Discussion in the meetings has been supported by material developed by the evaluation team, including drafts of the developing reports at appropriate stages.

Formally, then this project was intended to evaluate the present situation with the implementation of the 2006 Commission Communication on business transfers in Member States and in the CIP Participating Countries, by identifying the remaining barriers to business transfers and assessing the relevance, effectiveness, efficiency and utility of the regulatory and administrative measures and the support services aiming to facilitate business transfers.

Specifically the study aimed to:

1. identify the remaining significant administrative, regulatory and other barriers in this area;
2. identify measures at national, regional and local levels designed to remove or redress such barriers
3. develop indicators for assessing those measures;
4. assess the extent to which the measures effectively address the barriers in terms of their relevance, effectiveness and utility, as well as their efficiency;
5. assess the scope and quality of information and statistics available in this area;
6. make recommendations for future work in the area.

The main tasks that have been undertaken include:

- Validation and refining of the methodological approach, including the formulation of a set of pertinent evaluation questions. The final approach has been agreed with the steering and expert groups.
- Collecting, analysing and presenting the necessary data to answer the evaluation questions in line with the evaluation criteria.
- Developing a set of indicators.
- Answering all the evaluation questions and developing robust and useable conclusions.
- Formulating recommendations on the basis of the evaluation findings and in line with the purpose of the exercise and the evaluation questions set.
- Presenting findings, conclusions and recommendations in a final evaluation report.
- Setting out the results in an interactive audio-visual presentation and presenting them in a workshop to Commission staff, and also to stakeholder groups.

In order to establish the appropriateness of the policies and actions to be examined, the techniques used in evaluation have been deployed to examine the relevance, effectiveness, efficiency and utility of the actions under consideration. Providing focus for this analysis, the following evaluation questions have been elaborated, based on those set out in the Request for Services:

Relevance

1. Are the measures undertaken consistent with the objectives of the 2006 Commission Communication on Business Transfers and other relevant policy statements?
2. Are the measures consistent with each other?
3. To what extent do barriers to successful business transfers hinder economic growth and competitiveness?

Effectiveness & Utility

4. What is the extent currently of measures taken to facilitate the transfer of businesses across the participating countries, including the extent of dedicated support measures?
5. Do measures address the full range of problems identified in earlier work on business transfer?
6. What is the evidence on the effects of these measures?
7. To what extent do existing support measures successfully address genuine business transfer difficulties?
8. What are the remaining barriers to effective business transfers and what factors underlie these barriers?

Efficiency

9. What aspects of measures taken to address business transfers are the most efficient or inefficient, especially in terms of resources that are mobilised by stakeholders during the different phases of the process?
10. What does this represent in terms of administrative and reporting burdens on stakeholders and/or other actors?
11. Which aspects of measures in place either facilitate or hinder their adoption elsewhere?

As the investigations have progressed, further questions have been raised, initially relating to issues raised by the Expert Group, such as the extent and nature of cross-border transfers and subsequently arising from the investigations undertaken. It will be seen that these questions suggested that more fundamental issues are at stake and that these require a reassessment of the nature of business transfers and the policy implications that follow from this.

1.2 Structure of the Report

The Report is structured as follows:

- **Section 2: Policy Background** – summarises the policy context of the assignment.
- **Section 3: Methodology of the Investigations** – sets out the approach that has been taken to the evaluation.
- **Section 4: The Findings of the Investigations** – sets out the detailed findings of the investigations undertaken in four sections, addressing respectively, the 'relevance' of the

policy stance, the extent to which the policy is being implemented in the participating countries, issues effecting how efficiently the policy is being implemented and the European value-added from the co-ordination of the policy at a European level.

- **Section 5: Conclusions & Recommendations** – a summary of the conclusions and the recommendations.
- **Annexes: Case Studies and supporting papers.** The 'case studies' address particular issues in greater detail than is possible in the main text.

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2.1 The Policy Context for the Transfer of Businesses

Introduction

The European Commission has been championing measures to create a more entrepreneurship-friendly business environment for more than two decades and the themes of promoting economic growth and jobs have often been associated with this aim. Currently these issues are at the very heart of the Europe 2020 Strategy and the associated Flagship Initiatives that provide a focus for much of policy development at a European level. In particular, these strategic frameworks very much define the context in which actions intended to promote an improvement in the framework for business transfers is considered. However, such actions need also to take into account a relatively well-established legacy resulting from earlier initiatives at a European level and in the Member States.

Some of the key milestones in initiatives on business transfers have been marked by the following developments.

The 1994 Recommendation

The Commission's action in this field dates back to January 1993 when a symposium took place in Brussels to establish the business transfer situation in Member States and identify best practice. This was followed by a wide consultation and led to the adoption of a formal recommendation.

The Recommendation of 7th December 1994[3] aimed to improve the framework conditions for business transfers. This document referred both to some earlier measures such as the Decision 93/379/EEC (4) which had sought to improve the legal, fiscal and administrative environment of enterprises and also the White Paper on Competitiveness and Employment which saw the transfer of businesses as a priority area requiring measures to improve the situation. There was also mention of the importance of business transfers in the Integrated Programme for SMEs and the Craft Sector of 3rd June 1994 and an initiative announced to limit tax charges on succession or donation. At this stage it was determined that several thousand enterprises cease trading every year because of problems related to their transfer, with knock-on effects as regards shareholders, employees, creditors and the community.

This loss was not seen to be as a result of market forces but because of legal obstacles to transfer in the laws of the Member States, so the view was that changes to national law would improve the situation. Areas identified for improvement were: increasing the awareness of entrepreneurs and measures to inform or educate them to prepare effectively for succession; financing compensation for co-heirs who did not want to continue in the business (in family businesses); changing the legal form of enterprises to make transfer more possible; addressing fiscal procedures that hamper the adoption of the most appropriate legal form; issues surrounding the death of a partner or sole proprietor; fiscal burdens (e.g. inheritance or gift taxes); valuation of the enterprise; making sale easier if the firm is not to continue in family ownership; and encouraging employee buy-outs if appropriate.

The Recommendation invited Member States to take the necessary measures to facilitate the transfer of SMEs to ensure their survival and to safeguard jobs. Measures suggested were:

[3] Commission Recommendation of 7 December 1994 on the transfer of small and medium-sized enterprises 94/1069/EC

- Encourage initiatives to increase awareness, information and training in order to ensure a timely preparation of business transfers.
- Provide a financial environment conducive to business transfers.
- Provide legal possibilities to restructure a business to prepare a transfer.
- Establish legal principles that ensure continuity of partnerships and sole proprietorships in the event of the death of one of the partners or the owner.
- Help the survival of businesses with appropriate inheritance and gift taxes.
- Facilitate the transfer of a business to third parties by appropriate tax rules.

Concerted action by Member States was also recommended.

The Communication of 1998

Four years later the 1998 Communication reported[4] on the progress of Member States in response to the 1994 Recommendation. More specifically, the 1998 Communication mentioned that most of the measures taken related to modifications of *the legal environment* in order to encourage and facilitate transfers of businesses. Member States had modified *the fiscal treatment* of transfers, notably through the reduction of inheritance and gift taxes. Other initiatives also aimed to improve the financial prospects of businesses when they were transferred. The actions were characterised as follows:

Measures taken or proposed in order to encourage the transfer of SMEs – areas of concern		
Legal	**Tax**	**Support**
1. Conversions of partnerships into limited companies and *vice-versa* 2. Simplified public limited company 3. Single-member public limited company 4. Increasing the continuity of business (legal principle/ administration, trust, *fiducie*/ business-family agreements 5. Administrative and accountancy simplification	1. Gifts and successions 2. Sale to third parties 3. Sale to employees 4. Conversion of companies 5. Double taxation 6. Information and best practice 7. Tax reforms	1. The role of financial institutions (existing measures and priorities) 2. The role of intermediaries (existing measures and priorities) 3. Conclusions

Source: Communication from the Commission on the transfer of small and medium-sized enterprises (98/ C 93/02)

The Communication also summarised the practical experience of transferors and transferees as identified in a survey of European business organisations carried out in preparation for a European

[4] Communication from the Commission on the transfer of small and medium-sized enterprises (98/C 93/02)

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Forum in Lille. Lack of preparation for transfer was identified as the clearest issue. It is usually left too late and not seen as a central management activity. A second main finding concerned the role of valuation, which affects taxation, sale to third parties and intra-family gifting of the business. A third key result was that the experience of the transferor could help those that take over the business, as could the contribution of business angels, or similar advisors.

The 1998 Communication also showed that despite the improvements made, there were wide variations among different Member States and it called for continued efforts to facilitate the transfer of businesses *through legislative and administrative simplification, effective tax reductions and easier access to financial support for the takeover of a business*. The Communication also indicated that the suggestions in the 1994 Recommendation had "not been followed to an extent which would be sufficient to overcome the specific obstacles met by businesses facing their transfer" (p.11). In addition, the Communication stressed the importance of *intermediaries* being well informed and trained in all relevant aspects of the business transfer. The Commission was committed to monitoring the situation and to contributing to awareness-raising, information and training of all parties concerned.

The Best Procedure project 2001

In 2000, the Commission set up an expert group on the transfer of business to monitor the implementation of the 1994 Recommendation. The tasks of the group included identification of new legal, tax and support measures, assessment of the measures taken, analysis of the provision of support measures and proposals for further action.

The final report of the group estimated that roughly one-third of all EU companies would change hands over the next 10 years (from 25-40%, depending on the Member State). This meant that an average of 610,000 small and medium-sized enterprises (SMEs) would change hands each year, potentially affecting 2.4 million jobs (data for EU 15). And yet, the expert group reported, barely half of the 21 tax and legal measures that small businesses need to survive changes of ownership were in place eight years after they were set out in the 1994 Commission Recommendation.

The expert group had noted that the values of owners of businesses had changed from those who took over or built businesses after the war, which meant that they no longer had the strong social and personal bonds with employees that often characterised the earlier entrepreneurs. And, although support for transfers was provided, it was not offered in a structured manner.

The expert group identified key areas for attention: measures to facilitate transfer to third parties and employees; special rules for inheritance and gift taxes; relief for early retirement; relief on funds from a transfer reinvested subsequently in another SME. The group recommended that a European Business Transfer Centre be created; a market for business transfers be developed; regular meetings on the subject take place, training be available, public support be provided and that attention given to transfer should equal that paid to start-ups. The Commission was encouraged to develop a detailed action plan for implementing the recommendations.

The European Seminar on the transfer of businesses, 23-24 September 2002, Vienna

As a first follow-up to the expert group's report, the Enterprise Directorate-General together with the Austrian Federal Ministry of Economics and Labour organised a European Seminar on the Transfer of Businesses in Vienna on 23-24 September 2002. The aim of the seminar was to raise awareness about the transfer of businesses, to provide an opportunity to exchange good practice in this area and to learn from each other's successes. The results of the Best procedure project on the issue and examples of good practice in the different Member States were presented at the seminar.

The seminar concluded that raising awareness is the starting point for successful transfers. Only after that does practical support become important. As business transfer often involves family and partners to the main actors, the soft factors (psychological and relational matters) are of growing importance during the process. Yet consultants typically have very little or no experience in this field. Nevertheless, a holistic approach is required to tackle all aspects related to business transfers: we should not ignore the emotional side. Due to the complex nature of business transfers, professional advice is needed to steer through the process. The existing support measures should, however, be made more visible and be better co-ordinated.

Both the Best Project and the European Seminar on the Transfer of Businesses concluded that business transfers should be given the same degree of importance as start-ups. According to Austrian research presented at the seminar[5], 96% of completed business transfers survive the first five years after a transfer. The chances of survival are thus higher than for start-ups, where 75% are still in business after five years. Moreover, a successful transfer conserves, on average, five jobs, whereas a start-up generates on average two jobs. For these reasons it is necessary to raise political awareness of the importance of business transfers and to promote transfers as an attractive alternative to starting up one's own business.

The 2002 project on business transfers

In 2002-3 the Enterprise Directorate-General followed up on its Best-Procedure project of 2001. A group of experts nominated by their national administrations set benchmarks for key areas of business transfer support and policy where it would be the most important to make progress. The experts described the actions already taken or planned by the different countries and by the European Commission to improve the implementation of the Commission Recommendation and to respond to the recommendations made by the Best Project expert group of the previous year.

The expert group reported[6] that there was still room for improvement in implementing both the Commission Recommendation and the recommendations by the Best expert group. Nevertheless, it indicated that the situation showed that there was an increasing policy commitment to facilitate the transfer of businesses. However, further work was needed in the following areas: equal attention to transfers and start-ups; measures to facilitate transfers to third parties and to employees; measures to encourage timely preparation; exchange of good practice, and a more co-ordinated approach to support via national Business Transfer Centres. Furthermore, in order to help find successors, more efforts should also be made to promote transfers as an alternative to starting up.

Good Practice Guide 2003

This brochure highlighted some of the cases described in the final report of the 2001 'Best Procedure' project on the transfer of businesses, or presented at the Vienna seminar on the transfer of businesses.

[5] Austrian Institute for Small Business Research 'Unternehmensübergaben und –nachfolgen in Österreich' 2002
[6] Transfer of businesses – continuity through a new beginning. Final Report of the MAP 2002 project - transfer of businesses. August 2003

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The aim of the brochure was to provide policy-makers, business support organisations and other interested readers with examples of practical support for business transfers.

2006 Communication from the Commission: Continuity through a new beginning

In February 2005 the European Commission reaffirmed its commitment to the Lisbon partnership for jobs and growth and in November 2005 launched a comprehensive policy framework for SMEs explicitly recognising the importance of business transfers. The area of business transfers was then specifically addressed the following year by the Commission Communication, "Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses - Continuity through a new beginning"[7], which pointed out that thousands of economically sound businesses, mainly small and medium-sized enterprises (SMEs), disappear every year because they fail to overcome the difficulties involved in the transfer of ownership. It was estimated that up to 690,000 businesses providing 2.8 million jobs are facing the problem of transfer to a new owner each year.

It was recalled that the European Commission had initially identified four typical problems with transfers: (1) Ensuring continuity of partnerships and sole proprietorships; (2) Preparation of transfers by adopting the most appropriate legal form; (3) Encouraging transfers to third parties and (4) Helping family transfers with appropriate tax measures.

In terms of the recommended responses, there was still room for improvement: in only about 55% of the areas of the 1994 Recommendation were measures in place. The main areas in which more effort was required were highlighted:

- giving political attention to both business transfers and start-ups
- providing financial facilities designed to finance a transfer
- awareness raising about business transfers (including consideration of soft factors and support mentoring)
- organising transparent markets for business transfers
- transfer-friendly taxation policy

Member States were invited to create structures to improve these conditions through national, regional and business support infrastructures.

It is particularly on progress in relation to these areas that the current evaluation project is concentrating.

2006 Expert Group Report on Markets for Business Transfers

A number of other policy developments and studies have contributed to the policy framework since the publication of the 2006 Recommendation. In 2006 itself, an Expert Group reported that for various reasons an increasing number of retiring business owners hand over their enterprises to people outside their family, sometimes to employees but often also to young entrepreneurs who want to set up their own business or to other investors. In order to match supply and demand for business transfers in some countries public or quasi-public institutions have created special databases ("marketplaces"). In

[7] Transfer of Businesses - Continuity through a new beginning' COM(2006) 117 final

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2005/2006 a group of national experts analysed such marketplaces, nine in detail, of which the majority had been established relatively recently (in the past three years). The report highlighted the special economic nature of such markets, identified success factors (not fragmented nationally, a neutral and trusted host organisation, awareness, search features, anonymity, quality of entries, additional support services and systematic follow-up) and drafted recommendations for their organisation.

The Small Business Act (SBA)[8]

In the Small Business Act (SBA) of 2008, business transfers are specifically mentioned under the first principle: “To create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded”. And it was again recognised that the successful transfer of businesses preserves more jobs on average than those created by new start-ups. Particular recognition is given to family businesses because of their typically local base, socially responsible attitudes, and combining of tradition with innovation.

In the SBA Member States are invited to: ensure that taxation does not unduly hamper transfer of business, put in place schemes for matching transferable businesses with potential new owners and provide mentoring and support for business transfers.

2009 Pilot Action "Mentoring Business Transfer"

For a successful business transfer, it has long been recognised that external advice and mentoring for the new business owner can often be the crucial success factor. Following up on an initiative by the European Parliament, the European Commission conducted a Pilot Action on transfer of expertise through mentoring in SMEs. The project ended in 2009 with mentoring services delivered to over 900 mentees all over Europe. It allowed a new support scheme to be tested on a large scale and helped buyers of enterprises to overcome post-takeover difficulties, while assessing the quality and the impact of the mentoring provided. The final report identifies the major topics of interest for the mentee and gives information on business transfers on a national basis. It also outlines major issues for consideration when such a scheme is rolled out (e.g. identifying the target group, choice of the appropriate organisation, identification of experts, duration of mentoring, and format and content of mentoring).

Family-Business Issues

A number of studies have considered the importance of business transfer for family businesses. In 2008 the report entitled an ‘Overview of Family Business-Relevant Issues’[9] made specific reference to preparing for business transfer at an early stage. According to the report, succession is seen by many authors as the most important issue that a family business has to cope with. The report also stresses that intergenerational transfer is not seen as an event but a process that has to be planned well in advance to succeed.

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[8] COM(2008) 394 final - Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: “Think Small First” A “Small Business Act” for Europe.

[9] Austrian Institute for SME Research ‘Overview of Family Business-Relevant Issues’ 2008

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A publication by the Global Corporate Governance Forum: “When Grandpa is also the CEO”[10] makes clear how costly dispute resolution can be. A LEMNA Working Paper: “From Wife to Widow Entrepreneur in French Family Business. An Invisible-Visible Role in Passing on the Business to the Next Generation” deals with the role played by widows in French Family business. This makes it clear that the issue of business transfer should not be examined separately from matters related to the treatment of gender in law.

The Review of the SBA for Europe of 2011[11]

The review of progress of the SBA conducted in 2011, found that overall implementation is progressing but that more still needs to be done. As regards business failures, it is pointed out that about one third of business failures occur in the context of a business transfer. In response, the Commission undertook to identify best practices to support business transfers and launch a campaign to promote these practices, and invited Member States to develop user-friendly and widely supported marketplaces and databases for transferable businesses and provide training and support to increase the number of successful business transfers, including communication campaigns to raise awareness of the need for early preparation of business transfers.

“Business Dynamics: Start-ups, Business Transfers and Bankruptcy”[12]

This 2011 study analysed progress to date by the Member States on implementing measures to improve the environment for business transfers as a result the 1994 Recommendation and the 2006 Communication. It found, inter alia, that there remains room for improvement and that the situation is highly varied across the Member States.

According to the Business Dynamics study, approximately 450,000 firms with 2 million employees are transferred each year across Europe. Of these, it is claimed, there is a risk of losing approximately 150,000 firms representing some 600,000 jobs due to inefficiencies in the business transfers system.

Inefficiencies in the transfer system include such factors as administrative, tax or regulatory requirements, lack of awareness of needed preparations, or lack of transparent markets for such transactions. The same study also found that the smallest businesses are the most vulnerable to failed transfers. Other factors of vulnerability are the legal form of a company (sole proprietorships are the most vulnerable) and its age (companies less than three years old are very vulnerable).

In some European countries, a transfer-friendly regulatory framework is under development (in some 16 countries 50% of the recommendations have been implemented), yet even in those countries there may still be low awareness in the entrepreneurial community and stakeholders (professional associations, legal firms and consultants to entrepreneurs) about possibilities for transfer and about the preparations needed. There is also a lack of systematic monitoring of business transfer activity and comparability between countries is difficult due to differing definitions being used.

A key finding of the report is that start-ups, business transfers and bankruptcy should not be seen as separate matters from a fiscal/legal/administrative point of view but dealt with in an integrated framework dealing with the life-cycle of a business.

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[10] Private Sector Opinion 28: Barney Jordaan, University of Stellenbosch Business School.
[4] COM(2011) 78 final – Commission Communication Review of the “Small Business Act” for Europe.
[12] Business Dynamics: Start-ups, Business Transfers and Bankruptcy, final report January 2011 at

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As the barriers to successful business transfers are largely to be found at local, regional and national level, it has become clear that there is substantial utility in comparing and contrasting approaches across Europe with a view to exchanging good practice.

2.2 Assessment of the Legacy

It was clear at the beginning of the evaluation from the account of the action on business transfer taken over a long period that there were a number of recurrent themes. The continuing need for awareness raising and effective support are frequently mentioned, although there is also a development in thinking on what is required in these areas. Overall, it was apparent that there had been progress, but also areas where developments are clearly difficult.

The current project has had to build on the earlier findings while also identifying any solutions previously identified but not subsequently taken up. It was necessary initially to take certain parts of the legacy for granted. One such area was the characterisation of the key aspects of a business transfer. These had been described in the Business Dynamics study as follows:

> 'The concept of a business transfer refers to processes whereby all assets representing in their totality an enterprise as a going concern are transferred to a new owner. There may also be a transfer of some or all of the business liabilities. The new owner may be a family member or someone else (e.g. through a buy-out or a sale to a third party)'.

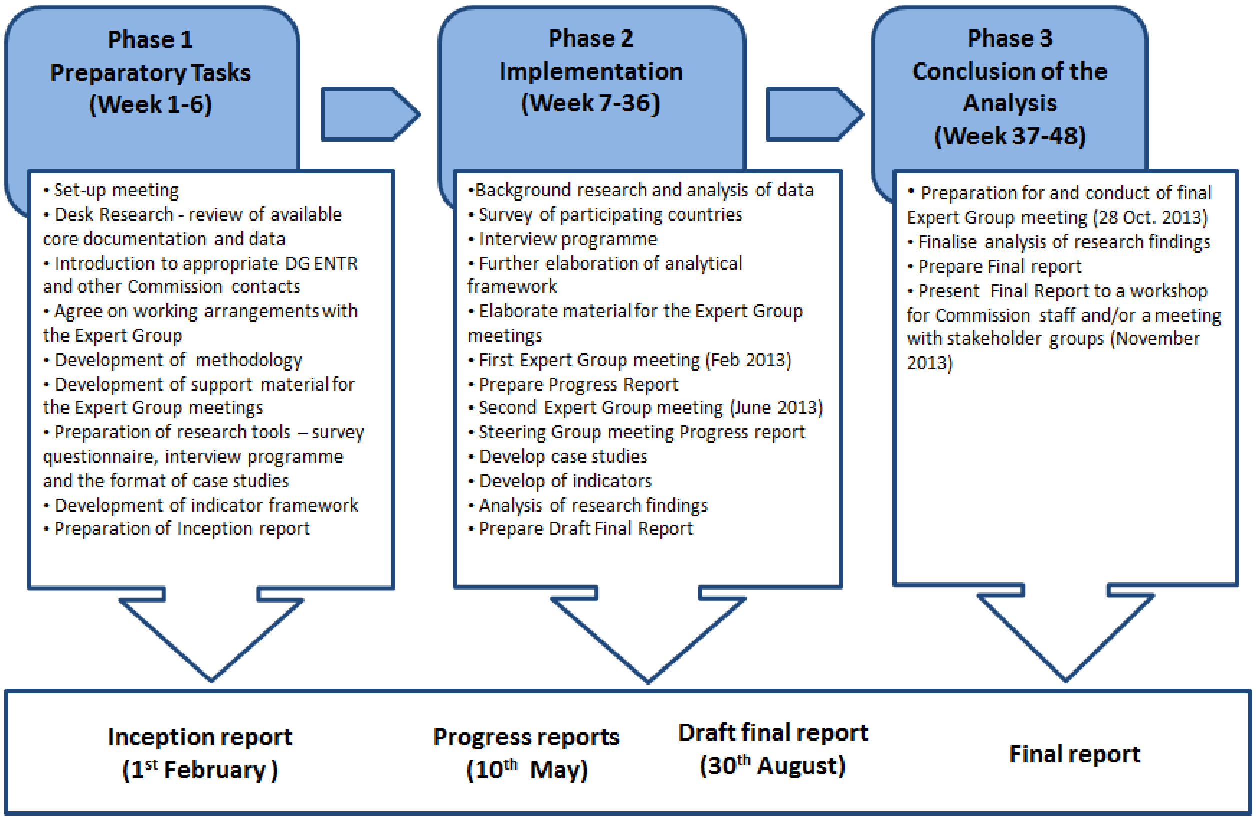
It was therefore assumed that a business transfer may arise in response to the 'classic situation', where a business owner nears retirement and wishes to hand on the business to the next generation, but the process under consideration was not confined to family businesses, and in particular, did not necessarily refer to the new owner having family ties to the former proprietor. Similarly, the business concerned, both before and after the transfer, may be in a variety of legal forms; it may be a sole proprietorship, a partnership or have the status of a company, especially a private company. On the other hand, the context in which business transfer is discussed has usually been different in the past from that in which mergers and acquisitions are considered. This has to do with the motivation for the change. Whereas with mergers and acquisitions the transfer of ownership takes place for commercial reasons and is motivated by external considerations and a broader business logic, a business transfer in the sense that has been used in this area of Enterprise policy, is motivated by the necessity for a change in the ownership (and usually management structure) arising from internal considerations and changes in the circumstances of the business owners.

It will be seen that at a later stage in the project, some of these assumptions had to be modified or at least seen in a different context. However, this development will be explained subsequently in the Report.

The Methodology of the Evaluation 3

3.1 Overall Approach

The work for this project has been organised in three separate phases, each of which has resulted in the submission of one of the required deliverables. These are illustrated in the diagram below which sets out the Work Plan for the assignment:



3.2 The Methodology of the Evaluation

Phase 1 of the project was used to undertake various preparatory tasks and to establish the detail of the issues to be addressed and the methods to be used. Phase 2 began with the first meeting of the Expert Group and then went on to implement the planned investigations, in the form of continuing background research, the conduct of a survey of the participating countries, an interview programme and the development of a series of case studies. A second meeting of the Expert Group took place during the course of this phase, at which progress was reported and presentations were made on particular issues and the end of this phase was marked by the preparation of the Draft Final Report with a view to its presentation to the third Expert Group meeting. The final stage of the project consisted of discussions on the Draft Final Report, leading up to, during and following the third Expert Group meeting and the writing of a revised Final Report – the current version.

3.2.1 Basic Documentation and Data

In the initial stages and subsequently, the CSES team conducted desk research in order to become familiar with the policy documentation and a wide range of studies relating to different sides of the business transfer issue. Central to the desk research were the policy documents summarised in the previous chapter, but also the extensive research at a European and national level on the extent of transfers taking place, the characteristics of family businesses and other enterprises where transfer poses particular challenges, the statistical information on business dynamics, on mergers and acquisitions and on other contextual data, specific information on finance issues, inheritance law and taxation, on-line markets, trans-border issues etc. The European Foundation for the Improvement of Living and Working Conditions (Eurofound) provided helpful assistance with the relevant parts of a series of studies on 'Restructuring in SMEs'[13]. The details of the work consulted are to be found throughout this Report.

The nature of the information sought from the members of the Expert Group was also considered.

Background statistical information on the SME sector, such as Eurostat's Structural Business Statistics, was examined, together with an initial examination of data available at a national level. The research indicated that the extent of relevant data is rather disappointing. There was also a review of the methods used to make calculations of the extent of the business transfer 'problem' reported in earlier policy documents.

3.2.2 Working with the Expert Group

A key feature of this evaluation has been the work that has been undertaken with an Expert Group nominated by the following participating countries:

Table 3.1: Countries Participating in the Expert Group

Belgium	**Italy**	**Romania**
Bulgaria	**Latvia**	**Slovakia**
Czech Republic	**Lithuania**	**Finland**
Denmark	**Luxembourg**	**Albania**
Germany	**Hungary**	**Croatia**
Greece	**Netherlands**	**Liechtenstein**
Spain	**Austria**	**Norway**
France	**Poland**	**Serbia**
Ireland	**Portugal**	**Turkey**

In addition, various bodies with an active interest in business transfers have also participated in the work of the Expert Group and made a valuable contribution. Among EU Member States, Estonia, Cyprus, Malta, Slovenia, Sweden and the UK did not formally participate in the evaluation, though information relating to these countries has been included where possible.

The Expert Group members served as a good entry point for identifying the relevant authorities, business professionals and experts active in this policy area and establishing appropriate targets for interviews and the survey. In relation to the survey, which primarily sought to ascertain the current

[13] To be found at: http://www.eurofound.europa.eu/emcc/erm/smes.htm

situation in the participating countries with regard to the implementation of the original 1994 Recommendation, it was seen to be important there should be a single response from each country and from someone who is in a position to answer the questions authoritatively. A single member of the Expert Group representing each of the participating countries was therefore selected as the target for the survey. However, in a number of instances the Expert Group members have involved colleagues in a better position to make a response on particular issues. In addition, the Expert Group played a significant part in formulating the questions addressed in the survey, commenting on the original draft and proposing amendments and additional questions.

A number of members of the Expert Group were also interviewed as part of the interview programme and there have been on-going contributions from the Group, both during formal meetings and on a more informal basis.

The main contribution of the Expert Group however, has been through the detailed knowledge of the members of issues relating to business transfer, both in their own countries and at a European level. Indeed some of the members have been active in the area over many years and had participated in some of the earlier initiatives at a European level. Through active discussion in the Expert Group meetings and a busy informal exchange of email correspondence, the Expert Group members have not only been able to make direct contributions themselves, but have also involved their contacts and associates in order to provide a rich stream of information and to explain a wide range of perspectives. In this way, for instance, they emphasised issues that had been raised in earlier investigations, such as the importance of the emotional side of transferring a business and pointed to new and emerging issues, such as the growing importance of cross-border transfers.

3.2.3 The Survey of participating Countries

The intended purpose of the survey of participating countries was to establish the current situation with measures that aim to assist the transfer of businesses. The intention was primarily to establish the 'facts' on provisions that are made in each country, but it was also important to take earlier enquiries into account in order to make comparisons and trace developments over time. In particular, the aim was to establish if there had been any further progress in implementing the measures of the original Recommendation and to see how far the additional matters raised in the 2006 Commission Communication had been addressed. Finally, the survey invited countries to identify new or continuing barriers and recent developments that are addressing them.

The survey was finalised after discussion with the Expert Group and the circulation of a draft for comments. It was sent to a total of 27 countries and the other members of the group were also able to provide information relating to the questions in the survey. Eventually 24 countries responded to the survey. No responses were received from the Czech Republic, Greece and Romania, in addition to the countries that have not participated in the project at all. After the second Expert Group meeting all the participants were given the opportunity to check and if necessary revise the answers provided. A significant result from this process is the summary table relating to the situation of each country participating that is presented below on page 31. This table allows an easy comparison to be made with the progress in the implementation of the 1994 Recommendation that has been observed in earlier periods.

3.2.4 Conducting the Interview Programme

The purpose of the interviews was to develop a better understanding of the dynamics and obstacles to progress in facilitating the transfer of businesses. They have been of two kinds. The first are a set of formal interviews with a broadly representative set of the main actors involved. There is also a second set of interviewees targeted because of their involvement in particular actions or in work that is of specific interest to the case studies. These interviews were less structured and their form and content has been determined by the nature of the particular issue that gives rise to them. Members of the Expert Group, for instance, have been approached in this way, in order to establish details or request further information on particular issues relating to their country.

Interview Target Group	**Number of Interviews**
Commission officials (DG ENTR, TAXUD, EMPL, JUST...)	10
EU business associations (Eurochambres, UEAPME, EVCA...)	5
National officials/members of Expert Group	13
Business associations and experts w/special interest in transfer issues (Transeo, CRA….)	33
Total Target	**61**

Some interviews have been carried out at a European level, but the majority of interviews were conducted in a selected set of 11 EU Member States and 1 participating country:

Larger EU states	France, Germany, Italy, Poland
Medium size EU states	Belgium, Netherlands, Portugal, Hungary
Smaller EU states	Denmark, Finland, Croatia[14]
Non-EU countries	Norway

The countries were chosen to provide a representative sample of different sizes (between them, these represent around two-thirds of the enterprise population of the participating countries), but the aim was also to provide a mix of countries that have been successful in implementing the 1994 Commission recommendations and others that have come less far in the process.

3.2.5 Case studies

In parallel to the investigations through the survey and interview programme work there were a series of case studies. The aim of the case studies was to provide greater insight into particular aspects of the issues under consideration and, possibly also provide a good basis for future actions by participating countries by highlighting examples of practices that could be adopted more widely. In this respect they will have the character of good practice cases.

In this exercise, therefore, the 'case studies' have had the character of a more detailed examination of a particular aspect of the main project rather than a detailed investigation into the experience of a

[14] Croatia was initially included as a CIP country, but became an EU Member State as of 1st July 2013.

specific individual or group of individuals, which is what the term 'case study' often implies.

The members of the Expert Group were invited during the course of the first meeting to make suggestions on an outline list of possible case studies. Some comments were made, but in general the experts were in agreement with the topics suggested, which were as follows:

1) *The Effects of Evolving Business Relationships on the Transfer of Businesses:* the aim of this case was to assess the significance for the business transfer process of evolving business forms and relationships, including the dynamics within family businesses. It has looked at the evidence for significant changes in the way that enterprises conduct their business and especially changes in relationships within families businesses and between owners and employees, but also at the implications of these changes for the way that business transfer is conceived and for its position within Enterprise policy.

2) *The availability of dedicated finance for business transfer:* considering in particular how arrangements to promote funding for SMEs at a European and national level have addressed transfer issues and have been able to support business transfers. This case has looked at all the major forms of finance from equity funds to bank guarantees and has examined the major developments taking place influencing both the demand and supply of funds that are particularly important for funding transfers.

3) *Developments in on-line transfer markets:* One of the recommendations of the 2006 Communication was that transparent markets for business transfers needed to be organised and there has been a lot of interest in the development of on-line markets of this type. In particular, a study in 2006, leading to an Expert Group Report, looked at nine such markets in detail. The case study has followed up of this earlier work, reviewed recent experience and examined how these markets have developed.

4) Developing effective advice and support (incl. emotional issues)*:* the intention here was initially to examine the evidence for claims that neither the public nor the private support that is available is performing effectively in assisting firms through the transfer process. The investigation has then sought to identify the areas where some improvements are possible and examined the case for promoting more professional services, possibly based on regulation.

5) Issues in cross-border business transfer: although still only a relatively small proportion of the total number of business transfers, there has been an increase in transactions which have cross-border elements and the issue was highlighted in the first Expert Group meeting. This case has therefore attempted to gauge the extent of business transfers of this kind, but has also aimed to establish the nature of any problems that are particular to the cross-border aspect and make proposals on action that is needed.

6) *Developing the evidence base on business transfer:* this case study was proposed as a result, on the one hand, of the general lack of data on business transfers, revealed in the background research, but also, on the other, of the apparent progress made in some Member States in collecting the appropriate data and the possibility this suggests of developing a more extensive evidence base, by exploiting the lessons learnt by those who have had some experience in the area. The aim has been to attempt to define targets for evidence collection, including data on appropriate indicators.

The 3rd and 5th cases, in particular, were proposed in response to comments made in the first meeting of

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the Expert Group.

3.2.6 Development of the Methodological Approach

After reviewing the material initially available, the evaluation team reflected at an early stage on the key issues in earlier studies and policy documents in order to develop an appropriate conceptual underpinning for the evaluation exercise as a whole and to help shape the approach to be adopted in the investigations.

One significant element in this reflection was a consideration of the potential contribution of evaluation disciplines to an improvement of policy performance and direction in this field. One of the central purposes of evaluations is to promote the development of evidence-based policy and a major aspect of this is the development of evidence on the performance of policy measures. Increasingly, there has been a demand for evidence on the real results and longer-term outcomes of policy and this is a feature, for instance, of the proposed COSME Programme. In the current context, considerations of this type led to an observation that the main effort in earlier analysis has been applied in the diagnosis of the problems of enterprises and in devising appropriate measures to address them. However, 20 years after this initial analysis began, it is necessary to ask what have been the consequences of the measures taken to assist enterprises facing the need to transfer, are more enterprises now making the transition successfully and what has been the effect on economic performance and social welfare subsequently?

Unfortunately it is now very difficult to characterise the baseline situation prior to the introduction of policy changes. However, a greater effort could be expended on assessing the effectiveness of on-going measures and the development of a better monitoring of progress in this sense is the reason for the proposals on indicators that is presented as a separate document (Annex A7).

Furthermore, it was apparent as the project progressed that there were wider questions than the extent to which transfer issues as initially defined in 1994 were being addressed. Important changes had been taking place in the intervening period that affect the transfer environment, both in the characteristics of the SME population and in the way that the role of SMEs is now conceived in policy terms. This has meant that certain basic questions about the 'relevance' (in evaluation terms) of the original analysis had to be considered and the implications examined. As will be seen, the case studies proved to be a useful vehicle for analysing some of these basic questions and engaging in discussions on them with members of the Expert Group. The results of this analysis will also be reflected in the main findings of the Evaluation.

In summary, reflection on the development of business transfer policy suggests that a shift in emphasis is necessary from the on-going analysis of transfer problems and the measures designed to address them towards greater attention to the overall effectiveness of the policy and its impacts on enterprises and on the economy and social welfare. In part, this implies a shift in the framework for conceiving of the transfer problem, or at least aspects of it and the issues currently being faced by enterprises, but there is also a more practical element in that there is a need to address the gaps in the evidence on these issues, and to prepare the ground for future evaluation of the policy instruments devised to address both the new and the previously identified issues.

The development of this methodological perspective has been accompanied by the development of corresponding tools, for instance, in adjusting the initial evaluation questions and in shaping the type

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and form of questions to be addressed in the survey and interviews, but also in using the case studies to enquire in detail into some the questions raised by the initial analysis.

3.2.7 Development of an Indicator Framework

Indicators can have a very useful part to play in evaluation processes and in on-going monitoring systems, by providing clear points of reference and possibly benchmarks against which progress with specific aspects of policy can be assessed, but of their nature, they present a partial picture and need to be supplemented in an evaluation, in particular, with a more broadly based analysis. After discussion with the Expert Group on a possible role for the indicator system, as part of the broader monitoring system being developed under the Entrepreneurship and Innovation Programme and its successor COSME, recommendations are made after an analysis presented as Annex A7.

3.2.8 Preparation of Reports

A series of reports have been delivered In line with contractual requirements, but these reports have not only helped the development of the investigations by informing the project Steering Committee of progress and issues arising and assisted in this way with the management of the project. The reports were also circulated to members of the Expert Group and have thus provided material for a significant part of the discussions at the Expert Group meetings.

An Inception Report was submitted on 1st February 2013. It contained a work programme for the evaluation that had been slightly modified in the light of discussions and research during Phase 1 and a description of the methodological and empirical approaches developed for the tasks of the project. The Report also contained suggestions on the conduct of the Expert Group meetings and drafts of some of the material to be used in the first meeting, plus outlines of the proposed subjects and format of the case studies and proposals for the indicator system.

A good part of the content of the Inception Report was discussed at the first Expert Group meeting on 13th February 2013.

A Progress Report was delivered on 11th May 2013 providing information on the progress with the investigations and especially the initial results from the survey. The Progress Report was presented to the second meeting of the Expert Group and members were invited to provide comments and other feedback.

The Draft Final Report presented a more complete picture of the findings from the investigations and was the central document for the third and final meeting of the Expert Group. The current Final Report is a version amended in the light of comments at the third Expert Group meeting, at a meeting with the Steering Committee and from written observations submitted by Expert Group members and others.

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4.1 Introduction to the Evaluation Findings

This chapter presents the main findings from the investigation. In order to provide a well-structured account of these findings, the following sections have been ordered in line with the main elements of any evaluation. That is, the first section considers issues relating to the relevance of the measures taken to address business transfer problems and the coherence of the approach adopted in the 2006 Communication. There is then an examination of the effectiveness of the 2006 Communication in promoting business transfer measures, to be followed by a consideration of how the effectiveness of the measures might be improved, that is how the efficiency of policy in this area might be promoted. In this area, most of the responsibility for initiatives lies with the Member States and other participating countries, but there are few areas where cross-border issues arise and a short final section will, therefore, address developments of this kind and consider if there is any need for action at a European level.

In addition to the results of the investigations presented here, there are also the six case studies that have considered a series of particular issues. Some summary of the discussion in the case studies is presented in this chapter, but obviously a fuller account can be found in the case studies themselves, which are presented as annexes to the Report.

4.2 The Relevance and Coherence of the 2006 Communication on Business Transfers

As Chapter 2 of this Report shows, the development of policy at a European level to promote a better environment for the transfer of businesses has had a long history. The basic reference point is the 1994 Commission Recommendation on Business Transfers, on which the 2006 Communication draws in its restatement of the measures deemed necessary to bring about a better environment for transfers. It is worth remarking, however, that the full title of the Communication is 'Implementing the Lisbon Community Programme for Growth and Jobs. Transfer of Businesses – Continuity through a new beginning' and the first paragraph of the document locates the policy within the Lisbon strategy for jobs and growth as part of 'a comprehensive policy framework for SMEs'.

Nonetheless, the problem of business transfer is described pretty much in the original terms:

> 'Europe's population is ageing and the potential for business transfers is increasing. One third of EU entrepreneurs, mainly those running family enterprises, will withdraw within the next ten years. According to estimates this could affect up to 690,000 small and medium-sized enterprises and 2.8 million jobs every year'.

The Communication then goes on to explain that there had been progress since the 1994 Recommendation, but that there was 'still room for improvements' in a number of areas. And although there are fresh elements introduced, including the suggestion that business transfers might be given political attention similar to that devoted to start-ups and that it is important to organise transparent markets for business transfers, the main message was essentially that further effort was needed in the direction already outlined.

To a large extent, therefore a major part of the current evaluation has been an analysis of the extent to which there has been further progress in implementing the original Recommendation. The detail of this analysis will be set out subsequently in the section on the effectiveness of the policy and it will be seen that there are a number of variations on the central theme. However, in general terms, it was evident from an early stage that there had not been much further progress in the sense that there have not

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been many new measures introduced by EU Member States since 2006 that are in line with the original recommendations.

This early finding caused the evaluation team to reflect on the reasons for this apparent lack of progress and to discuss it with members of the Expert Group, in interviews and at the second Expert Group meeting. The conclusion from this reflection was that transfer clearly remains a problem for businesses, but there are fundamental questions that should be raised about the 'relevance' of the 2006 Communication. Could the problem of business transfer have been mis-specified? Or have the current needs of SMEs evolved in a way that has made the original focus redundant? Are the traditional ways of thinking about business transfers the most helpful in understanding the real issues to be addressed? Has the focus on barriers and regulatory and fiscal reform diverted attention from other measures that could be more effective?

The elaboration of various aspects of these questions has been evident in the work to develop a number of the case studies, but especially those on the 'Effects of Evolving Business Relationships on the Transfer of Businesses' and on 'Data on Business Transfers'. The more detailed explanations are to be found in these case studies, but a series of issues can be summarised here. Overall, the conclusion has been that previous analysis has definitely had a certain validity, but that it has been partial. It has failed to address the full range of appropriate policy questions and has only considered some of the issues that SMEs have to address. A refocusing of the debate is therefore required, involving a different conceptualisation of the problem and, to a significant extent, a different approach to the development of policy measures.

The following explains some of the issues:

4.2.1 The Concept of a Business Transfer

It is perhaps surprising that there was no real definition of the concept of 'business transfer' when it was first raised as a policy issue and that specifically the original Recommendation does not define the term. In more recent work a variety of slightly diffident definitions have been used, including that in the Transfer of Undertakings Directive[15] that is primarily concerned with employees' rights in the event of a transfer.

The first case study considers this question of definition, tracing the statements made in various policy documents, but the principal issue appears to be: what is it that makes business transfer a policy issue? How is it different from the general process of re-allocating assets and resources through normal market processes? The answer is usually provided by reference to examples and the prime example is the case of an entrepreneur, who has founded and developed a business over a number of years and who now is facing the need to transfer the business prior to retirement. The enterprise concerned is an SME with a single owner and frequently, there is an additional feature in that the firm is a family business and the person retiring may either hand on the business to a successor within the family or may wish to sell it to an outsider or to employees. In other words there are various institutional features that are used to distinguish an enterprise that falls within the scope of the policy area in question and that differentiate such an enterprise from others that do not. So, the mere desire to sell an enterprise for profit would not

[15] Council Directive on the approximation of the laws of the Member States relating to the safeguarding of employees' rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses 2001/23/EC of 12 March 2001

originally have been considered sufficient to have the process regarded as a business transfer. Mergers and acquisitions are not part of the picture then, or are they?

The problem with using archetypal examples as a way of delineating the scope of a policy is that the examples do not provide clear rules for deciding on the limits of the policy and they tend to focus attention on particular manifestations of the issue. The problems highlighted are real and concrete examples can help communicate some of the central issues, but the approach of citing examples can distract attention from slightly different problems that arise elsewhere.

In fact, it has always been said that there are other reasons why the issue of transfer might arise.

The 2003 Guide on Business Transfer, for instance, says:

> ‘Business transfers are still very often triggered by the entrepreneur’s retirement. However, retirement is only one reason. Other reasons for transfers which also play an important role include personal decisions (e.g. early retirement or change of profession), changing competitive environment (e.g. changing markets, new products or new channels of distribution) or personal events (e.g. divorce, ill health, or death)’.

More recent definitions have gone even further. In many of the earlier discussions, it was implicitly assumed that mergers and acquisitions were excluded from what was meant by ‘business transfer’. In the definition used, for instance, by the Expert Group on Business Transfers in 2006, it was said that ‘‘business transfer’ means the transfer of business property to another person or enterprise whereby the original enterprise continues to operate’. Transfers that led to an enterprise losing its identity as would be the case in a merger are excluded. The main reasons for this would appear to be the original policy emphasis on saving jobs. Mergers can be associated with job losses.

More recently, the Business Dynamics[16] study, published in 2011, defined the term as follows:

> ‘Business transfers refer to the process where "all assets representing in their totality an enterprise as a going concern" are transferred to a new owner’

This definition suggests a further widening of the concept.

The lack of a clear definition originally is unsatisfactory. Nor is the situation resolved by referring to typical examples, especially when, over time, the examples seem to extend to more and different circumstances. Other elements of the characterisation of a business transfer need to be considered, but it will be seen as the consideration of these elements progresses and as the evidence of actual practice is presented that there are certain aspects of it that stand out.

Transfer for whatever reason can be a difficult process, especially for SMEs. Primarily, therefore, attention should focus on the process of transfer and the need to prepare for it as an issue in Enterprise policy addressing a problem potentially faced by all SMEs. Interventions in response to the specific circumstances of particular types of enterprise need a separate analysis. This conclusion will be explained further in subsequent sections of the Report.

[16] European Commission ‘Business Dynamics: Start-ups, Business Transfers and Bankruptcy’ January 2011

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4.2.2 The Extent of the Problem

As has been seen, the 2006 Communication starts by stating the 'transfer problem' – it is asserted that 'Europe's population is ageing and the potential for business transfers is increasing' and that 'one third of EU entrepreneurs, mainly those running family enterprises, will withdraw within the next ten years'.

The Communication then refers to estimates that this could affect up to 690,000 small and medium-sized enterprises and 2.8 million jobs every year. These estimates have been widely quoted in policy discussions and academic research.

The Business Dynamics report in 2011 made an estimate of the current scale of the 'transfer problem' and the Commission's website[17] now refers to 450,000 businesses being transferred in the EU every year, involving 2 million jobs, and cites a further estimate from the study that Europe is losing approximately 150,000 firms a year and around 600,000 jobs, due exclusively to inefficiencies in business transfers.

Given that the Communication and policy in this area generally takes these observations as a starting point for a discussion of potential remedies, it is important to consider the basis for such claims and the extent to which they are empirically verifiable.

As the sixth case study on data on business transfers explains, the statistical basis for any claims about the extent of transfer activity is very weak. Although Eurostat and national statistical authorities collect data on the numbers of the birth and deaths of enterprises, they do not collect data on transfers. Those making estimates, therefore, of the numbers of transfers and the consequences of failed transfers have no consistent basis across Europe to rely on and, in the absence of a commonly accepted definition, tend to focus on slightly different target groups.

The numbers quoted are, in fact, an aggregation of different estimates based on varying methodologies, survey responses and expert opinion. The BEST-project on the transfer of small and medium-sized enterprises in 2002 was the origin of the numbers most often quoted. It made what was called a "rough" estimate of the number of business transfers in process at any one moment in the EU. It focused first on the self-employed and starting from the basis that approximately 20% of the self-employed are over 55 years old and that the proportion of self-employed working beyond the age of 65 will remain more or less constant at the same level as in 2000, the group calculated a number that would retire within ten years.

There are then calculations of the number of owners of enterprises with employees that are likely to retire within the next ten years, based on data sets of varying completeness from the national studies of 12-15 Member States. Putting the two sets of figures together, there is the calculation that an average of at least 610,000 SMEs are likely to be transferred each year, of which 300,000 are SMEs with employees involving 2.1 million jobs (assuming that an SME with employees has 7 employees on average), and 310,000 are SMEs without employees.

The report makes clear that, because of the assumptions made, the calculation should be treated with great caution. Subsequent developments show that this has not always been the case.

[17] http://ec.europa.eu/enterprise/policies/sme/business-environment/smooth-transfer/

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The 2006 Communication extrapolates from the data produced by the 2002 BEST project to arrive at a figure of up to 690,000 SMEs being affected every year and 2.8 million jobs under the heading 'One third of European enterprises are facing a transfer'.

The Business Dynamic report in 2010 provided some revised figures, Starting with the 2006 figures (themselves based on an extrapolation from 2002) modifications were introduced on the basis of survey results from Austria, Finland, Norway and Romania and revised estimates for Germany and France, based on national studies. These studies all had differing approaches, but using the countries concerned as a sample and projecting the data proportionately, it was estimated that approximately 450,000 firms are being transferred each year in the EU–27, affecting 2 million employees.

It can be seen that the figures are rather approximate, but it is also not entirely clear what they are measuring. It can be seen from the original work in 2002, that the total number of SMEs involved are heavily influenced by the numbers of self-employed – enterprises without employees - that are withdrawing from economic activity. It is true that a lot of these are involved in activities that could be taken up by someone else, but often these businesses are primarily based on the knowledge, skill and experience of the individual self-employed person. In these cases, apart from the market opportunity and the client list, it is not obvious what can be taken over. Nor is it clear how a transfer in this sense differs from a start-up by another self-employed person. In the statistics, a good part of the closures observed of this kind of enterprise have a counter-part in the start-up statistics. A significant proportion of the 'failed transfers' might thus be better seen as part of the normal churn in the SME sector.

Moreover, it is sometimes difficult to see the potential job losses in the same light as those arising in other circumstances from the poor performance of a business. It is evident that there are cases where a viable business is closed because of a mishandled transfer and the job losses and disruption caused is damaging for the individuals concerned and represents a real economic loss. But, on other occasions, if the business is basically viable, it will be picked up by other firms, possibly using the same assets and staff and the net employment effect will be considerably lower than the initial headline figure. It is perhaps for this reason that job losses from failed transfers do not figure prominently in the popular consciousness.

These considerations should not be taken to imply that there is not a transfer problem. On the contrary, there has been ample evidence provided by the investigations for the evaluation that transfer can be a critical moment of change for many enterprises and the markets in which they operate, as will be explained. Rather the analysis suggests that the figures that have been widely quoted may be misleading and have almost certainly caused the focus of the analysis to be misdirected. These assertions need to be elaborated. However, to do so requires taking into account a series of other considerations that are examined in the following sections.

4.2.3 The Policy Focus

The statement of the policy problem in terms of avoiding the possible negative consequences for employment has also had implications for the way that the policy debate has progressed. Although there have been references, in the 2006 Communication and elsewhere, to the opportunities represented by businesses in the process of transferring, especially for young entrepreneurs, the emphasis has always been placed on reducing the difficulties faced by those involved in a transfer rather than exploring the potential opportunities in the situation. Consequently, although there is reference to providing information, advice and mentoring services and promoting access to finance, the weight of the policy response is in terms of regulatory and fiscal changes to reduce practical difficulties in effecting a transfer. Overall, with its emphasis on avoiding problems rather than encouraging the exploitation of opportunities, the way that policy is conceived in this area might reasonably be characterised as being rather defensive.

In contrast, and in line with the more optimistic stance of Europe 2020[18] and its associated policy orientations, with their objective of smart, sustainable and inclusive growth, greater emphasis could be placed on the opportunities afforded by business transfer, for business renewal and the injection of fresh ideas, but also for the restructuring and strengthening of established businesses and not only at retirement, but at other critical points in the development of businesses and the markets in which they operate.

It is relevant in this context that a number of Member States have shown an interest in enterprises of an intermediate size in recent years or 'mid caps' as they are sometimes known. There has traditionally been an interest in these firms in Germany, since they represent an important section of the *Mittelstand* but in the UK too with its Mid-sized Businesses Growth Review and notably in France there has been considerable interest in the potential of enterprises of an intermediate size, that, it is argued, have some of the greatest potential for innovation, further growth and the development of operations on a global scale[19]. A report submitted to the French Prime Minister in 2010 - the Retailleau Report[20] - develops the analysis of the contribution of enterprises of an intermediate size to the French economy and particularly to its future growth. These enterprises already account for 21% of employment at a national level, 25% of turnover, 31% of export value, 30 % of investment, and 26% of internal expenditure on R&D. Their potential is said to be even greater. Frequently, it is among enterprises of this size that the real gazelles can be found – enterprises with high growth rates and a significant innovation performance.

Generally, it is said, Europe is not particularly good at growing businesses from small beginnings into major companies, or even modest companies of an intermediate size. Yet if this process is to be encouraged, surely the targets for the corresponding policy measures are likely to be the well-established SMEs with a potential for further growth that are precisely the type of enterprise where a need for a transfer arises. The potential contribution of well-managed transfers to this process has been neglected; it ought to have had a greater profile as part of a more positive orientation towards the opportunities presented by business transfers, but could well in the future find its place among the measures that are directed towards a more active promotion of economic growth.

4.2.4 The Significance of Family Businesses

As well as detracting from a full appreciation of the complete range of issues at stake with business transfers, highlighting the difficulties experiences by family businesses in the transfer context probably

[18] Communication from the Commission 'Europe 2020 A strategy for smart, sustainable and inclusive growth' COM(2010) 2020 final of 3.3.2010

[19] See also Betbèze, J-P., Saint-Étienne, C. ' Une stratégie PME pour la France' 2006

20 Retailleau Bruno, Kirsch Alain-Roland, Faucheux Marianne, Magne Yves 'Les entreprises de taille intermédiaire au coeur d'une nouvelle dynamique de croissance' February 2010

does a disservice to the family business sector by distracting attention from their strengths and their broader contributions to the European economy.

Transfer is a significant issue for family businesses, but the first case study on 'The Effects of Evolving Business Relationships on the Transfer of Businesses' points to ample evidence of the wider significance of family businesses and especially their role within the SME sector. The study for the Commission by the Austrian Institute for SME Research and others in 2008[21], for instance estimated that across Europe, about 70 - 80% of enterprises are family businesses and that they account for about 40 - 50% of employment. Family businesses bring a number of advantages with their approach to business and frequently their engagement in local communities.

Many of the SMEs affected by business transfers as previously conceived have indeed been family businesses and there will undoubtedly continue to be the particular issues faced by family businesses in the transfer situation. They should continue to be addressed and in fact need special attention.

However, given the demands of modern management and the alternative opportunities for younger people with higher educational attainments, succession within the family is now likely to take place in only between 15 and 35% of transfers. The typical transfer is now to a non-family member. This has important implications, not least for financing, since transfers outside of a family are more likely to require cash. It also has implications for the selection of policy issues that need to be highlighted. The previous emphasis on inheritance laws and taxes, for instance, was undoubtedly addressing a major problem for family businesses, but may have deflected attention from the need for more broadly-based incentives relating to finance for SMEs. Similarly, if transfers are now largely to persons outside of the family, there is a greater need for mechanisms to find candidates, such as on-line platforms, and also processes to allow sellers and acquirers to get to know and learn from each other.

A reduction in the emphasis on family businesses as the typical transfer case, however, will not only allow greater attention to be paid to the broader set of transfer issues that need to be considered for the variety of different circumstances in which a transfer can take place, it will also allow the transfer problems encountered by family businesses to be considered in a more focused way, within a specific analysis of family businesses as a whole.

4.2.5 Transfer as an Event in the Business Life Cycle

Business transfer has often been characterised as something that occurs at a certain stage in a business life cycle, usually associated with the retirement of an owner. So, for instance a 1998 Communication from the Commission[22] states that 'after the creation and growth of the business, the transfer is the third crucial phase in the life-cycle of a business. Many jobs are at stake when the founder reaches his or her retirement age and has to envisage the handing over of the business.'

This characterisation does not necessarily preclude a transition to a new cycle, but nonetheless the basic model is of a single entrepreneur who establishes or takes over a business at a young age and then has a number of years over which the business is managed and hopefully grows until the point where the

[21] KMU Forschung Austria et al 'Overview of Family Business Relevant Issues' 2008.

[22] Communication from the Commission on the transfer of small and medium-sized enterprises (98/C 93/02)

owner begins to consider retirement seriously and has to address the problem of transfer. This is thought to occur sometime after the owner reaches the age of 55 – the age mentioned in the 1994 Recommendation.

This model is undoubtedly grounded in a certain reality. It clearly describes a process that takes place in many businesses all over Europe. The question is whether it is the only, or the most appropriate, model in current circumstances.

The case study on the effects of evolving business relationships (Annex A1) points to evidence that transfers are increasingly taking place below retirement age and this tendency was pointed out in interviews with members of the Expert Group and other experts. At the same time, it was remarked that greater longevity and the recent pressures on retirement plans from lower annuity rates and interest on savings are both keeping business owners active, though not necessarily in the same business. Furthermore, the image of an entrepreneur who devotes the whole of his/her career to a single business fails to take account of the fact that the skills, attributes and temperament required to spot a business opportunity and establish a new enterprise are not necessarily those that are needed in someone who is adept at developing an established business. A different mind-set is often required in the development phase, especially in businesses that grow from small beginnings to establish a strong market presence. A transfer is required to allow the development to take place, but this can happen well before the start-up entrepreneur is ready to retire.

Nor should it be assumed that there is always a single owner. Frequently enterprises are set up as a result of collaboration between two or more entrepreneurs. Certainly, it often occurs that new business partners are introduced into a business as it grows, in order to bring in more capital, formalise management structures or make use of additional expertise. In a Finnish study of buyers conducted in 2013 and reported to the evaluation team, 44% of transfers had purchases by two or more persons[23]. As educational levels rise and business complexity increases, the tendency for more of the workforce to participate in ownership and management of enterprises has grown. And in all of these circumstances, the owners of a business are likely to have different ages and retirement plans. Again the idea of a life cycle event is undermined.

Furthermore, as work by Oséo[24] in France has highlighted[25], in certain sectors selling assets as a going concern is part of the process of growing a business, as seen over the longer term. In sectors such as the restaurant trade and hotels, a successful business might involve several instances of 'trading-up', selling the current property and business in order to buy a bigger one, much in the same way as families might move up the housing market over a lifetime. A business transfer is required at each stage, but again this is clearly a process different from that imagined in the standard model.

There are many reasons therefore to adopt a more fluid conception of business transfer than the established model would suggest. Rather than as something that happens at the end of a business life cycle, it should be seen as something that can happen throughout the development of a business.

[23] The Finnish study has not been published but some findings were made available to the evaluation team.
[24] Now bpiFrance
[25] Oséo 'La transmission des petites et moyennes entreprises' 2005

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This conclusion becomes even more significant if transfer is seen as an opportunity to develop businesses in a more dynamic economy and perhaps to contribute to restructuring processes. Although it cannot be applied to all situations by any means, highlighting the possibilities in many cases for a fresh injection of ideas and capital and a possible reconfiguration of the productive assets of a market, relocates the promotion of effective transfer from a policy backwater to the mainstream of current policy debate.

The case for this conception of business transfer as an occasion for restructuring and development is reinforced by emerging evidence[26] that the performance of the firm can be enhanced post-transfer by organisational change and innovations and that the effect applies to firms of all sizes. In fact in the study just cited, based on evidence in the Netherlands, the smaller the firm the better the post-transfer performance. The perception that new owners can bring renewed energy and growth into the economy is also beginning to influence policy. The *Nærings- og Handelsdepartementet* (Ministry of industry) in Denmark, for instance, launched an SME Strategy some 3 years ago with a specific focus on Business Transfer precisely because it believed that this could contribute to growth in the economy.

A more dynamic conception of the nature of business transfers as part of a vibrant and entrepreneurial economy, however, still requires actual transfer to be processed efficiently. Consequently, attention to many of the issues that have been previously emphasised needs to continue, but these issues have to be seen through a different lens and the relative importance of some of them will have changed.

4.2.6 Findings in relation to the Evaluation Questions on the Relevance of the 2006 Communication

The initial orientation of the work undertaken to assess the continuing relevance of the 2006 Communication and its recommendations was determined to a large extent by a series of evaluation questions raised at the beginning of the assignment. After reflection and discussion with members of the Expert Group and others, it is now apparent that some of these questions were not radical enough and more fundamental questions about the basic definition of the policy issues have been raised. Nonetheless, it is worth recapping at this point, the findings on the original questions, since these remain an important part of the picture.

- *Consistency of measures undertaken with the objectives of the 2006 Commission Communication on Business Transfers and other relevant policy statements*

One of the main exercises of the 2006 Communication was to take stock of the progress made by Member States in implementing the 1994 Recommendations. It found that the older Member States had implemented an average of 60% of the measures originally recommended and new Member States approximately 45%. There were, however, relatively large differences in implementation rates depending on the type of measure, Some new recommendations were also introduced, such as a proposal to give transfer the same political attention as start-ups and a call to organise more transparent transfer markets.

The extent to which there has been further progress with the initial Recommendations will be set out in the next section of this chapter, but it has been seen that the whole orientation of transfer policy has

[26] For instance, Lex van Teeffelen & Lorraine Uhlaner 'Strategic renewal after ownership transfers in SMEs: do successors' actions pay off?' International Journal of Entrepreneurial Venturing, Vol. 2, Nos. 3/4, 2010

been questioned and this, in fact has been offered as an explanation of why some of the countries participating in this exercise, and indeed some of the other EU Member States, have not consistently focused on the recommended policy developments.

Having said that, the initial recommendations are found to be still relevant, except in the sense that a re-focused approach to policy development in this area would move the weight of attention away from regulatory reform, where many of the provisions have been implemented to issues relating to the taxation environment and the provisions relating to business support and access to finance.

- *Consistency of measures with each other*

The original measures, as modified in the 2006 Communication did indeed form a coherent package in which the various measures proposed reinforced each other. The main problem for a number of them was that they were focused on particular aspects of the transfer problem, which were real enough, but which did not consider the problem as a whole and tended to neglect the positive opportunities presented by the possibility of transfer. Consequently, measures, for instance, intended to increase access to finance for transfers, tended to imply the creation of funds especially dedicated to transfers, rather than emphasising the need for other sources of funding available to SMEs to take into account the particular circumstances of transfers in their normal operations

- *Extent that barriers to successful business transfers hinder economic growth and competitiveness*

Given that many of the regulatory barriers to transfer have now been addressed (though not all), the main constraining factors on the way that business transfers can assist economic growth and competitiveness appear to be, first of all, the lack of appreciation of the positive potential from transfers to contribute to a better structuring of the economy and to re-invigorated entrepreneurship and management, as part of a positive process of growth and change within a dynamic economy, and consequently, the less than systematic attention paid to other areas that the original Recommendations and the 2006 Communication drew attention to, namely, the taxation regimes affecting transfer and the access to appropriate support services and finance.

The following section will provide greater detail on the current situation across the participating countries in relation to the 1994 Recommendation, before the Report goes on to consider in another section the issues that are the most pressing in terms of affecting efficient transfers.

4.3 The Effectiveness and Utility of the 2006 Communication on Business Transfers

The results presented in this section aim to provide an account of the current situation in each of the main areas that form the core of the 1994 Recommendation, together with the developments subsequently proposed by the 2006 Communication. They therefore aim to provide a clear account of the 'current state of play' in terms of the implementation of the programme of action set out by the original policy documents. Care was taken to base the survey questionnaire on earlier work and also to allow a comparison with the 2010 Business Dynamics report that covered a lot of the same ground.

However, in order to complement this picture, in addition to examining the policy provisions in each country relating to the main policy areas that formed part of the original Recommendation, the opportunity was taken to identify other developments in the field of business transfer, such as cross-border activity, monitoring arrangements and continuing barriers.

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Clearly in conducting a survey of this kind, it is important to obtain an authoritative response from each of the participating countries. The survey was therefore completed by the members of the Expert Group, nominated to represent their country, although, of course, they have generally consulted relevant colleagues in providing answers. After the initial results were presented at the second meeting of the Expert Group, the members who had provided responses were given the opportunity to address anomalies and inaccuracies in interpreting the responses and a number took advantage of this opportunity.

A systematic presentation of the results of the survey can be found as Annex B2. The following section sets out the highlights and provides an analysis. It also makes a comparison with previous assessments of the implementation of the Recommendation, in order to establish how much progress has been made in the different areas. In addition, in order to complement information from the survey with that derived from background research and the interview programme, additional material has been referred to, especially when this can add quantitative data.

It should be remembered that that the survey results are based on responses from the experts nominated for the different countries participating in the project, who have been required to provide their assessments of developments in a wide variety of areas. In general, it has not been possible to check these assessments independently. Furthermore, while in some areas, such as in relation to legislative changes, the question of whether or not there has been a development is quite straightforward, in others it is more difficult to judge. A relatively low level of activity may still count as a contribution to awareness-raising, for instance. The results therefore need to be interpreted with some caution.

The management of the survey has been explained in the previous chapter. Here we should note that a total of 25 survey questionnaires have been received from 24 countries[27] – leaving the Czech Republic, Greece and Romania without a response, as well as the 6 countries that have not appointed a member to the Expert Group (Estonia, Cyprus, Malta, Slovenia, Sweden and the UK). The overall results are presented in Table 4.1 below:

[27] Two questionnaires were received from Belgium – from Flanders and Wallonia, respectively.

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Table 4.1: Implementation Up-date - 2013

Country	Awareness raising	Financial environment	Change of legal form	Tax neutral restructuring	Simplification SMEs/Companies	Company with one member	Legal principle of continuity	Unanimity not required	Reduced inheritance tax	Deferring inheritance tax	Retirement tax relief	Re-investment tax relief	Sale to employees tax relief	Total + or (+)
Belgium	+	+	+	-	+	Ø	+	Ø	+	+	+	+	+	10
Bulgaria	(+)	-	+	+	+	+	+	Ø	Ø	Ø	Ø	Ø	Ø	6
Czech republic														
Denmark	+	+	+	+	+	+	+	Ø	+	+	Ø	Ø	+	10
Germany	+	+	+	+	+	+	+	Ø	+	+	+	+	Ø	11
Estonia														
Greece														
Spain	+	+	+	+	+	+	Ø	Ø	+	+	Ø	+	Ø	9
France	+	+	+	+	+	+	+	+	+	+	+	+	+	13
Croatia	(+)	(+)	(+)	+	+	Ø	+	+	Ø	Ø	Ø	Ø	Ø	7
Ireland	(+)	+	+	(+)	+	(+)	+	-	+	+	+	+	Ø	11
Italy	(+)	(+)	+	+	+	+	(+)	Ø	+	+	Ø	Ø	+	10
Cyprus														
Latvia	(+)	Ø	+	(+)	+	+	+	+	Ø	Ø	(+)	Ø	Ø	8
Lithuania	(+)	Ø	+	+	+	+	+	+	+	+	Ø	Ø	Ø	9
Luxembourg	+	+	+	(+)	+	+	Ø	(+)	Ø(+)	Ø(+)	Ø	(+)	(+)	9
Hungary	(+)	Ø	+	+	Ø	Ø	+	+	+	+	Ø	Ø	Ø	7
Malta														
Netherlands	+	Ø	+	+	+	+	+	Ø	+	+	Ø	Ø	+	9
Austria	+	+	+	+	+	+	+	+	+	+	+	Ø	+	12
Poland	+	-	+	+	+	+	+	+	+	+	Ø	-	+	10
Portugal	+	Ø(+)	+	+	+	+	+	Ø	+	+	Ø	Ø	Ø	8
Romania														
Slovenia														
Slovakia	(+)	Ø	+	(+)	Ø	+	(+)	+	Ø	Ø	Ø	Ø	Ø	6
Finland	+	+	+	+	+	+	+	Ø	+	+	Ø	Ø	Ø	9
Sweden														
United Kingdom														
Total EU	**19**	**11**	**19**	**18**	**17**	**16**	**17**	**9**	**14**	**14**	**6**	**6**	**8**	**174**
Albania	Ø	Ø	+	+	+	+	+	Ø	Ø	Ø	Ø	Ø	Ø	5
Liechtenstein	+	-	+	-	+	+	+	+	-	-	-	-	-	6
Norway	+	(+)	Ø	+	Ø	+	+	+	Ø	+	Ø	Ø	+	8
Serbia	(+)	(+)	+	-	+	+	+	(+)	+	+	Ø	Ø	Ø	9
Turkey	(+)	(+)	+	Ø	+	+	Ø	Ø	Ø	Ø	Ø	Ø	Ø	5
Total CIP	**4**	**3**	**4**	**2**	**4**	**5**	**4**	**3**	**1**	**2**	**-**	**-**	**1**	**33**

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Legend:

+	Recommendation implemented	Ø	Recommendation not implemented
(+)	Recommendation partially implemented/ planned	-	No information
	Countries that did not respond to the survey		Countries not represented on expert group

Although we have not managed to obtain feedback from all countries, it is nonetheless possible to compare the situation with that set out in the 2006 Communication and that in 2010, to be found in the Business Dynamics report. The overall comparison with previous years is presented in tables to be found in Annex 6, but the following sections make the comparison in relation to each of the main areas that were surveyed.

4.3.1 Awareness-Raising, Information and Training

Awareness-Raising

This section looks at the implementation of Article 2 of the 1994 Commission Recommendation which deals with public or private initiatives aiming to stimulate increased awareness, information and training of businessmen on the process of transfer.

Most of the countries that responded have put measures in place to raise awareness among business owners and prospective buyers. This is an area which has continued to exhibit good implementation rates throughout the period under review, as the table below shows. Some countries appear to have regressed especially compared to 2010, but this can generally be explained by the fact that the 2010 survey did not distinguish between 'implemented' and 'partially implemented/planned' initiatives. The comparison with the situation reported in 2006 is more direct.

Table 4.2: Development in Implementation – Awareness-raising initiatives (Q.7)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	-	+	(+)	+	/	(+)	+	+	-	(+)	Ø	+	+	-	(+)	Ø	+
2010	+	+	+	+	+	+	/	+	+	+	-	+	Ø	+	+	+	+	Ø	+
2013	+	(+)	+	+	+	+	(+)	(+)	(+)	+	(+)	(+)	(+)	+	+	+	+	(+)	+

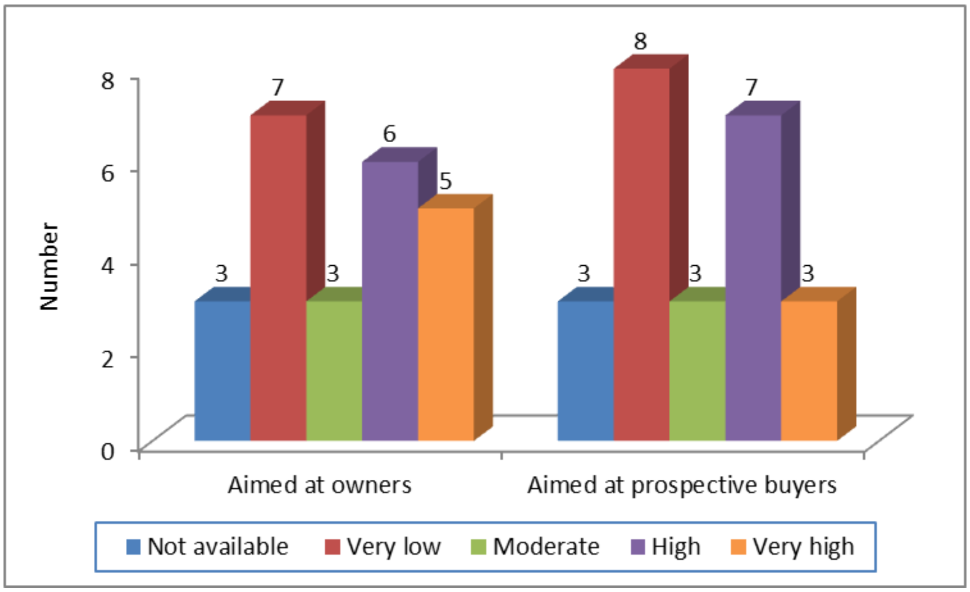
	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	Ø	+	+	(+)	(+)

Legend:

+	Recommendation implemented	Ø	Recommendation not implemented
(+)	Recommendation partially implemented/ planned	/	No comparison available
-	No information		

Although a majority of the surveyed countries have implemented some awareness-raising measures, the extent of such initiatives varies considerably between countries. Of the 24 countries that responded to the survey, 11 report that there is either high or very high availability of awareness-raising measures aimed at owners (AT, BE, DE, DK, ES, FR, LI, LU, NL, NO, PT) – with initiatives aimed at buyers being slightly lower, but in 7 (8) countries it was thought that this type of measure was very limited (BG, IE, IT, LV, LT, (HR), RS, TR). The following figure gives an overview of the level of availability within the group of respondents:

Figure 4.1: Level of availability of awareness-raising initiatives (Q.7)



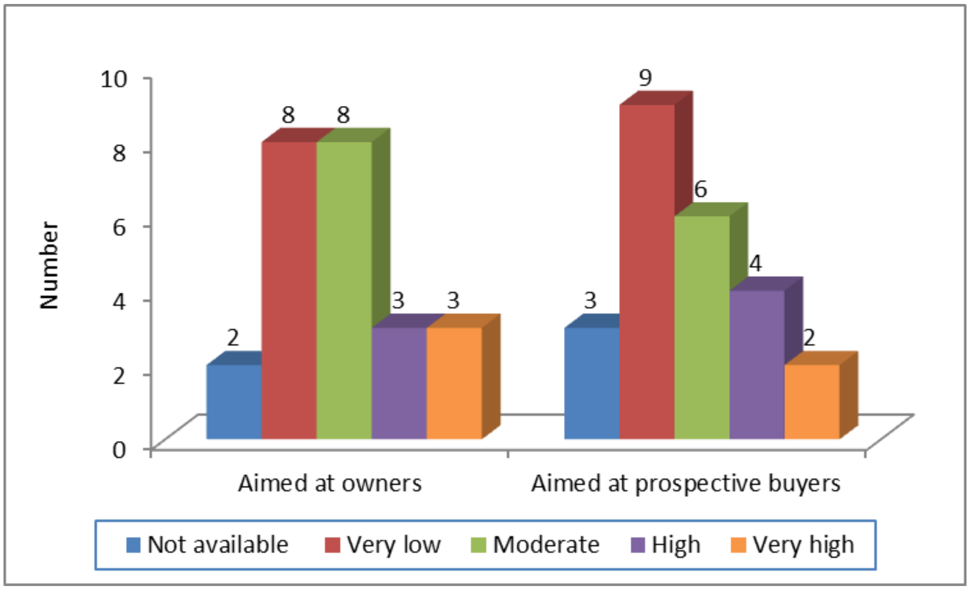
As the figure shows, owners and prospective buyers are targeted more or less equally when it comes to raising awareness, with a slightly higher availability of 'owner-related' measures.

Furthermore, in spite of the measures adopted by a number of countries, the general feedback from interviews and the evidence from studies suggest that the majority of enterprises are still not preparing for transfer or are not aware of the need to do so.

Business Support

Schemes to provide support to businesses on the process of transfer did not form part of the Commission Recommendation in 1994, but they were referred to in the 2006 Communication and constitute an important element in trying to improve the effectiveness of transfers generally. Of the 24 responding countries, only 6 reported that there is a high or very high availability of such specific support on business transfer (BE, DE, DK, FR, LI, LU), whereas 8 (6) said it is moderate and the rest that there is either very little organised support or no support at all. The figure below gives an overview of the level of availability of support specifically targeting owners or prospective buyers.

Figure 4.2: Level of availability of business support (Q.7)



Although not quite as readily available as measures to raise awareness, most countries provide some sort of business transfer support, as the chart shows.

More detailed information on the business support measures that are available in different countries can be found in case study 4 (in Annex A4). Frequently support measures that are intended to meet other objectives, such as those promoting start-ups and growth or measures tailored to particular types of enterprise can assist with the transfer process. Measures of this kind can be found in Eurofound's ERM database[28] on support instruments for restructuring. This database provides information on about 400 measures in the Member States of the European Union and Norway. Similarly there is some discussion of measures that may be used to support transfers to be found in a Eurofound study on 'Restructuring support instruments'[29].

Training and Mentoring Schemes

The last point to be mentioned under Article 2 of the 1994 Recommendation was schemes to train businessmen in order to ensure their preparation for a successful transfer. Mentoring was not specifically cited in the original Commission text, but it was highlighted in the 2006 Communication with a proposal for a pan-European pilot project which was subsequently run by Eurochambres[30]. As a result of this project initiatives of this type have become increasingly popular in many countries, especially for prospective buyers who need support in the period after taking over an already existing business.

It is particularly AT, BE, DE, DK, FR, LI, LU and NL that are active in this field. Mentoring and training initiatives are also dealt with in more detail in case study 4.

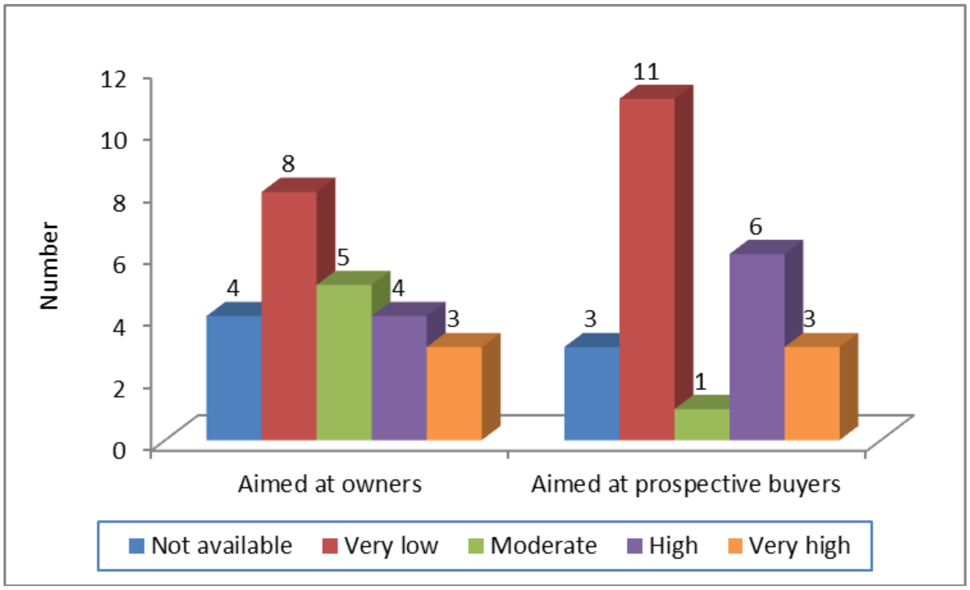
[28] http://www.eurofound.europa.eu/emcc/erm/supportinstruments/

[29] Eurofound 'Restructuring support instruments' 2013

[30] Eurochambres: Final Report 'A Helping Hand for SMEs – Mentoring Business Transfer', Aug. 2009

Respondents rated their availability as follows:

Figure 4.3: Level of availability of training and mentoring schemes (Q.7)



If we look at the existence of the three types of support in individual countries, using the same grading system as in table 4.1 above, the situation is as follows:

Table 4.3: Availability of initiatives – awareness- raising, business support and training/mentoring

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
Awareness	+	(+)	+	+	+	+	(+)	(+)	(+)	+	(+)	(+)	Ø	+	+	+	+	-	+
Support	+	(+)	+	+	+	+	(+)	(+)	(+)	+	(+)	(+)	(+)	Ø	+	+	+	(+)	+
Training	+	(+)	+	+	(+)	+	Ø(+)	(+)	(+)	+	-	(+)	(+)	+	+	+	(+)	(+)	+

	AL	LI	NO	RS	TR
Awareness	Ø	+	+	(+)	(+)
Support	Ø	+	(+)	(+)	(+)
Training	Ø	+	Ø	(+)	(+)

Legend:

+	Recommendation implemented	Ø	Recommendation not implemented
(+)	Recommendation partially implemented/planned	-	No information

The survey also asked about the availability of specific initiatives for the transfer of family businesses. This type of business represents the 'classic case' of businesses that experience problems with transfer, but as the figures show, the schemes provided in this field mainly concern awareness and training – there is less specific support and training available to family businesses, as such.

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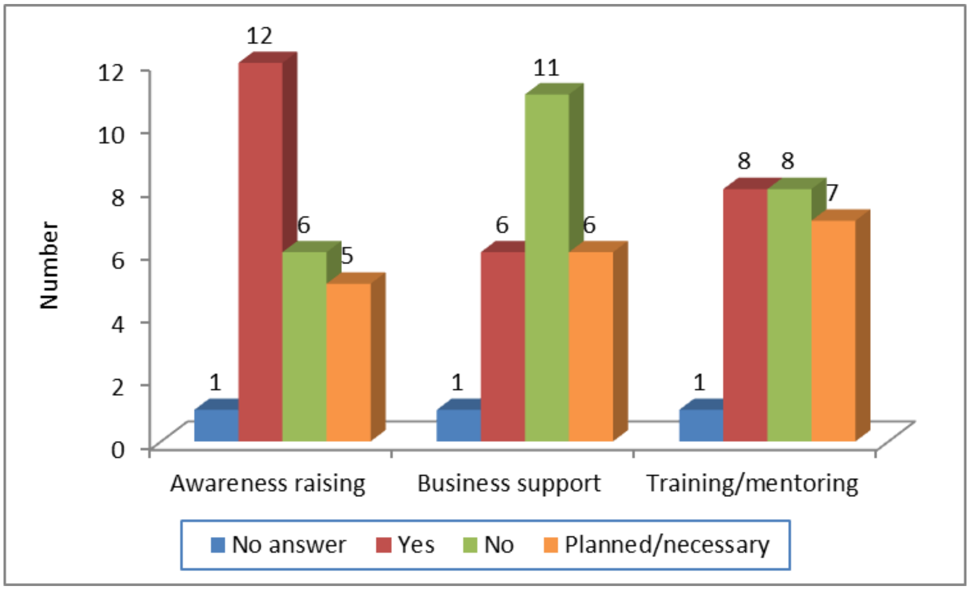
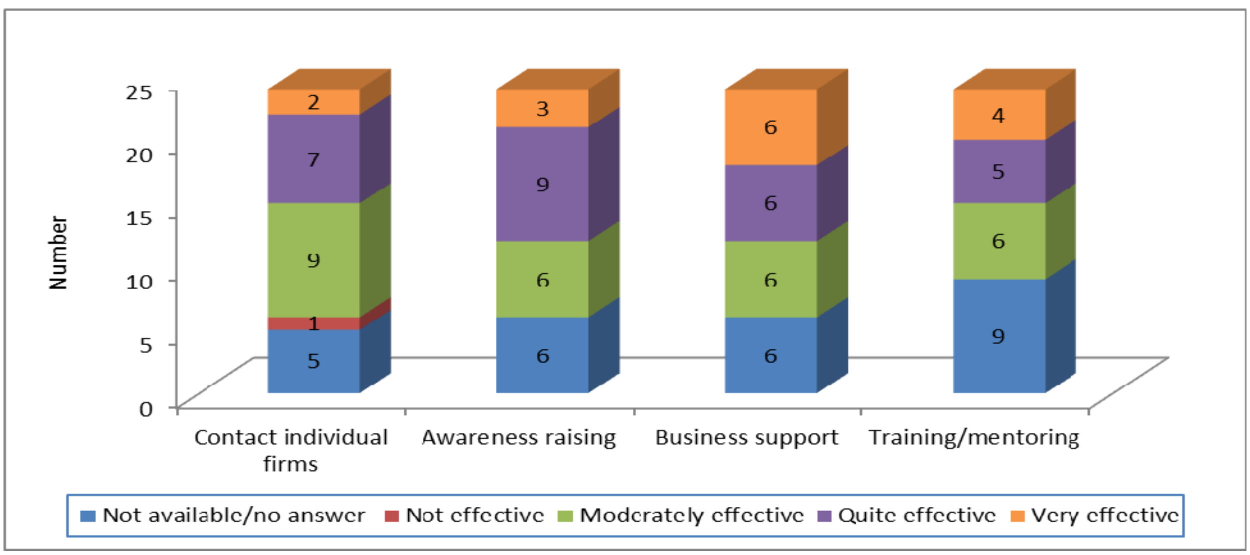
Figure 4.4: Availability of specific initiatives for family business transfer (Q.8)



A series of examples of public and private initiatives in the fields of awareness-raising, business support and training and mentoring were quoted by responding countries. Some of these have been considered in case study 4.

The survey finally questioned respondents about the overall effectiveness of initiatives to stimulate increased awareness, information and training in their country in bringing about successful business transfers.

Figure 4.5: Effectiveness of initiatives in bringing about successful business transfer (Q.13)



The overall assessment is that measures of this kind are having an effect, with business support and mentoring judged to be the most effective and awareness-raising ‘quite effective’. This also has to be set against the contrast with support measures targeted at start-ups. While 7 of the countries indicated that policy measures supported business transfers on an equal footing with measures for start-ups (AT, BE, DE, DK, LV, NL, LI), 11 said that transfer measures had a lot less weight.

4.3.2 Financial Environment

This section looks into the implementation of the second area of the 1994 Commission Recommendation - Article 3, the availability of a financial environment conducive to successful business transfer.

In general terms, the financial environment is perceived to have weakened in several of the participating countries, reflecting the overall position in relation to access to finance in many parts of Europe. Subsequent interview discussions indicated that this perception has been considerably influenced by the increased difficulty that SMEs in all situations are having in accessing finance. The effects of the difficult financial environment on SMEs have been confirmed by many studies[31].

Table 4.4: Development in Implementation - Financial environment

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	+	+	-	+	/	(+)	(+)	+	Ø	-	Ø	-	+	(+)	-	Ø	+
2010	+	+	+	+	+	+	/	+	+	+	Ø	+	Ø	+	+	+	+	+	+
2013	+	-	+	+	+	+	(+)	+	(+)	+	Ø	Ø	Ø	Ø	+	-	Ø(+)	Ø	+

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	Ø	-	(+)	(+)	(+)

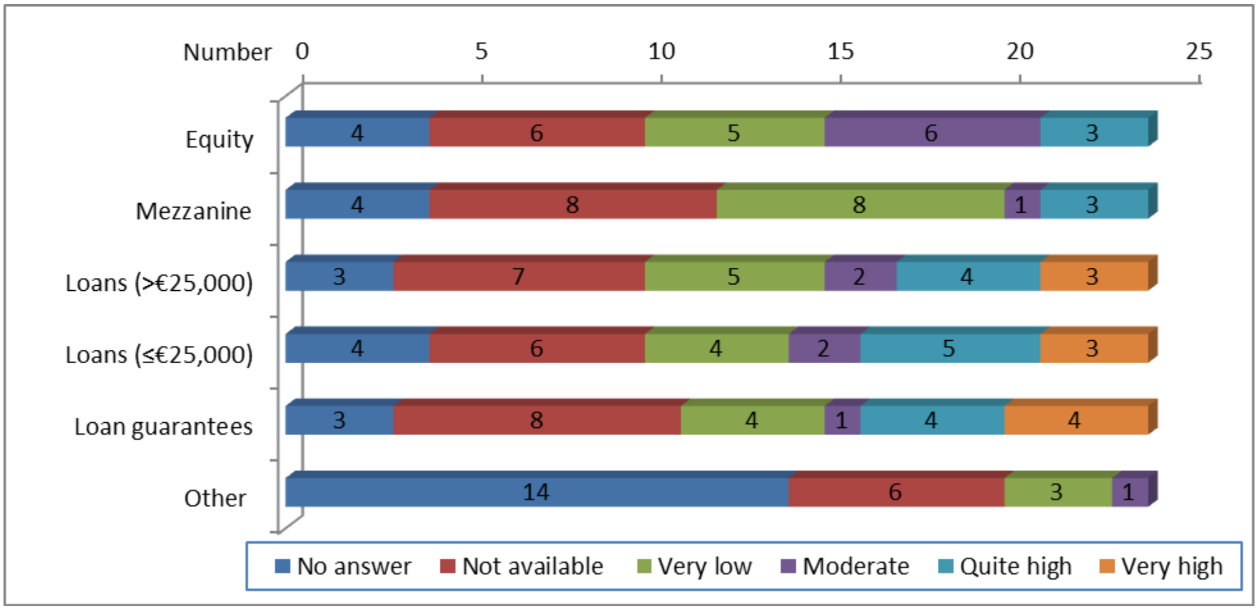
Legend:

+	Recommendation implemented	Ø	Recommendation not implemented
(+)	Recommendation partially implemented/planned	/	No comparison available
-	No information		

The responses to the question asking about the availability of different kinds of financial support instruments showed a more differentiated position.

[31] See for instance, European Central Bank 'Survey on the access to finance of small and medium-sized enterprises in the EURO area, April to September 2012' and:
Eurostat ' The proportion of unsuccessful loan applications by SMEs has risen with the economic Crisis', Eurostat news release 144/2011.

Figure 4.6: Availability of financial support instruments



While for all forms of finance, a number of countries either have no dedicated support or very low levels, there appears to be more provision for loans and loan guarantees (including micro finance loans) than for equity finance. There is little specific provision for equity or mezzanine finance for transfers, with the exception of Belgium and France. There is greater provision of loans, with 7 countries indicating 'quite high' or 'very high' availability, especially loans suitable for micro businesses (up to €25,000), in the case of Finland and Spain. Loan guarantees are also available in the same countries, although this may be part of a general loan guarantee scheme for SMEs. In Denmark for instance, over the period of 2009-2012, 30% of all 'Vækstkautioner' (special guarantees – up to €268,000 - to facilitate access to loans or credits) were allocated to enterprises involved in a transfer of ownership.

4.3.3 Legal Framework

Article 4 in the Commission Recommendation from 1994 dealt with establishing appropriate legal instruments to allow the best conditions for transfer.

The recommendation concerning 'Change of legal form' proposed that enterprises should be allowed to change from one legal form to another without the need to wind up the firm or create a new legal entity, whilst taking the rights of third parties and members into account. Most countries had managed to implement this recommendation in the early responses to the initial recommendations, as the table below shows, and there have been hardly any changes in the situation since 2006.

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Table 4.5: Development in Implementation - Change of legal form (Q.22)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	(+)	+	+	+	/	Ø	+	+	(+)	+	+	+	(+)	(+)	+	(+)	(+)
2010	+	+	+	+	+	+	/	+	+	+	+	+	+	+	+	+	+	+	+
2013	+	+	+	+	+	+	(+)	+	+	+	+	+	+	+	+	+	+	+	+

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	+	+	Ø	+	+

Legend:

+	Recommendation implemented	Ø	Recommendation not implemented
(+)	Recommendation partially implemented/ planned	/	No comparison available
-	No information		

Article 4 also contained the proposal that SMEs should be able to establish themselves in the form of a public limited company with ‘a very small number of shareholders’ and a simplified establishment and management procedure compared with that of public limited company whose shares are owned by large sections of the public. Of the 24 countries that completed the survey, 19 reported that this was possible within their regulatory framework. Compared with the review of 2010 the results for Hungary and Slovakia have deteriorated. As neither country reacted to a request to check for inconsistencies, it is assumed that they may have revoked previous rules.

Table 4.6: Development in Implementation - Simplification SMEs/ public limited company (Q.23)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	+	+	+	-	/	+	Ø	(+)	Ø	+	Ø	+	+	Ø	-	Ø	+
2010	+	+	+	+	+	+	/	+	+	+	Ø	+	+	+	+	+	+	+	+
2013	+	+	+	+	+	+	+	+	+	+	+	+	Ø	+	+	+	+	Ø	+

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	+	+	Ø	+	+

Still in relation to public limited companies, it was proposed that Member States should allow the creation of a public limited company with only one ‘partner’ in accordance with the Twelfth Council Directive 89/667/EEC. Whereas the situation on this point has generally improved since 2006, as the table below shows, in the case of Belgium and Hungary this provision no longer appears to exist.

Table 4.7: Development in Implementation – Private limited company with one member (Q.24)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	Ø	/	+	+	+	+	/	Ø	+	+	+	+	+	+	+	+	Ø	+	+
2010	+	Ø	+	+	+	+	/	Ø	+	+	-	+	+	+	+	+	+	+	+
2013	Ø[32]	+	+	+	+	+	Ø	(+)	+	+	+	+	Ø	+	+	+	+	+	+

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	+	+	+	+	+

Another topic relating to the legal framework governing business transfers is the question of the ‘legal principle of continuity’. This was dealt with in Article 5 of the Recommendation which proposed that Member States should ensure that, in the event of the death of one partner, a partnership could be kept as a going concern with or without the participation of the deceased partner’s heirs. Although the picture has remained more or less the same since 2006, in Spain and Luxembourg the legal framework no longer appears to allow for this[33].

Table 4.8: Development in Implementation - Legal principle of continuity (Q.25)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	+	+	(+)	-	/	(+)	+	+	+	+	+	+	(+)	(+)	+	-	+
2010	+	+	+	+	+	+	/	+	+	+	+	+	+	+	+	+	+	+	+
2013	+	+	+	+	Ø	+	+	+	(+)	Ø	+	+	+	+	+	+	+	(+)	+

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	+	+	+	+	Ø

Legend:

+	Recommendation implemented	Ø	Recommendation not implemented
(+)	Recommendation partially implemented/planned	/	No comparison available
-	No information		

The Recommendation’s Article 5 also proposed that family law and inheritance law should not prevent an enterprise from being kept as a going concern in the event of the death of a partner or a sole proprietor, especially with regard to the unanimity rule for decisions taken within the joint ownership. This particular recommendation appears to have caused problems in several countries in the past. The

32 Although it is not possible in Belgium to set up a Public Limited Company with 1 member only, it is possible to set up a **private** limited company (SPRLU) with only 1 member. It is possible that the 2010 survey used this as a reason to put ‘+’.

33 Neither country reacted to a request to check for inconsistencies, so it is assumed that the framework has changed.

situation has not really improved since then and of the 24 countries that have completed the 2013 survey, only about half (11) stated that legislation existed in this field.

Table 4.9: Development in Implementation - Unanimity not required (Q.28)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	Ø	/	-	Ø	-	-	/	-	+	Ø	+	Ø	+	-	+	Ø	-	Ø	Ø
2010	Ø	-	-	Ø	-	-	/	-	+	Ø	+	Ø	+	-	+	Ø	-	Ø	Ø
2013	Ø	Ø	Ø	Ø	Ø	+	+	-	Ø	(+)	+	+	+	Ø	+	+	Ø	+	Ø

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	Ø	+	+	(+)	Ø

An area that had not been raised previously, but which was mentioned in the context of the legal framework for transfers was the issue of whether insolvency laws currently are best framed to help businesses with problems to restructure and re-launch themselves. The Commission has proposed a reform of insolvency law and one of its aims is to promote a rescue culture that will allow for the continuation of viable businesses and a second chance for honest entrepreneurs. In particular, facilitating further out-of-court and early restructuring schemes, when the debtor and main creditors agree on a plan, may help enterprises facing transfer in difficult circumstances. These matters are still under discussion, but again suggest that a re-orientation of the conception of business transfers might help align their management with the developing legal framework.

4.3.4 Taxation

Generally the taxation regimes are thought be fiscally neutral, that is, they avoid introducing distortions into the system that could influence the way that transfers are carried out. In this respect the situation remains quite positive as was earlier the case.

Table 4.10: Development in Implementation - Tax neutral restructuring (Q.31)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	+	+	-	+	/	+	Ø	-	+	+	+	+	+	+	-	Ø	+
2010	+	+	+	+	+	+	/	+	+	-	+	+	+	+	+	+	+	+	+
2013	-	+	+	+	+	+	+	(+)	+	(+)	(+)	+	+	+	+	+	+	(+)	+

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	+	-	+	-	Ø

Legend:

+	Recommendation implemented	Ø	Recommendation not implemented
(+)	Recommendation partially implemented/planned	/	No comparison available
-	No information		

14 of the 19 EU countries responding indicated that there are now reduced taxes or exemptions on assets transferred to family members, by either gift or succession. Austria reports that inheritance and gift taxes have been completely abolished.

Table 4.11: Development in Implementation - Reduced inheritance tax (Q.32)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	+	+	+	+	/	+	+	-	-	+	(+)	+	+	+	Ø	+	+
2010	+	Ø	+	+	+	+	/	+	+	-	-	+	+	+	+	+	Ø	+	+
2013	+	Ø	+	+	+	+	Ø	+	+	Ø(+)	Ø	+	+	+	+	+	+	Ø	+

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	Ø	-	Ø	+	Ø

A study by Copenhagen Economics for DG TAXUD in 2011[34] looked into this issue in some detail. It established that of the (then) 27 Member States of the EU, 18 levy specific taxes upon death while nine (AT, CY, EE, LV, MT, PT, RO, SK, SE) do not do so. However, some of these countries tax inheritances under other headings such as income tax. Some Member States, for instance the UK and France, grant exemptions if the inheritance is in the form of business assets or shares that continue to be used for business purposes. More specifically, the study points to 13 of the 18 Member States with taxes upon death provide exemptions or special relief for transfers of family owned businesses at that point. The five Member States said by the study to be without such exemptions or special relief were Bulgaria, Denmark, Lithuania, Luxembourg and Slovenia. This differs slightly from the situation reported in the survey for the evaluation, reflecting differing interpretations of the significance of exemptions granted.

Similarly, where still applicable, the situation is eased by allowing inheritance tax to be deferred:

Table 4.12: Development in Implementation - Deferring inheritance tax (Q.34)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	(+)	/	Ø	+	+	Ø	/	+	+	(+)	-	+	-	+	(+)	-	Ø	-	+
2010	+	Ø	+	+	+	+	/	+	+	+	+	+	-	+	+	+	Ø	+	+
2013	+	Ø	+	+	+	+	Ø	+	+	Ø(+)	Ø	+	+	+	+	+	+	Ø	+

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	Ø	-	+	+	Ø

On the other hand, there appear to have been few developments in tax relief to encourage business owners to transfer to third parties before their death. Most countries have still not introduced any

[34] Copenhagen Economics 'Study on Inheritance Taxes In EU Member States and Possible Mechanisms to Resolve Problems of Double Inheritance Taxation in the EU' Aug 2010, revised May 2011.

legislation to this effect, apart from Belgium, Germany, France, Ireland and Austria, with Latvia planning to do so in future. There are actually a couple of countries that appear to have revoked previous provisions (DK, HU).

Table 4.13: Development in Implementation - Retirement tax relief (Q.40)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	+	+	-	+	/	+	Ø	Ø	-	Ø	+	Ø!	+	Ø	Ø	Ø	Ø
2010	+	-	+	+	-	+	/	+	Ø	Ø	-	Ø	+	Ø	+	Ø	Ø	Ø	Ø
2013	+	Ø	Ø	+	Ø	+	Ø	+	Ø	Ø	(+)	Ø	Ø	Ø	+	Ø	Ø	Ø	Ø

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	Ø	-	Ø	Ø	Ø

The situation is similar when it comes to promoting re-investment of profits made on selling a business and things have remained largely the same as in 2006 with most countries still not making use of an incentive of this kind. There is one positive change – in the case of Ireland - and a couple of reversals in the relief that is granted, in Denmark and the Netherlands.

Table 4.14: Development in Implementation - Re-investment tax relief (Q.42)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	Ø	+	+	+	/	Ø!	Ø	Ø	-	Ø	Ø	Ø	Ø	Ø	Ø	Ø	Ø
2010	+	Ø	+	+	+	+	/	Ø	Ø	Ø	-	Ø	Ø	+	Ø	Ø	Ø	Ø	Ø
2013	+	Ø	Ø	+	+	+	Ø	+	Ø	(+)	Ø	Ø	Ø	Ø	Ø	-	Ø	Ø	Ø

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	Ø	-	Ø	Ø	Ø

Finally, there have also been a limited number of changes with regard to using tax incentives to transfer businesses to employees. In fact, if anything, the situation here is worse than it was in 2006.

Table 4.15: Development in Implementation - Sale to employees tax relief (Q.43)

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	(+)	/	+	Ø	(+)	(+)	/	(+)	Ø	Ø	-	Ø	+	+[35]	(+)	Ø	Ø	Ø	Ø
2010	+	Ø	+	Ø	+	+	/	+	Ø	Ø	-	Ø	+	+	+	Ø	Ø	-	Ø
2013	+	Ø	+	Ø	Ø	+	Ø	Ø	+	(+)	Ø	Ø	Ø	+	+	+	Ø	Ø	Ø

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	Ø	-	+	Ø	Ø

[35] The situation for 2006 on 'Sale to Employees Tax Relief has been changed from a 'Ø' to '+'. It was marked wrongly in the 2006 Communication, as the measure was already implemented at that stage.

In relation to cross-border transfers, the responses indicate that only 9 of the 17 countries replying to this question have established unilateral inheritance tax relief to prevent international double taxation of inherited businesses (DK, ES, FR, HU, IE, IT, LT, NL, NO). The remaining 7 countries did not respond to this question.

4.3.5 Findings in relation to the Evaluation Questions on the Effectiveness of the 2006 Communication

At this point it is useful to summarise the findings on the effectiveness of the 2006 Communication in the terms of the original evaluation questions.

- *The extent currently of measures taken to facilitate the transfer of businesses across the participating countries, including the extent of dedicated support measures*

The 2006 Communication reported that 60% of the original recommendations had been implemented (and 45% in new Member States). Based on responses to the survey of the experts nominated for this project in relation to their own countries, the current situation shows an improvement but not as significant as might have been expected. The 19 Member States that responded to the survey have at present implemented 70% of the original recommendations, with 'old' Member States counting for 77.5% and NMS for 58%. Including CIP countries, the overall implementation rate amounted to 66%.

For the five countries participating in the project that are not EU Member States, it is not possible to make a comparison with earlier periods, but currently they have implemented about 48% of the recommendations overall, though with large variations between countries.

The overall figures should be treated with some caution. A large part of the apparent improvement is accounted for by all the countries participating now saying that there are awareness-raising actions and nearly all saying that that taxation structures are fiscally neutral. But in more detailed responses less than half of the respondents state that there is a 'good provision' of awareness-raising activities, with mentoring and dedicated business support being less available. In the field of dedicated business support measures – which were not directly mentioned in the original recommendations but which have nonetheless proved essential especially for smaller businesses – only a small group of core countries (25%)[36] have high or very high availability of such measures. In the remaining countries there is either very little organised support for transfers or none at all.

In terms of access to finance, half of responding Member States claim to have good availability of tailored financial support instruments, whereas a third say they have no provision (mostly NMS). In the other CIP countries participating, dedicated finance appears to be relatively rare. The general impression from the fieldwork is, however, that enterprises involved in transfers are finding the current financial climate difficult, as are other SMEs, but that there is no specific problem particular to transfers and indeed that those who are able to present a good business case are mostly able to find finance, mostly in the form of loans or loan guarantees.

Although most Member States have by now either reduced or abolished inheritance tax on business transfer (only 4 of the 18 responding Member States have not done so), when it comes to the other tax-related recommendations, there are still significant shortcomings to be found. Of the six proposed tax measures, only about half (56%) have been implemented on average in the participating Member

[36] Six countries reported that they provide a lot of support businesses on the issue of transfer: Belgium, Germany, Denmark, France, Liechtenstein and Luxembourg.

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States, and only 35% within the other participating countries. In fact, several countries are considering or have started to revoke advantageous tax provisions previously available, as a result of the financial crisis (eg. BE, DK, FR, HU, LV, NO, SK).

The overall conclusion is that in substance and with some minor improvements, including a catching-up process on the part of newer EU Member States, the general situation has not changed much since the 2006 Communication, as will be explained further in the next section.

- *Coverage of the full range of problems identified in earlier work on business transfer*

The fieldwork and survey results show that measures in place in Member States and participating countries do not necessarily address the full range of transfer-related problems. The areas that have seen the highest success rates are those that relate to changes to the regulatory environment, such as allowing firms to change from one legal form to another or to set up as a public limited company with a simplified structure or with a single owner. Some 79% of the suggested measures in this field have been put in place in participating countries across the board. Awareness-raising measures also show good implementation rates with all 24 responding countries reporting that they organise some activities to raise awareness, although 10 countries say that the availability of such activities is very low. When it comes to providing access to dedicated finance or giving tax relief in various ways to facilitate the transfer process, there are a lot less measures to be found.

Overall, therefore, the conclusions has to be that the coverage of the problems identified in earlier work is partial and only approaching 'satisfactory' in relation to regulatory provisions. This situation may also be judged to be poor in comparison with other areas of Enterprise policy. It is certainly the case that the recommendation of the 2006 Communication that business transfer and start-up initiatives should be put on an equal footing has not been implemented at any level.

- *Evidence on the effects of the measures*

The responses to the initial initiatives on business transfer pre-dated the development of current evaluation systems and this may explain why very few countries have systems in place that monitor or evaluate measures to support and promote effective business transfer. It should be said that even the European Commission has less extensive monitoring of business transfer developments than, for instance those relating to business start-ups.

Furthermore, basic data on business transfers and their effects are collected consistently only in a few countries and, while it is true that there have been a number of studies on key issues for business transfer in various countries, comparison between them is often difficult, because of the use of differing definitions and the examination of differing issues that may be related but are often sufficiently different to make it impossible to aggregate data or make direct comparisons. Some studies focus, for instance, on family businesses, while others look at all enterprises.

The evaluation has even cast doubt on the accuracy and usefulness of the widely quoted figures for the number of enterprises at risk, pointing to both conceptual and practical problems.

All in all, therefore, the evidence base for assessing the effects of the measures introduced to assist business transfers is very poor and later parts of the Report make some proposals on this issue.

The one area where some interesting evidence is emerging, as will also be seen subsequently, is in relation to the performance of enterprises, post-transfer. It appears that the anecdotal evidence cited in interviews of a positive effect from the injection of new ideas, organisation and capital, is being substantiated in more systematic analysis conducted in various academic studies.

- *Extent to which support measures successfully address genuine business transfer difficulties*

While the evidence from the survey on the effectiveness of support measures in addressing genuine business transfer difficulties is relatively limited, there is ample evidence presented in official documents and academic studies and cited in interviews that the issues to be addressed in the business transfer process have generally been correctly identified in earlier work and specifically in the 2006 Communication.

It has been argued in the previous section of this chapter that support could be more positively orientated, with an emphasis on the opportunities presented by the occasion of a transfer, but this re-orientation of existing support does not imply any major change in the mechanisms previously developed, except perhaps in some of the material used in awareness-raising activities. The issues to be tackled in providing effective advice or in arranging appropriate finance have been understood for some time and there has been little to suggest a re-definition at this level. The conclusion therefore ought to be that support measures are generally pointing in the right direction. There is however, a further question of how effective they are and some evidence that there are some considerable problems here, but these issues need to be broadened to a more general consideration of the efficiency of the support that is provided and this is discussed further in the following section.

- *The remaining barriers to effective business transfers and the factors underlying them*

From the description of the situation in most countries, it is clear that many of the regulatory barriers to business transfer have been overcome. The exception is the recommendation that unanimity rules governing inheritance in the case of partnerships or sole proprietorships should not prevent the business from being kept as a going concern. Here there are still only 8 Member States that have such provisions (and 4 of the other participating countries). In addition, it will again be seen subsequently that new barriers are becoming apparent in the area of cross-border transfers. Even so, the main areas for further work relate to taxation provisions and business support, including awareness-raising and providing access to finance.

The main considerations leading to the comparatively slow progress in the non-regulatory areas, probably relate to cost, since implementing these measures extensively would certainly be more costly than changing regulations, but also to a failure in some countries to appreciate the significance of business transfer as an issue in Enterprise policy. The previous section of the report has suggested that this may have been because of the way that the business transfer issue has been characterised.

An area not previously considered in the business transfer context is the way that insolvency law assists or obstructs the transfer of businesses in financial difficulties. The current proposals from the Commission on a reform of insolvency laws are still under discussion, but are intended to promote effective restructuring and the continuation of viable businesses. A new more dynamic conception of business transfer is very much in line with this thinking.

4.3.6 Overall Situation

The general conclusion, then, emerging from the survey responses is that there has not been much further progress in the implementation of measures to improve the framework for business transfers since the 2006 Communication. The main earlier gains were in changes in legislation and improvements in relation to inheritance law and tax. There have been fewer developments in areas such tax arrangements for third parties or employees or in the provision of dedicated support and finance initiatives.

Part of the problem here is that policy relating to business transfer has simply not been given sufficient profile. It is clear, for instance, that in spite of earlier recommendations that business transfer be put on a similar footing to policy promoting start-ups, this has simply not been achieved in many countries, nor - it could it be argued - at a European level.

The following section pays further attention to the pattern of responses to the original Recommendation and the extent to which policy measures have addressed the basic problems of business transfer.

4.4 The Efficiency of the 2006 Communication on Business Transfers

This section of the report summarises issues to do with the efficiency of measures to support and promote effective business transfer, but also focuses on developments currently and since the 2006 Communication that have helped to improve transfer processes and make transfers more successful.

In this section, evidence has been drawn from the Expert Group meetings, from background research, the survey and the interviews, but especially from the detailed work that has been undertaken for case studies. Naturally, a fuller picture on the specific issue under consideration is presented in the case studies; the main report relies on this more detailed work and in most instances summarises the arguments and highlights the conclusions.

The original Recommendation and the additional measures highlighted in the 2006 Communication were of three kinds. There were proposals that the Member States should change regulations, such as company law allowing single person companies, there was reference to changes in taxation provisions and there was mention of support measures, such as the provision of information aiming to stimulate awareness of the transfer issue and the provision of a conducive financial environment. In short, regulatory, fiscal and support measures were proposed.

Already by the time of the 2006 Communication, some progress was noted particularly in relation to the regulatory provisions. So, it was said that changes meant that there were no major problems in restructuring a business to prepare for a transfer and that it was easier to organise small firms as limited companies. There had also been some progress with the legal principle of continuity of partnerships, though there was further scope for allowing partnership agreements that have proved to be useful in some countries. Generally, therefore there had been reasonably good progress with the regulatory issues and even with the taxation of inheritance and gifts. It was in relation to support measures that there had been the least satisfactory developments. The Communication highlights the fact that not enough is done to raise awareness of business transfers and that the financial environment is often not conducive to business transfers. In referring to new elements that needed to be added to those mentioned initially, it also mainly highlighted support issues, such as providing adequate financial conditions, raising awareness, improving support services, including mentoring and the coverage of ‘soft factors’, and the need to organise transparent markets.

It is useful to ask at this stage why there was this difference between the apparent progress in regulatory matters but a comparative failure to develop support measures. In a sense the answer is obvious, although not previously commented upon. Member States took action relatively early on in relation to regulatory changes that could be implemented without any great cost, but the support measures required expenditure and competed with other priorities.

The possible exception in this explanation is the reduction in inheritance and gift taxes, which clearly led to some loss of revenue, but even after income and corporation tax revenue are taken into account, together with the reluctance to extend tax benefits to third parties taking over an enterprise, the argument could apply in this case.

The previous section has shown that the overall position in terms of the implementation of the original objectives has not changed much since 2006. However, behind the headline situation, there have been interesting developments in a number of areas, which also suggest elements that are likely to be important in any renewed strategy to deal with transfer issues. These are considered under the following headings

4.4.1 Awareness-raising

Highlighting the need to prepare for the transfer of businesses has been recognised as a major element in any public action addressing business transfer, right from the beginning. The transfer of a business is often a relatively complex affair and generally needs to be prepared well in advance. Encouraging enterprises to be aware of the need to prepare for transfer and to think of it as a process sometimes extending over a considerable period has been a theme continuously raised in discussions of business transfer over the years.

Various public authorities and also business organisations, chambers of commerce etc., have taken action to publicise this message since the early days, but there is consistent evidence that most businesses fail to take appropriate steps and EU policy statements regularly announce that greater effort is needed.

However, it could be that the approach adopted has inadvertently exacerbated the problem. By stressing the need to prepare for retirement, awareness-raising efforts may have indicated that this is a problem for the future that can be safely left for another day.

The arguments rehearsed in the first section of this chapter mean that it should not be assumed that the transfer problem is something that primarily occurs at the end of a life cycle, when a single owner is reaching retirement age. On the contrary, increasingly this will describe only a minority of transfers.

Appreciation that transfer is an event in the development of a business that can happen at any time suggests a rather broader approach to awareness-raising.

It may still be appropriate, as has happened in Austria and the Netherlands, to contact business owners approaching a certain age, with a view to encouraging them to review their plans for disengaging from their businesses. However, if increasingly transfer can be regarded as an occasion of potentially major significance for the strategy of a business or a set of related businesses, preparation for transfer needs to be at the core of management strategy and equally of business training and education. If transfer is regarded as an opportunity for re-configuring a management team and business assets, it needs to have a higher profile in management discussions and in business textbooks and business curricula.

The problem of finding the resources to increase awareness-raising activity may therefore be resolved, at least to a certain extent, by changing the way that transfer is conceived.

4.4.2 Business support services and mentoring

The provision of information and support services to SMEs faced with the prospect of transfer has also been a recurring theme throughout the development of policy in this area. In addition to actions to promote awareness of the issue, where a wide audience is envisaged, it has also been recognised that there is a need to support individual enterprises, either those with owners wishing to move out of a business or those where there is someone interested in taking a business over.

In relation to individualised services, there have been more focused discussions at various times on particular kinds of service, for example, the use of mentoring or the need to take 'soft factors' into account in shaping the assistance given. The case study on developing effective advice and support provides an overview of these developments, before going on to consider issues arising from the accumulated experience in this area.

Feedback from interviews indicates that in some countries public advice services on transfer are underfunded as compared with support provided for start-ups and other areas of SME activity and that there is insufficient training of staff to work in this area. Private sector support has developed in some countries, but in others remains relatively restricted. The overall provision of advice and other forms of support therefore continues to be an important issue.

However, even where there is provision, there are still significant matters to be addressed. A particular point on the effectiveness of business support and advice from private sector providers has been raised in a recent article by Lex van Teeffelen entitled 'Avenues to improve success in SME business transfers: reflections on theories, research and policies'[37]. This paper reviews the academic research into support for business transfers and sets out rather negative conclusions. There is some evidence that the use of advisers has negative consequences for the post-transfer performance of enterprises and studies in the United Kingdom and the Netherlands are cited, which show that many advisors are ill-equipped to provide advice over the entire process of a business transfer. It also appears that professional SME advisors in general target their services at medium-sized firms and are too expensive for small firms.

An important part of the problem with traditional advisers – accountants, solicitors, bankers, even brokers – is that they only have a partial grasp of the issues, usually only in the area of their own competence and often only need to address the issue occasionally. But, advising on transfer needs an up-to-date grasp of a wide range of issues including the analysis of financial information, accounting, commercial law, taxation matters, often sectoral knowledge and contacts with sources of finance, plus a certain grasp of psychology and an ability to deal with emotionally sensitive questions and individuals. It is not surprising that specialists in the area have emerged, although currently in most countries there is no control over those who may claim to be such a specialist.

At the first Expert Group meeting, there were several contributions insisting that business transfer should not be regarded as an event, but rather as a process that should take place over a long period. Enterprises need to be aware of the transfer issue well before they arrive at the point when it needs to happen and they need to be helped to plan for the eventuality. Part of this preparation, and one of the reasons that it needs to happen over a prolonged period, has to concern the psychological and motivational issues that are a significant feature of an entrepreneur's position within an enterprise. It is

[37] Lex van Teeffelen entitled 'Avenues to improve success in SME business transfers: reflections on theories, research and policies' June 2012

difficult for a successful entrepreneur or CEO to let go of control or face the consequences of growing older and this aspect of transfer needs to be addressed alongside the financial, organisational and legal issues that are also part of the transfer picture.

Another matter raised in the interview programme and also mentioned in the Expert Group meetings, has been the need to respond to the perceived failings in the advice and support available by promoting an increasing professionalisation of this service, and possibly introducing regulation of service providers.

The development of professional advisers on transfer in both the private and the public sectors is to be welcomed and their further development encouraged, but such advice can be expensive, particularly if it accompanies the whole process over several years. Nor is it necessarily appropriate for all businesses, especially micro businesses. On the one hand, it is necessary to help businesses to appreciate that they are in danger of losing much more than it costs to have good advice, if the transfer of their business is not successful. Those who are prepared to pay for professional advice in the sale of a house should be able to recognise the need for it in the sale of a business. Equally, there are cases of relatively small scale and straightforward businesses where expensive advice is not necessary. In these cases – probably rather large in number, the services of the usual business support agencies ought to be sufficient to provide general orientation and warnings on pitfalls. Advice of this kind can often be provided on-line and there are well established guides and on-line advice to support this process[38].

However, in the cases where professional advice is needed, there is a substantial policy issue relating to the assurance of professional services. The emergence of specialist advisers that concentrate on business transfer is encouraging and should be promoted further as a matter of policy, but an important part of this development is establishing an appropriate framework. It should not be possible for simply anyone to be able to claim that they can provide advice in this area. An issue raised in some countries, notably France, is whether the provisions of the MiFID Directive - the Directive on markets in financial instruments (2004/39/EC)[39] apply to those providing financial advice in transfer cases or whether something similar should apply. In any event, it is clear that there is scope for the development of appropriate standards and/or codes of conduct and possibly registration. Again, as the case study on support services shows, there have been developments in France along these lines.

More generally, there have been some encouraging developments at both national and European levels in the direction of improving standards. The work of Transeo, the European business transfer association, has facilitated debate and an exchange of good practice and points the way to further improvements, both in relation to improving the consistent provision of a first-class professional service and in strengthening public and semi-public services, especially for smaller enterprises.

The overall situation with support services, therefore, is that this is a policy area where there has not been consistent development in the past, but where especially if there is to be a re-focusing of transfer policy on assuring efficient transformations and re-allocations of resources in a growing economy, the

[38] For instance, Cédants et Repreneurs d'Affaires (CRA) : 'Transmettre ou reprendre une entreprise' (Guide), 2014 or Brunello, Toni 'Kit Brunello Systems'

[39] Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ 2004 No. L145/1.

development of effective professional advice, which is often essential for the smooth running of the transfer process, should have a much higher profile.

4.4.3 On-line Markets

A recommendation of the 2006 Communication, following on from the work of the Expert Group on Markets for Business Transfers, was that transparent markets for business transfers should be organised. This partially referred to the need for impartial services that could provide ‘a comprehensive mediation service to guarantee ordered and well-structured transfers in the spirit of partnership’, but part of the transparency is also the availability of on-line systems that allow sellers and buyers to be brought together. This particularly is the subject of the case study on on-line markets (Annex A3).

The case study presents an overview of sites identified either by earlier studies or through research, including sites identified in interviews. Most of the sites considered by earlier studies have continued to flourish and to increase both the numbers of the businesses for sale and the numbers of those looking to purchase a business. The German site, Nexxt-Change, for example, now regularly has over 7,500 businesses for sale on offer and facilitates over 1,000 transfers each year. These sites tend to cater for the more complex forms of transfer and are concentrated in a core group of countries – Belgium, France, Germany, Luxembourg and Austria that are active with other initiatives specifically for business transfers. With the exception of the Spanish ‘Plan de Continuidad Empresarial’ and in Portugal, where the SME agency IAPMEI, is shortly to launch a new national platform, there does not appear to have been much of a development in the sort of sites recommended by the Expert Group in the period since 2006. Attempts by various Chambers of Commerce in Italy, for instance, to create regional sites have met with varying degrees of success and have not yet led to the establishment of a similar national facility. Elsewhere, such developments as there have been have involved ‘advertising sites’ more than anything else.

The previous studies did not pay much attention to the broadly-based ‘advertising’ sites. Some of these sites have existed for a long time in the sense that they originally took the form of a physical publication. One explicitly claims to have been ‘connecting buyers and sellers since 1870’. Nowadays they essentially consist of a website on which it is possible to advertise a business for sale. The notices posted on these sites consist of a structured statement of the main features of the business. Some access to additional information and commercial advisers is often provided, but basically they envisage a more or less direct contact between the sellers and the buyers, without any substantial intermediation.

Frequently these ‘advertising’ sites will also offer franchises and sometimes property and other goods and services for sale, but they cater for a relatively large number of businesses when compared to the on-line markets previously highlighted. In addition, the businesses advertising are mainly micro and small businesses. Some have an international dimension, with businesses in different countries and often different language versions. A site used in the UK, for instance, - Businessesforsale.com – claims to have 64,000 businesses for sale in 26 countries. However, the businesses involved are often mainly in the service sector – retail, hotels, personal health care etc. and are generally relatively small, with an annual turnover seldom above €1.5 million. In other words they serve a particular market, in which although individually most of the businesses concerned are not substantial in terms of their impact on the economy, collectively because of the numbers involved, they are rather more significant and consequently ought to be a definite part of policy consideration in the business transfer area.

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It should be said that, although the model is relatively simple, these ‘advertising sites’ are gradually becoming more sophisticated. A Polish site, Bizvendo, developed with EU funding support (ERDF) and launched in 2011, operates in English and German as well as Polish and has various support features built in. There is an on-line tool to help sellers prepare an information memorandum, setting out the firm’s basic business information and also a step-by-step instrument to help owners to value their business. The site can also direct businesses to advisers of various kinds and to potential investors.

The other, more established, on-line markets previously considered are often in a better position to assist somewhat larger enterprises (though still SMEs) and enterprises to be found in manufacturing and some parts of construction, the ICT sector etc. Essentially in these cases, the business and transfer issues are rather more complicated than when it comes to selling a small retail outlet. In these circumstances, there is clearly a greater need for professional assistance and mediation.

The case for intermediation lies in the market failures relating to information transmission. Initially there is an asymmetry of information between seller and buyer. The seller knows his or her business better than the buyer and has an incentive to hide certain facts and this failing is particularly pronounced in the case of smaller enterprises that are exempt from requirements to publish the financial information required of larger enterprises that typically are covered by company legislation. Checking by an intermediary can help alleviate the problem. There is also the need in many cases for confidentiality. A business owner cannot let it be known that he or she is thinking of selling a business, without this potentially affecting the behaviour of customers, business partners, employees, suppliers and providers of credit. All of these effects can reduce the value of the business. Being able to preserve this confidentiality is also facilitated by the use of intermediaries.

Intermediaries can also play a useful role both in bridging differences between sellers and buyers, notably in relation to the perceived value of the business and also in helping to arrange finance and ensuring that the business under new ownership gets as promising a start as possible.

The Expert Group commented on the problem of the proliferation of on-line markets, suggesting that if a comprehensive national database cannot be established, there should at least be a national portal for all such databases. The PBI site in France (formerly Oséo) acts in this way and there appears to be a similar motivation behind the ‘Startvaekst’ site that is being developed in Denmark and the ‘Suomen Yrityskaupat’ site in Finland. However, there is clearly scope for other initiatives of this kind elsewhere.

The developments in this area may therefore be regarded as a moderate success, even though there is scope for a more active development of marketplaces for both relatively simple and more complex transfers in a number of countries and the all the systems could benefit from a mutual learning process based on a continuing review of developments in this area. The existing systems appear to have been developed cost-effectively and present models for those countries that are yet to develop them, but this could be investigated further. It is noteworthy that in a number of countries, these market places are well integrated into the developing provision of professional advice services. It is these cases that are likely to have the most impact in the future.

4.4.4 Finance for Transfers

The financing of transfers has been another issue that has had some prominence since the beginning of EU initiatives on business transfer and the promotion of a better financial environment for SMEs more generally has been a major part of Enterprise policy for many years.

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In this context it may initially appear to be particularly disappointing that the results of the survey conducted for the evaluation indicated that there had not been substantial change in the nature or extent of financial measures intended to provide an environment conducive to business transfer since 2006. As can be seen from the presentation of the survey results in the previous section, those countries that had measures in place specifically for business transfer in the earlier period have strengthened them in some cases, but there has not been any marked extension of dedicated provision beyond the core set of countries that were already active in the area (Belgium, Denmark, Germany, France, Austria and in effect Finland). It has been noted that these are the same countries that are active in other areas of support for transfers.

Among the countries that are active, there is more provision for loans and loan guarantees (including micro finance loans) than for equity finance. The availability of mezzanine finance for finance is restricted to two countries.

What is more surprising is that specific provision for transfers have dropped out of financial measures at a European level.

The Entrepreneurship 2020 Action Plan[40], published early in 2013, has a section on ‘Easier business transfers’, in which it speaks of the development of ‘special financial facilities designed to finance transfers’ and suggests that existing European funds could be used (in conformity with their rules and priorities) to support transfers of SMEs intending to continue running the business. But in the section on ‘Better access to finance’ the Action Plan puts the emphasis on the fact that entrepreneurs have difficulties raising finance in the early stages of their businesses and mainly concentrates on addressing problems at this stage.

Similarly, in the Action Plan to Improve Access to Finance for SMEs[41], published in 2011, although there is reference to a series of developments that could undoubtedly assist business transfers, including measures to improve lending to SMEs, improving the regulatory framework for venture capital, improving SME access to capital markets and reviewing the impact of bank capital requirements on SMEs, there had been no specific mention of financing business transfer at all.

This tendency of business transfer to have little or no profile in EU policy positions on finance for SMEs was also apparent in the Commission’s initial proposal for a Programme for the Competitiveness of enterprises and SMEs (COSME) 2014-2020[42], where around half of the proposed budget of €2.5 billion was expected to be devoted to facilitating access to finance for SMEs. There was no explicit reference to business transfers at all in the programme as initially proposed, though it is understood that this has been modified in as yet unpublished later versions and that an environment conducive to business transfers is now part of the COSME objectives.

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[40] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions ‘Entrepreneurship 2020 Action Plan. Reigniting the entrepreneurial spirit in Europe’ COM(2012) 795 final of 9.1.2013

[41] Communication from the Commission to the Council, the European Parliament, the Committee of the Regions and the European and Social Committee ‘An action plan to improve access to finance for SMEs’. COM(2011) 870 Final of 7.12.2011

[42] Proposal for a Regulation of the European Parliament and of the Council establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (2014 - 2020) COM(2011) 834 final of 30.11.2011

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With the exception of those Member States where longstanding provisions have been developed further, it would appear that neither the Commission nor the participating countries have been very efficient in promoting finance measures for business transfers. However, a closer look at the situation suggests that a different interpretation can be put on the findings of the survey.

It should be noted, first of all, that those countries that do provide dedicated finance often do so through programmes that have a close relationship with agencies that are providing advice.

It then has to be said that many stakeholders commented that the general financial environment for SMEs has worsened since 2008[43] and this situation affects SMEs seeking to finance a transfer as much as SMEs in other situations. Furthermore, as will be seen in the section on transfers to employees below, specific problems can arise with the financing of particular types of transfer.

However, specifically in relation to finance for business transfers, in spite of the fact that with changing relationships within family businesses especially, the requirement for external finance is growing, as businesses are increasingly sold to someone from outside of the family and the passing on of enterprises in the form of an inheritance or a gift declines to be replaced by monetary considerations, there does not appear to be a major or general problem of access to finance. This may be the result of a marked decline in the numbers of businesses being offered for sale, as owners decide to postpone sales, in the hope of getting a better price with an eventual recovery. Or the same phenomenon may be the result of the disruption of retirement plans as a result of low annuity rates and low interest on savings. But, a consistent feedback from the interviews conducted for the evaluation has been that any transfer that can present a good business case will eventually be able to find appropriate finance, from a bank or increasingly from other sources.

The observations on other sources of finance are also interesting. A number of those interviewed commented on the increase of funds being made available from wealthy individuals. Former owners that overlap with this category are also making a greater input, often allowing flexible pay-back, effectively of loans and also providing and helping to ensure continuity. Sometimes both former owners and other private individuals are acting as business angels.

There are, of course, particular businesses, especially very small businesses where there are difficulties in finding finance for a transfer. This may be part of the more general problem of agreeing a valuation – nearly always a point of tension between a seller and a buyer. Sellers tend to believe that their businesses are worth more than the buyer is prepared to pay or the provider of finance is prepared to acknowledge. Transfers to employees are also said to encounter more difficulties than other forms of transfer, unless they can access funds specifically established to finance the creation of employee-owned enterprises. Moreover, there is the effect, already mentioned, that the difficulties encountered by some businesses are more pronounced in the current economic situation. However, overall, the view of the members of the Expert Group and others involved in transfer processes is that the difficulties generally arise because of a failure to prepare a proper case and especially to provide appropriate

[43] Evidence to this effect is cited above – European Central Bank 'Survey on the access to finance of small and medium-sized enterprises in the EURO area, April to September 2012' and:
Eurostat ' The proportion of unsuccessful loan applications by SMEs has risen with the economic Crisis', Eurostat news release 144/2011.

financial information. This does suggest that as part of awareness-raising actions there should be emphasis on the importance of sound financial information for enterprises of all sizes, as part of the long term preparations for transfer.

The other qualification to the general picture concerns the situation of young entrepreneurs. The 2006 Communication and other policy documents have referred to taking on an established enterprise through transfer as an alternative to starting–up a new firm. However, in contrast to the situation with older entrepreneurs, there is not much evidence from interviews and elsewhere of this happening to any marked extent. Part of the explanation might be found in an interesting study conducted by the Economist Intelligence Unit, on behalf of Zurich[44] and published in November 2012. This study points to an emerging long-term economic risk arising from a major disparity in the distribution of personal wealth between the 'baby-boom' generation and younger people. Increasing levels of personal debt among the young, arising from high unemployment levels and education expenses and difficulties in entering the housing market have created a 'capital-lite' generation that is not in the best position to raise finance for entrepreneurial activities. This is clearly an issue that needs further consideration.

Summarising the situation, then, although there are particular issues with preparing the case for finance and the difficulties faced by younger entrepreneurs, there would not appear to be a major demand for transfer specific finance. The reason that the participating countries (and the Commission) have not made more progress in providing transfer specific finance is that it is not really needed as such. And indeed the original Recommendation did not even propose it; it merely talks of a financial environment conducive to business transfers.

Or perhaps this should be stated slightly differently. As was pointed out by a number of the experts consulted, transfers can make use of funding established under other headings. Sometimes transfers are explicitly excluded, but funds established to assist start-ups can often be used if the circumstances are otherwise appropriate, while on other occasions funds established to promote growth are more appropriate. Of particular interest, given earlier discussion of the role of transfers in assisting the reconfiguration of European industry are the initiatives in Spain and Portugal that can assist business transfers that are part of measures designed to promote the concentration and consolidation of enterprises. As described in more detail in the case study on the finance of transfers, in Portugal, FACCE (Fundo Autónomo de Apoio à Concentração e Consolidação de Empresas), established in 2009, is a fund for the support of restructuring and the concentration and consolidation of enterprises, particularly SMEs. The funding can take the form of participation in equity, the purchase of debt instruments or a loan. The whole package can be up to 40% of the total finance required and be worth up to €10 million. Similarly in Spain, among a series of finance programmes for SMEs from ENISA (Empresa Nacional de Innovación), funding for transfers is available under a Mergers and Acquisitions programme, if the project involves a corporate transaction (merger, acquisition or division) designed to increase the company's competitiveness. The programme provides loans of between €200,000 and €1,500,000.

The conclusion is that there is generally a financial environment conducive to transfers, in spite of the apparent lack of progress referred to in the previous section. Of course there can always be further improvements, especially if there is a clearer conception of the role of transfer in offering an

[44] The Economist Intelligence Unit 'Derailing the future of economic growth: The demographic time bomb facing the UK SME economy' November 2012

opportunity for a reconfiguration for productive resources. But in practice, it would appear that there has already been a movement in the direction of a more fluid conception of transfer. Many financing schemes accommodate transfer of various kinds, but there are also examples, as in the cases from Portugal and Spain, where as part of an integrated response to the financial crisis, a more dynamic conception has been developed of the role of transfer in the development of SMEs and their potential to contribute to a strengthened industrial structure.

However, remarks in the survey and in interviews suggested that even in countries with relatively good provision, the situation differs depending on the nature and size of the enterprise. Generally, micro enterprises find it more difficult to access finance than medium-sized enterprises.

4.4.5 Taxation Provisions

An issue closely related to that of financial considerations is that of taxation. By 2006, a number of countries had either removed inheritance tax or had introduced exemptions for those inheriting business property. In the UK, for instance, there is Business Relief from inheritance tax and in France, subject to certain conditions, the Dutreil scheme allows three-quarters of the value of a family business to be transferred without any liability for transfer tax. These reliefs and the removal of inheritance tax in Austria and Sweden have changed financing requirements in these countries and in France, since 2008, there have been tax incentives encouraging investment in businesses that have improved the availability of funds considerably.

However, the pressure currently being felt on public finances has meant that there have been modifications to exemptions previously granted or even discussion of re-introducing inheritance taxes. In France, the tax authorities have indicated a tightening up in their guidelines on the rules for the Dutreil laws, specifically in the situation where there is a partial sale of securities inherited. A certain degree of uncertainty has been caused even by the potential for such developments and this has had its own impact on the financial environment. A more stable taxation and regulatory environment, it is thought, could well improve matters.

In other countries, there have been restrictions on carrying over losses in acquired businesses for tax purposes, reducing the incentives for potential purchasers.

A more fundamental question, however, relates to the target for taxation reduction. The original Recommendation first of all concerns inheritance and gift taxes (Article 6). In article 7, it then considers taxation relating to transfer to third parties, but only relief for owners on the income or capital gains on the sale, incentives for the reinvestment of the profits made on the sale of a business in another enterprise and incentives promoting the transfer of the enterprise to the employees. The 2006 Communication comments that only a few countries appear to have followed the 1994 Recommendations on the transfer to third parties and that more needs to be done to encourage the sale of businesses to employees, but does not make any broader proposals on taxation. In view of the earlier discussion on the appropriateness of focusing on family businesses and transfer at retirement, there is the question of whether or not the proposed measures are efficiently targeted, though again it is not suggested that the original target was wrong, except in the sense that it was not comprehensive enough.

Especially, if the inheritance and gift tax problem is largely resolved, the attention in any revised recommendations ought to be turned to general incentives to invest in SMEs that those helping to fund a transfer can benefit from. A number of countries already have such schemes and there are some reports that they have already contributed significantly to the funding situation for transfers.

4.4.6 Transfer to Employees

Both the original Recommendation and the 2006 Communication referred to the encouragement of the transfer of an enterprise to employees, either in the form of an enterprise set up by employees or, more specifically, a co-operative.

In the past, there has been a tendency to resort to a co-operative structure when a business has faced financial difficulties, often in an attempt to save the jobs of those employed in the firm. This, of course, is not an ideal situation in which to launch a co-operative. More recently, with rising levels of education and skill in the workforce, there has been a tendency to consider a co-operative in more positive circumstances, although even here it is more likely to be a practical solution in some situations than in others. Requiring substantial amounts of initial equity or saddling the co-operative with high levels of debt are obviously disincentives for those considering participation in a co-operative, so it is easier to establish them in business activities that have low capital requirements or are labour-intensive, such as generally in the service sector, and where the degree of cooperation among employees is high (e.g. ICT, consulting, creative activities)[45.] It is in these areas that finance arising from the establishment of a co-operative is particularly relevant.

There are a number of advantages of business transfers to employees. Firstly, transfer of the enterprise to the workers can contribute to on-going stability during the transfer process, and to continuing economic activity as well as the maintenance of existing jobs. This is particularly important in the case where the owner has been the founder of the enterprise and the emotional attachment to the business is strong. The employees are the most familiar with the functioning of the enterprise and it is in their interest is to preserve their jobs and to collaborate with clients, banks and suppliers. Additionally, there are a number of support structures and financial support providers through the cooperative federations. Finally, the employee solution can be beneficial from a regional perspective, keeping the development and growth maintained in the region.[46]

Involving employees may therefore be a good solution even in the more dynamic context in which, it is suggested, transfers should be viewed. Of course there are also risks connected with such transfers. CECOP underlines the point that ordinary enterprise employees are often able to invest only limited equity capital in the business and therefore debt and leverage are likely to be high for the members. The newly established cooperative needs to quickly establish a capital stock in order to reduce such leverage. Additionally, especially in the current economic climate, previous profitability of the enterprise does not guarantee future prosperity and sometimes the workers can be insufficiently prepared to manage the enterprise. These, however, are considerations that can apply to other forms of transfer.

Transfers to employees may also face particular difficulties. Enterprises taken over by employees often have a better survival rate than other enterprises, especially over the longer term. Evidence to this effect is cited in the CECEP publication 'Business transfers to Employees under the Form of a

[45] From the guide La reprise d'entreprise par les salariés en coopérative. p.183-184 Guide transnational www.les-scop.coop.,
[46] From the guide La reprise d'entreprise par les salariés en coopérative. Guide transnational www.les-scop.coop

Cooperative in Europe'[47] which shows that worker cooperatives and social cooperatives, tend to have a specific capacity to adapt to change, maintain jobs and economic activity even when they are at risk, thanks to their specific ownership, governance and capitalisation model, and that they are able to pursue a social mission at the same time, such as creating sustainable jobs, labour integration, or providing social, health, educational and environmental services to the community. It is argued that their governance models help them anticipate and prepare restructuring processes in time, in association with the employees and other stakeholders of the cooperative, ensuring adequate and sustainable solutions that minimise the negative social impact of the restructuring process. There are examples from Italy, Wales and France, in particular, which show that cooperatives resulting from a transfer have an 82.5% survival rate after 3 years, as against only 66% for traditional enterprises.

In spite of this, financial institutions are often more reluctant to get involved with co-operatives than other forms of enterprise and the co-operative has to rely on specialised agencies established to provide support to this form of business. However, there are considerable differences across participating countries in the availability and extent of support of this kind, This represents a significant constraint on the possibility of organising transfers to employees.

4.4.7 The overall Efficiency of Measures to promote Transfer

It has been seen that, given the progress made before 2006 with regulatory matters, the telling aspects of policy for promoting business transfers are in the areas of taxation and support measures (including finance). These are areas that tend to require more expenditure than regulatory reforms, but in some of them there have nonetheless been some encouraging developments, although not always as a result of actions directly targeted at transfers. In fact, in terms of improving the efficiency of policy in this area, the new orientations proposed in the way that business transfers are conceived are very much in line with the direction that the most promising developments in support services and finance are progressing anyway.

4.4.8 Findings in relation to the Evaluation Questions on the Efficiency of the 2006 Communication and its Follow-up

- *The relative efficiency of measures*

In view of the lack of evidence on the effects of measures, it has not been possible to make a comparative assessment of their relative effectiveness and efficiency. The effects of regulatory measures are generally thought by experts to have been positive, although they tend to be regarded as necessary rather than sufficient conditions for promoting an efficient transfer of businesses and attention has now moved to matters of taxation and support, including measures to facilitate access to finance.

Taxation provisions that facilitate the transfer of a business, and especially those that fall outside of the treatment of inheritance, are currently the subject of political debate in a number of countries, just as transfer outside of the family is becoming the usual situation for most enterprises, but this is part of a larger debate on public finances, rather than the efficiency of transfer processes.

[47] 'http://www.cecop.coop/IMG/pdf/bussiness_transfers_to_employees_under_the_form_of_a_cooperative_in_europe_cecop-4.pdf

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There have been awareness campaigns in a number of countries, but they have tended to be intermittent and there have been few efforts to assess their overall effectiveness. Evidence was cited on the doubtful effects of advice and support provided for individual enterprises in the process of transfer, but this mainly referred to private sector support rather than support where there is public expenditure and it was also evident that there is emerging good practice in this area that appears to be developing a more consistent and professional approach and addressing some of the problems identified in earlier provision. The major problem now appears to be the cost of such support to enterprises, which means that it is not available to smaller SMEs that have to rely on public and semi-public support agencies, where attention to transfer issues often has a low priority.

Dedicated finance for SMEs facing business transfer is restricted to a core group of countries and an implication of the re-orientation of the policy perspective on transfers towards one that makes their dynamic potential more evident is that the main efficiency issue in this context is more a matter of how all forms of SME start-up and growth funding can be used to assist transfers, especially given the evidence on positive performance post- transfer.

- *Administrative and reporting burdens on stakeholders and/or other actors*

The administrative and reporting burdens arising from measures proposed in the 2006 Communication are generally negligible, once the regulatory changes have been put in place. In fact it might even be argued, given the paucity of data on transfers, that there are not sufficient reporting requirements and it has been pointed out that moves to reduce the financial reporting requirements on smaller enterprises may have adversely affected the efficiency of transfer processes.

- *The adoption of measures elsewhere*

The question of which aspects of measures either facilitate or hinder their adoption elsewhere again raises the issue of whether or not the traditional conceptual framework for business transfer policy is an appropriate one. Some countries have fully accepted this framework and have adopted dedicated measures that correspond to it. Others appear to less certain of the framework and have definitely been slower to adopt measures specifically for business transfers. This may have something to do with the relative strengths of a family business culture in the respective countries, but whatever the reason, it is clearly easier to reproduce initiatives in another country, if both sides share the same conception of the issues to be addressed.

Having said that, the proposed refocusing of business transfer policy will not make dedicated measures redundant. They will need to be based on a broader conception, but the experience of those responsible for current measures will in fact be valuable in sensitising those operating more horizontal instruments, such as general SME start-up and growth funds, to the particular issues of business transfer. In this sense the biggest contribution to promoting the wider take-up of measures to support business transfer will come from the re-orientation of transfer policy.

4.5 The European Added Value of the 2006 Communication on Business Transfers

Business transfer has primarily been seen as a policy issue that is most effectively addressed at a national or sub-national level and most of the investigations of the effectiveness of this policy have been conducted on the assumption that this remains the case. Apart from particular areas, such as the Transfer of Undertakings Directive, usually stemming from policy motivations beyond the main focus of

Enterprise policy, action at an EU level has mainly been a matter of supporting national developments through analysis and reference to good practice in particular cases. It is generally assumed that this should continue to be the case.

However, at an early stage, the Expert Group pointed to the growing significance of cross-border transfers and although estimates from the survey and some of the interviews suggest that only somewhere between 1% and 10% of transfers currently have some kind of trans-border element, this development does raise certain issues that should be addressed at a European level.

4.5.1 Cross-border transfers

Cross-border transfers can have advantages both for sellers and buyers for a number of reasons. For sellers there is the wider market that opening up cross-border possibilities can bring. For buyers, there may be personal motivations, such as the prospect of a fresh start in a new location or that the acquisition of a new business may form part of (partial) retirement plans. For business purposes, there may be a number of reasons for acquiring a business in another country. There may be the opportunity to buy into another market or to extend control over more of the supply chain or to acquire a competitor and consolidate a market across different countries. Additionally, a base in another country provides a wider scope for searching for and co-operating with business partners. More generally, the process might be regarded as applying the logic of the Single Market in the context of business transfers.

The case study on Cross-border Transfers notes that, although still a small proportion of all transfers, there has been something of a tendency for the numbers of cross- border transfers to rise and not only among firms located in border regions, which have sometimes been thought to be the main areas where such developments are prevalent. The case study goes on to consider a number of the issues that can arise as a result of the cross-border element. The most significant are the lack of information available, especially on smaller enterprises and the fiscal barriers that can inhibit cross-border transfers.

The lack of financial and related information constitutes a major challenge for foreign investors (and imposes additional cost and time requirements), especially those interested in smaller firms. Although efforts have been made by international institutions to promote greater financial data disclosure and harmonisation for non-listed companies, the situation continues to be uneven across the EU and this inhibits the development of cross-border transfers. The transition from national standards to IFRS[48], although costly, has several advantages: increased transparency, improved management information and standardisation of information. More could be done to promote transition to these standards in order to improve the businesses transparency and to facilitate cross-border benchmarking.

An obstacle that has received some attention is the domestic rules on inheritance taxes which give rise to two potential cross-border problems - cross-border discrimination may arise if non-domestic assets and/or liabilities are subjected to higher levels of inheritance tax than equivalent domestic categories; and assets and liabilities may end up being taxed for inheritance purposes in more than one EU tax jurisdiction potentially leading to very high levels of taxation. The domestic rules on inheritance tax vary substantially among the 27 Member States of the EU. Eighteen levy specific taxes upon death while nine do not do so but some of those nine do tax inheritances under other headings such as income tax.

[48] International Financial Reporting Standards

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To tackle the problems with inheritance tax, the Commission adopted a Recommendation on relief for double taxation of inheritances [49] on 15th December 2011. This indicates that cross-border inheritance tax problems could be resolved without any harmonisation of Member States' inheritance tax rules by ensuring that Member States' rules interact more coherently with each other so as to reduce the potential for double, or multiple, taxation of inheritances. As regards tax discrimination, the accompanying Commission Staff Working Paper[50] sets out the EU case-law principles for non-discriminatory inheritance taxation, with a view to encouraging Member States to avoid actions that obstruct the operation of the fundamental freedoms. The Recommendation envisages the preparation of an evaluation report in three years' time based on a monitoring of Member States' practices. As yet, no Member State has adopted the specific provisions of the Recommendation.

It will be necessary to review developments in this area as it develops, in order to identify problems as they emerge and assess the extent to which existing problems have been resolved.

4.5.2 Evaluation and Monitoring

Since the Recommendations were published in 1994, a significant development at a European level has been an increasing emphasis on the evidence base for policy making and the introduction of evaluation regimes and monitoring systems. This lack of an evaluation framework in the area of policy on business transfers and the general lack of data in the area have been problems for the current evaluation that have inhibited the assessment of the effects of previous policy. In order to help to change this situation for future assessments and to provide a better basis for future co-operation between the Member States and other participating countries in this area, the current exercise has both conducted a case study on data issues (Annex A6) and developed proposals for an indicator system that might be used to help monitor progress, within the overall framework established by the COSME Programme. The proposals for an indicator system are presented as a separate document (Annex A7).

It should be remarked at this point that the EIP monitoring system and other tools for the overview of policy developments, such as the SME Performance Review, appear to show little interest in business transfers, especially in contrast to the amount of data collected on business start-ups. This is at least partially because of the difficulty in obtaining accurate data on the number of transfers taking place. The case study on data has some suggestions in this regard.

4.5.3 Data Collection

Supporting a development of an evaluation and monitoring framework for this area of policy, there is also scope for greater co-operation at a European level in the collection of data on transfers and their implications.

To obtain a full picture, it is necessary to disaggregate the *portmanteau* term 'business transfers' in its major components and distinguish between firm sizes (zero employees, micro firm, etc.), types of transfer (intra-family, intra-firm and to third parties), and drivers of transfer (restructuring, retirement, illness, death and desire to sell the business to buy something else). Such an exercise should also pay

[49] Commission Recommendation of 15 December 2011 regarding relief for double taxation of inheritances (2011/856/EU)
[50] Commission Staff Working Paper 'Non-discriminatory inheritance tax systems: principles drawn from EU case-law' SEC(2011) 1488 final of 15.12.2011

due attention to the fact that not all firms are transferable, and possibly trace the movements of assets and staff associated with the end of a business' activity.

However, more immediately, it might be possible to build on existing practice and data collection. With a couple of simple questions about intentions to transfer or close over the next five years and some useful cross-tabulation, the Small Business Survey in the UK is able to generate some interesting data on the extent and nature of transfers. Encouraging other statistical authorities to do something similar would help generate a lot more reliable information on the basic characteristics of the transfers that are taking place.

Equally some contextual information can be provided by the work of the European Foundation for the Improvement of Living and Working Conditions (Eurofound). The European Restructuring Monitor (ERM) collects data on trends in ownership changes, but mainly for larger enterprises. The fact that it does not cover all enterprises means that there is a limited application in the current context, but if business transfers are increasingly seen in the context of structural change, the ERM could become increasingly relevant. In addition Eurofound also conducts studies on particular issues, such as restructuring among SMEs, and with greater co-ordination these specific studies could also contribute to the information gathering exercise.

Conclusions & Recommendations 5

5.1 Conclusions and Recommendations - Introduction

Preliminary conclusions on issues raised in the initial evaluation questions have been set out after each major section in the previous chapter. It is now possible to state the main conclusions of the overall analysis and associated recommendations. These are broadly at three different levels:

- the conclusions and recommendations on the conceptual framework that define the nature of the business transfer issue and how it relates to other aspects of Enterprise policy
- the conclusions and recommendations that relate to the current policy framework for business transfer and, in particular, the 2006 Communication and its follow-up
- the conclusions and recommendations on areas of operational and practical concern affecting business transfer processes.

These three categories are inter-related, but it is important to understand the proposed shift in the way that we conceive of business transfers, before it is possible to go on to the conclusions and recommendations on how policy in this area can be further developed and how practical steps can be taken to assist enterprises that are in the process of transfer.

5.2 Conclusions and Recommendations on the Concept of Business Transfer

A major conclusion of the evaluation is that the 'relevance' of the traditional conception of business transfer should be questioned. It is not so much that the original conception was wrong, but that it describes only part of the situation. The typical transfer is not something that takes place at the end of a business life cycle, prior to the retirement of a single owner. This only describes a minority of cases. A different focus for transfer policy is required.

There has never been a definitive definition of 'business transfers' in the context of Enterprise policy. This has unfortunate consequences, not least in the development of a consistent evidence base on this area of policy.

The policy orientation that stressed the threat to jobs posed by the need of retiring business owners to transfer their businesses has been based on extrapolations from limited data, represents at best a partial perspective and may even have been counter-productive. A more positive orientation would stress the opportunity that transfers represent, by facilitating future growth development (and thereby also safeguarding jobs).

Transfer is an event in the development of a business that can happen at any time, not just when an owner is reaching retirement. It has a significant part to play in a dynamic economy, especially in the organic process of re-allocating resources and restructuring the productive assets of the economy.

This more positive conception of business transfers would place associated policy nearer to the centre of current EU strategies to promote growth.

Depending on the circumstances of the individual business and particularly the size of its operations, a transfer can be like restarting a business or more often, an opportunity for the business to re-organise itself, to grow or take a new direction through the injection of fresh ideas, talent and possibly capital.

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Recommendations – the Concept of Business Transfer

1. Policy on business transfer needs to be re-focused to address the problems faced by SMEs in a wider set of circumstances than has previously been envisaged. This should include a more fluid conception of business transfer, as something that can happen throughout the development of a business rather than as an event associated with the retirement of the owner.

2. The term 'business transfer' should be defined by the European Commission. For the purposes of Enterprise policy, the evaluation team recommend the following definition:

   'a *business transfer* is the process of transferring, for any reason whatever, the controlling interest in the business of an SME, by means of a transfer of either shares or assets. It is usually accompanied by a change in the management of the firm.

3. The 'transfer problem' should not be characterised primarily in terms of the potential effects on employment, which are uncertain. Instead, the policy issue should be placed within the context of EU objectives of promoting smart, sustainable and inclusive growth. The opportunities presented by transfers should be highlighted, particularly where they are an occasion for a re-structuring of productive assets and resources within a market.

Family Businesses & Business Transfer

Although the situation varies from one country to another, it is no longer the case that most transfers involve handing on a business within a family and, although it was never regarded as the whole picture, the tendency to conflate the transfer problem and the problems of family businesses has probably done a disservice to both sides.

Family businesses make an important and distinctive contribution to Europe's economy and, as has begun to happen, should be the subject of specific policy attention, which should include analysis of the particular problems faced by family businesses in the transfer situation.

Recommendations – Family Businesses

4. The issue of business transfer should not be conflated with the transfer problems of family businesses.
5. Equally, family businesses continue to make an important and distinctive contribution to Europe's economy and all the issues they face (including transfer) should be addressed in parallel and as a coherent whole.

5.3 Conclusions and Recommendations on the Current Policy Framework for Business Transfer

The Basis for Business Transfer Policy

Although it is argued that business transfers should be seen as a part of the 'normal' processes of a market economy, 'business transfer' still remains a significant issue for Enterprise policy, not least because of the market failures that particularly affect SMEs and hinder the transfer process.

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It is not possible to assess the extent of the business transfer 'problem' with any confidence. Previous estimates of the number of enterprises and jobs at risk are likely to have been overstated. However, there is longstanding evidence that successful transfers secure more jobs than start-ups and new evidence that there is an improvement in the post-transfer performance of enterprises. Furthermore, the potential for business transfers to contribute to a more dynamic economy has largely been overlooked.

Although the recommendation of the 2006 Communication to 'give political attention to both business transfers and start-ups' has not resulted in a more even-handed approach, even by the Commission, the case for this approach still remains.

Within this context, there are special opportunities that arise in the transfer of enterprises to employees and evidence that enterprises that have been taken over by employees have a better survival rate than other enterprises, especially over the long term. There are also special difficulties faced by such enterprises, including in relation to access to finance.

Recommendations – the Basis for Business Transfer Policy

6. Transfer should continue to be regarded as a significant event for SMEs, which requires policy interventions to address market failures and promote efficient outcomes.
7. The recommendation of the 2006 Communication to 'give political attention to both business transfers and start-ups' should be implemented by the EU and participating countries.
8. In this context, the opportunities for employees to take over a business should have a higher profile and the particular problems of financing such transfers addressed, not least by drawing attention to the evidence on the post-transfer performance of employee-owned businesses.

Implementation of the 2006 Commission Communication

The conclusions of the evaluation on the implementation of measures to support business transfer, since the 2006 Commission Communication are based mostly on a survey completed by the experts nominated by the participating countries.

There has not been much progress in the implementation, since the 2006 Commission Communication, of the measures advocated by the original 1994 Recommendation.

The main 'regulatory measures' – changes to legislation - had already been implemented by EU Member States by 2006 and have also been implemented by other participating countries. There had also been reductions in inheritance taxes in many EU Member States. It has proved more difficult to implement changes in taxation encouraging take-overs by third parties and employees and to provide effective 'support measures' such as awareness-raising, business support services and dedicated finance measures.

The issue of whether insolvency laws facilitate the transfer of businesses in financial difficulties had not previously been raised, but the proposals from the Commission on reform of insolvency laws, currently under consideration are intended to promote effective restructuring and the continuation of viable businesses and appear to be helpful in developing the more dynamic development of transfers that is proposed.

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Recommendations - Implementation of the 2006 Commission Communication

9. The policy measures that were originally intended to address barriers to business transfer should be kept under review and there should be a reaction to new barriers, particularly in relation to international transfers.
10. The main policy challenges that policy makers now need to address are in the areas of taxation and support measures, notably awareness-raising, professional advice to enterprises and access to finance.

5.4 Conclusions and Recommendations on Operational Issues for Business Transfer

The operational issues for policy on business transfer concern the following areas:

Cross-border Transfer

The growth of cross-border transfers, though still a limited proportion of the total, has revealed new barriers, essentially in the operation of the internal Market in this area. Problems with cross-border inheritance are being addressed by the Commission.

Recommendations - Cross-border transfer

11. The limitations on cross-border transfer caused by inconsistencies in the treatment of financial information will need to be addressed, as the number of cross-border deals grows. More should be done to promote transition from national accounting standards to IFRS in order to improve business transparency and to facilitate cross-border benchmarking.
12. The monitoring of the implementation of the Commission Recommendation on Double Taxation of Inheritances needs to take the business transfer dimension into account and further action should be taken if double taxation and discrimination are not being effectively addressed.

Advice and Support

It is generally acknowledged that many enterprises face a complex range of legal, financial, taxation, organisational and emotional issues when a business transfer becomes advisable and those involved often need professional assistance in negotiating a successful outcome. Although there are encouraging developments in the provision of dedicated professional advice services, both in the public and private sectors, there is still a lot to be done, especially in establishing an appropriate framework in which the quality of these services can be assured.

Raising awareness of the need of any business to prepare for transfer remains a major challenge for the Commission and the participating countries. A change of emphasis in the presentation of transfer may assist this process.

Recommendations - Awareness-raising

13. Early preparation for transfer should continue to be stressed in awareness-raising initiatives, but as something that can occur at any stage of a business' development, rather than an event that

is associated with retirement.

14. The Commission and the Member States need to encourage a situation where transfer is thought of as a strategically important process that enterprises should see as a critical element in their strategic planning. Business education and training, in particular, need to provide appropriate coverage of transfer as a strategic element in business planning, involving the possibility of a significant reallocation of resources.

Recommendations - Business support

15. Effective professional advice is needed by many of those involved in business transfers. This should be a business transfer policy priority.
16. The information and advice needed by smaller enterprises can often be provided by the normal business support agencies, but there needs to be explicit provision and this should be organised consistently on the basis of national structures.
17. For transfers that are more complex, professional advisers specialising in business transfer are necessary. The development of these dedicated professional advisers should be encouraged and a framework for delivering quality services in this area developed by the authorities, including definition of professional standards and/or the development of codes of conduct and possibly involving obligatory registration
18. It is necessary to ensure that specialised advisers can cover the whole range of issues that arise in a transfer context, including the emotional aspects that can have a major influence on the outcome. Improvement of support services could usefully be co-ordinated at a European level, building on the work being undertaken by Transeo, for instance, with the aim of codifying good practice, and where appropriate standards, at least with respect to the following areas:
    - appreciation of the psychological and emotional issues arising with transfers and knowledge of how to address them
    - valuation
    - legislation relating to changes in ownership
    - taxation issues relating to changes in ownership
    - expertise in strategic management and marketing
    - expertise in the integration of businesses

    Given the importance of preparing for transfer during the development of a business, this advice may need to be available over a considerable period.
19. Firms have to be made aware by those providing support that business transfer involves costs and enterprise managers should be encouraged to plan for these costs.

Access to Finance

There is a tendency to a greater requirement for finance in effecting business transfers, because of the declining incidence of succession within families. Currently, this tendency may be masked as owners are reluctant to offer their businesses for sale, because of reduced valuations in the current market conditions and the disruption of retirement plans by a range of factors.

The general view, however, is that the availability of appropriate bank finance is not a problem for well-prepared propositions, though this is in a context in which bank finance generally has become more difficult and the problems faced by particular groups (transfers to employees or young entrepreneurs of the 'capital-lite' generation) need attention. An interesting development is the increasing involvement of the previous owner, especially in providing transitional finance..

A number of experts mentioned that there is a growing presence of private investors in the financing of transfers, in many cases encouraged by tax incentives such as the fiscal package of 2007 in France. In some cases, however, the source of the funding is from outside of the EU.

Attention to transfer issues in public initiatives to promote SME access to finance is low both at a European and national level, with the exception of a core group of countries that have long been active in the transfer area., The need, however, is for consideration for business transfer within schemes that assist start-ups and enterprise growth, rather than for dedicated business transfer finance.

There are already schemes in Portugal and Spain that provide funding for business transfer as part of measures designed to strengthen industrial structure.

Recommendations – Access to Finance

20. Clarification is necessary from the Commission of the regulatory basis on which financial advice can be provided (whether or not it is covered by regulation of providers of personal financial advice).
21. Although for well-prepared businesses currently, there does not appear to be a major problem in accessing finance for transfers, this situation could change and has to be monitored, especially the factors that could lead to an increased demand for funds.
22. Further analysis is also advisable of how well prepared funds that generally assist SMEs to access finance are, for dealing with the particular circumstances of business transfer, and of their effectiveness in assisting the subsequent development of the enterprises transferred.
23. The encouragement of young entrepreneurs to take on the challenge of an existing business needs to be more soundly based. An investigation needs to be undertaken by the Commission of the problems faced by young entrepreneurs of the 'capital-lite' generation.
24. Schemes linking the availability of finance to the restructuring of industry and the longer-term promotion of growth are an interesting development that might be more widely adopted.

On-line Transfer Markets

There are a growing number of on-line transfer markets, with varying provision for access to professional assistance. Given the different needs of micro businesses and those that are larger and more complex, these differences in support provision are appropriate, but further improvements could be made, not least in promoting links and cross-reference between the different sites.

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Recommendations – On-line Transfer Markets

25. National authorities should encourage the development of on-line transfer markets for both micro enterprises and larger more complex SMEs. Sites should be encouraged to link with other sites, including sites from other countries.

26. All on-line markets facilitating business transfer should be encouraged to provide access to impartial advice and the quality of the information posted should be monitored. There is a strong case for mediation in sites with larger SMEs and more complex deals.

The Evidence Base

The data on business transfer are very limited and largely depend on national studies focusing on differing aspects of the transfer situation. Consideration of business transfer began before the development of the current framework for evaluation and monitoring at a European level. Appropriate systems need to be put in place to improve the evidence base for decision-making in this area and for assessing progress with policy interventions. There would appear to be a possibility to discuss with the European Foundation for the Improvement of Living and Working Conditions (Eurofound) whether it could make a systematic contribution to data on the context in which business transfers take place.

Recommendations – Evidence base

27. The Commission and participating countries should consider how the evidence base for business transfers can be improved, initially by including appropriate questions in existing data surveys, such as those in the UK's Small Business Survey.
28. The area of business transfer should be brought within the usual Commission arrangements for evaluation and monitoring. Consideration should be given to the indicators proposed in Annex A7. They are intended to fit into such a framework.

More detailed conclusions and some additional recommendations are to be found in the case studies that are annexed.

Case Study: The Effects of Evolving Business Relationships

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The Effects of Evolving Business Relationships on the Transfer of Businesses

1. Introduction

This case study looks at a series of questions that are fundamental to the orientation of policy in relation to business transfer, and in particular, how evolving business relationships have changed the nature of transfers currently taking place. The implications for the orientation of transfer policy are considered.

2. The Reasons for this Case Study

Feedback at the early stages of the evaluation and questions raised by the initial review of the literature suggested that the evaluation team could usefully look both at the central concept of a business transfer and how this was being affected by changes in the SMEs that have typically been seen to encounter problems. How the problem of business transfer is conceived has important implications for the choice of remedies. These issues are therefore a significant element in any assessment of the continuing relevance of EU policy on business transfers.

3. The Definition of Business Transfer

The recognition of the problem of business transfer at a European level goes back to around 1989, so by the time of the Commission Recommendation of 1994[51] and the associated Commission Communication[52] that explained the background and reasoning for the initiative, there had been fairly extensive diagnosis of the problem and of the constraints faced by businesses in achieving a successful transfer.

It is rather surprising therefore that the 1994 Recommendation and associated documents provide no clear definition of the term. Instead, a number of the characteristics of the process are referred to and the problems that can arise in this process. So, transfer definitely involves a change of ownership and in most cases management. It is applied to SMEs and is described as being a third stage in the evolution of a business following on from its 'start-up' and 'growth' phases. It can take the form of a transfer by succession (usually someone in the family) or transfer by sale (usually someone outside of the family). Furthermore, there is reference to the desirability of the continuity of businesses, mainly because of the effects of a failure to transfer businesses successfully in terms of the loss of viable businesses and the effects of this on employment. However, there is no attempt to say definitively how a business transfer is distinguished from other changes of ownership that are part of general on-going processes involving the re-allocation of resources within a market economy, such as those arising with mergers and acquisitions. With business transfers, there are clearly considerations of a social or institutional nature that distinguish them from a re-allocation of business assets that are part of normal market transactions, but apart from a few clues, such as references to businessmen who have reached the age

[51] Commission Recommendation of 7 December 1994 on the transfer of small and medium-sized enterprises 94/1069/EC

[52] Communication on the Commission recommendation of 7 December 1994 on the transfer of small and medium-sized enterprises O.J. EC C 204 z 23.07.1994, pp. 1-23

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of 55, there is no specification of what these non-market characteristics are, either in the Recommendation or in the associated documents.

Subsequent policy documents and discussion of business transfer have generally continued to avoid a precise definition of the central concept. Instead there is often reference to an archetypal case of a family business in which the original owner is reaching retirement age. In fact some of the early interest in the issue was prompted by the observation that the owners of many of the businesses established in the post-war years were reaching retirement age. A similar consideration is prompting a growing interest in the issue in former Communist economies.

However, the concept has never been entirely restricted to family businesses; nor has the motivation for transfer always been restricted to retirement or other personal events. The 2003 Guide on Business Transfer, for instance, says:

> 'One of the most critical phases in the life cycle of an enterprise comes at the time of transferring its ownership and leadership. These transfers of businesses can take place within the family, to employees or to third parties. Business transfers are still very often triggered by the entrepreneur's retirement. However, retirement is only one reason. Other reasons for transfers which also play an important role include personal decisions (e.g. early retirement or change of profession), changing competitive environment (e.g. changing markets, new products or new channels of distribution) or personal events (e.g. divorce, ill health, or death)'.

It is interesting that in the Guide a changing competitive environment is mentioned as a possible reason for transfer. This already suggests a broader scope for the concept than the archetypical case.

In 2006, the Expert Group on Business Transfers proposed what is probably the tightest definition[53], so far:

> 'In this report 'business transfer' means the transfer of business property to another person or enterprise whereby the original enterprise continues to operate.
>
> In the case of most of the small and medium-sized enterprises (SMEs), and in particular for those that are personal companies, a business transfer is accompanied by a transfer of management duties. For limited companies the case is less clear. Usually, if at least 51% of the shares of a private limited company change hands this will also be a transfer. In the case of public limited companies a change of ownership of shares will not be considered a transfer owing to the general division of management and ownership in these companies.
>
> A 'succession' is a business transfer within a family, usually from the parents to the children. Other transfer forms include management buy-out or sales to a third party'.

Note that in this definition, the concept is restricted to SMEs, in which ownership and usually management responsibilities are transferred, but only where the original enterprise continues to operate. Most mergers and acquisitions are therefore excluded by this definition.

[53] Report of the Expert Group 'Markets for Business Transfers. Fostering Transparent Marketplaces for the Transfer of Businesses in Europe' May 2006

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Note also that there is no reference to family businesses within the core definition. In fact the report goes on to comment that 'in the past, the transfer of a business within the family – from parent to children – was common, if not the general case' but that while this type of transfer still appeared to be more frequent than other forms (e.g. management buy-outs or sales to third persons), the number of transfers to third parties was increasing. In the view of the Expert Group this was one of the reasons why it was becoming more important to facilitate the matching of potential buyers through on-line markets – one of the central issues under consideration by the Group.

More recently, the Business Dynamics[54] study, published in 2011, adopted an even broader definition:

> 'Business transfers refer to the process where "all assets representing in their totality an enterprise as a going concern" are transferred to a new owner (sometimes referred to as an assets purchase). It may also take other forms to include the transfer of all or some of the business liabilities. The new owner refers to a third party, including family members.'

This definition does not include organisational continuity as a necessary element. In other words mergers and acquisitions are also included within the scope of the definition. It is also clear that a transfer to family members is only one of the situations to be considered.

In the absence of a clear original definition, it can be seen that operationally the way that business transfer is conceptualised has drifted away from the archetypal case. It will be seen that there are reasons for this and that a revised conception of the problem might well be appropriate. However, it is necessary to take into account a series of other considerations before elaborating on this statement. These will be set out in the following sections.

At this stage it is worth remarking that the 2006 Commission Communication, that is the reference point for the current evaluation, has a number of interesting aspects with respect to the concept of business transfers. On the one hand, the Communication presents the established picture of the potential for a large number of transfers primarily within family businesses and with a significant potential impact on employment. On the other, it points to educational and social reasons for the decline in family successions and suggests that 'in the future we will see more transfers to third parties'.

It should also be noted here that the way that business transfer is conceptualised is important for various reasons, but not least because of the consequences for the way that the policy debate has been structured. In particular, it is possible to point to the following:

- The absence of a clear definition has inhibited the gathering of European-wide evidence on the extent, processes and effects of business transfer. It is often difficult to aggregate, or make comparisons across, the different studies that have taken place.
- The emphasis on transfer as an event necessitated by the retirement of an owner and the associated focus on saving jobs as the policy objective have tended to obscure the opportunity represented by transfers.

[54] European Commission 'Business Dynamics: Start-ups, Business Transfers and Bankruptcy' January 2011

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- A further consequence of this orientation has been that policy measures have largely been restricted to a consideration of the barriers to transfer in the business environment, to the neglect of other possible measures of a supportive kind.
- The central role attributed to family businesses in the characterisation of business transfers has probably distorted the debate about the role of this important institution within the small firm sector, as well as the debate on business transfer.
- One of the consequences of the emphasis on the situation of family businesses has been a focus in some countries on inheritance issues rather than more generally on taxation incentives to invest in businesses.

It should be emphasised at this point that there is no suggestion that the issues addressed in earlier debate on business transfers are not real in some sense. Apart from anything else, the issues highlighted have clearly been based on practical problems experienced by real SMEs. Rather, as will be seen, the suggestion is that the analysis has not been complete, has not taken account of certain developments that have become increasingly significant and has led to partial policy solutions.

4. How Business Transfer is conceived

This section of the case study will examine various aspects of the conception of a 'classic' business transfer to see how far they reflect current circumstances. It will provide the basis for proposals concerning a different conceptual framework in the next section.

The Life Cycle of Enterprises

Business transfer has often been characterised as something that occurs at the end of a business life cycle. So, for instance a 1998 Communication from the Commission[55] states:

> 'The transfer of business is one of the key issues of the European Commission's enterprise policy. After the creation and growth of the business, the transfer is the third crucial phase in the life-cycle of a business. Many jobs are at stake when the founder reaches his or her retirement age and has to envisage the handing over of the business.'

This characterisation does not necessarily preclude a transition to a new cycle, but nonetheless the basic model is of an entrepreneur who establishes or takes over a business at a young age and then has a number of years over which the business is managed and hopefully grows until the point where the owner begins to consider retirement seriously and has to address the problem of transfer. This is thought to occur sometime after the owner reaches the age of 55 – the age mentioned in the 1994 Recommendation.

This model is undoubtedly grounded in a certain reality. It clearly describes a process that takes place in many businesses all over Europe. The question is whether it is the only, or the most appropriate, model in current circumstances.

[55] Communication from the Commission on the transfer of small and medium-sized enterprises (98/C 93/02)

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The first matter to consider is how far the classic model continues to describe the typical situation with transfers. The evidence on the age of owner at transfer is not extensive, but, the Small Business Survey carried out in the UK every year found in 2012[56] that 14% of SME employers anticipate the full transfer of ownership in the next five years and a further 9% anticipate the closure of their business. The fact that almost one in four of UK businesses are expecting to either be transferred or closed in the next five years suggests that the issue is considerably broader than one for owners facing approaching retirement. In France, a recent study on the transfer and sale of SMEs and enterprises of an intermediate size[57] shows even more clearly that transfer at retirement should not be regarded as typical. Although micro enterprises were excluded, the study shows that 54% of the transfers in small, medium and intermediate enterprises take place before the owner reaches 55 years.

On the other hand, the assumption that business owners retire soon after the age of 55 is also beginning to look less like even an approximate description of the real situation. Greater longevity and the recent pressures on retirement plans from lower annuity rates and interest on savings are both keeping business owners active, though not necessarily in the same business. The case study on financing business transfers gives further consideration to these issues and considers feedback from interviewees on the increasing contribution of private individuals and former business owners to funding transfers.

From another perspective, the standard model fails to take into account the changing role of entrepreneurs, especially in the more dynamic enterprises that grow more rapidly and consistently and that provide a large proportion of the employment that is generated in the SME sector. The skills, attributes and temperament required to spot a business opportunity and establish a new enterprise are not necessarily those that are needed in someone who is adept at rolling out an established business, getting it to grow successfully in domestic markets and then perhaps across national borders. Different mind-sets are often required in the development phase, especially in businesses that grow from small beginnings to establish a strong market presence. Some entrepreneurs can make the transition, but others are temperamentally unsuited to the roll-out phase or may not have access to the capital needed and prefer to sell out and take on another challenge. Again a transfer has to be negotiated, but for these reasons too, it may well happen well before the end of the business' life cycle.

Furthermore, as work by Oséo in France[58] has highlighted in the past, in certain sectors selling assets as a going concern is part of the process of growing a business, as seen over the longer term. In sectors such as the restaurant trade and hotels, a successful business might involve several instances of 'trading-up', selling the current property and business in order to buy a bigger one, much in the same way as families might move up the housing market over a lifetime. A business transfer is required at each stage, but this clearly is a process different from that imagined in the standard model.

[56] A report by BMG Research for the UK Department for Business Innovation & Skills 'Small Business Survey 2012: SME Employers' April 2013

[57] Alain Tourdjman & Thomas Le Dret, Groupe BPCE, 'La Cession-Transmission des PME' Les Carnets de BPCE L'observatoire December 2012.

[58] Oséo 'La transmission des petites et moyennes entreprises' 2005

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There are already a series of reasons therefore to adopt a more fluid conception of business transfer than the established model would suggest. Rather than as something that happens at the retirement of an owner or at the end of a business life cycle, it should be seen as something that can happen throughout the development of a business. Furthermore the reasons for doing so are often more positive than is traditionally imagined.

Family Businesses

Many studies have underlined the importance of family businesses within the SME sector across Europe. A study for the Commission by the Austrian Institute for SME Research and others and entitled 'Overview of Family Business Relevant Issues'[59] was carried out in 2008. It surveyed the family business landscape in 33 countries across Europe, including the EU Member States, EEA and candidate countries. It illustrated how diverse family businesses are and in fact identified a total of 90 different definitions of the term. Overall, however, the study concluded that across Europe, about 70 - 80% of enterprises are family businesses and that they are active in all sectors of the economy. They also account for about 40 - 50% of employment.

These figures have been broadly confirmed in studies at a national level, a number of which are referred to in the report mentioned in the previous paragraph. More recently, a Report for the Institute for Family Business in the UK, by Oxford Economics[60], showed that in 2010 there were 3 million family businesses in the UK, made up predominantly of SMEs and accounting for two-thirds of firms in the UK private sector. They have a significant economic impact, providing 9.2 million jobs - 40% of total private sector employment (around 50% more than the entire UK public sector). They generated 35% of private sector turnover and nearly a quarter of total value-added. They also contributed 14% of total government revenues in taxation.

Both reports point out that family businesses have a number of strengths and bring a variety of benefits to the economy and society more generally. The Institute for SME Research, for instance, notes that family businesses are older than non-family businesses on average and tend to focus on a firm's long-term sustainability rather than short-term profits. When a firm is transferred to the next generation, it is not only financial assets which are passed on, but also social and cultural capital in the form of a value system that emphasises the importance of honesty, credibility, modesty, respect, commitment to workforce and community and engagement in (local) Corporate Social Responsibility activities.

Family business owners are often more willing to wait for a return on their investment (they represent "patient capital") and their growth trajectories tend to be stable and continuous in comparison to non-family businesses, which can take more dynamic and volatile routes.

As was pointed out in interviews with Expert Group members, family connections and links with the local community are said to be one of the strengths of the *Mittelstand* that has long been seen as a major bulwarks of the German economy.

[59] KMU Forschung Austria et al 'Overview of Family Business Relevant Issues' 2008.
[60] Oxford Economics 'The UK Family Business Sector. Working to Grow the UK Economy' Institute for Family Business November 2011.

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It has also been argued that family businesses have certain inherent advantages in the transfer situation. The report based on the work of the Expert Group[61] published in 2006 cited an article setting out a transaction cost rationale for transfer within the family[62]. The argument is that the transfer of businesses entails certain transaction costs, which can reduce the value of the business handed over or even constitute prohibitive obstacles to the development of comprehensive transfer markets. Inside families, familiarity with the business and established relationships can reduce these transaction costs significantly, though, of course this is not guaranteed and family relations generate problems that endanger the transfer.

However, the situation appears to be changing. The Oxford Economics study referred to above noted that the proportion of family businesses in the UK private sector had declined noticeably in recent years. In 2006, 73.7% of private sector firms were family businesses; by 2009 this proportion had declined to 66.1%.

Perhaps more significantly, the indications on the way that succession plans are changing point to important issues that are arising.

A review by PriceWaterhouseCoopers of the results of recent Small Business Surveys conducted in the UK found that in both the 2008 and 2010 surveys, a higher proportion of family businesses expected the closure or transfer of their business in the next five years compared to non-family firms. In 2010, 29% of family businesses expected the closure or transfer of their business, while the figure for non-family businesses was 17%. In absolute terms, this implied that, in 2010, 860,000 family SMEs were expecting either the closure or the transfer of their business within the next five years. On average, this means that 172,000 firms a year were in this position. In Denmark, where about 75% of consolidated firms[63] are family owned, around 30% of firms expect a change of management in the next 5-10 years with family businesses representing a larger proportion than other firms. This is partially linked to age with 17% of family business owners being over 65 years and 37% between 55-65 years. There are also more family firms with a planned exit strategy (30.4%) compared to 21.8% in other businesses.

The nature of the transfer expected is of major significance. This appears to vary between countries, so that in Germany, a study of family businesses for the 'Institut für Mittelstandsforschung' (IfM) Bonn,[64] published in 2012 but based on survey data from 2008 and 2009, found that, of the 77% of the businesses which were making plans for a hand-over, 41% planned to hand the business on to someone

[61] Expert Group Report 'Markets for Business Transfers. Fostering Transparent Marketplaces for the Transfer of Businesses in Europe' May 2006

[62] Bjuggren, Per-Olof and Sund, Lars-Göran 'A Transaction Cost Rationale for Transition of the Firm within the Family' Small Business Economics, vol. 19, pp. 123-133. 2002

[63] Not including sole proprietorships and subsidiaries - corresponding to nearly 40,000 firms. 'Transfer – your Firm's Future' by the 'Danish Business Authority (2009)

[64] Petra Moog, Rosemarie Kay, Nadine Schlömer-Laufen, Susanne Schlepphorst 'Unternehmensnachfolgen in Deutschland – Aktuelle Trends' IfM-Materialien Nr. 216 June 2012 http://www.nexxt.org/service/studien/00502/index.php

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in the family and a further 10% to someone within the firm, but 12% planned to hand on the business to someone external. In enterprises with less than 10 persons employed, this proportion rose to 18%. 36% had not decided who would succeed them.

Elsewhere, however, the tendency to transfer outside of the family has been more marked. In a study conducted in Finland, whose results have been made available to the evaluation, 38% of a survey of business owners over 55 years of age were planning to sell their firm to an outside buyer when they give up the main responsibility while 28% were planning to close down the firm and only 20% believed they would find a successor within the family.

Again in the UK, the SBS survey for 2012 shows that of those anticipating the transfer of their business, 26% will pass ownership to somebody within their own family. This was most likely to be the case for micro-businesses (27% compared to 12% of medium-sized businesses) and for those in construction (53%). 69% anticipate selling outside of their family, with those in transport, retail and distribution (80%) and information/ communications (95%) most likely to do this.

According to the evidence submitted via Transeo, the 'Cedants et Repreneurs d'affaires' in France report that 50,000 businesses were transferred during 2011. Out of these, only 16,000 were SMEs. In turn, of these 6,000 SMEs were transferred within the family (just over 1/3).

In the Netherlands, older evidence reported by EIM in 2005 was based on an analysis of share registers at Chambers of Commerce[65]. It estimated that some 13-15,000 transfers take place per year and that business transfers constituted about a third of the number of start-ups, although employment effects are much greater. About two-fifths of the transfers over the 15 years before 2005 were within a family, of which some three-quarters from parent to child. About one fifth of transfers were management buy-outs and about a quarter management buy-ins.

A Danish study looking at transfers over the period 1995-2003[66], calculated an average of 63% of transfers taking place within the family, but more recent data from a survey in 2009[67] had only 24% of all businesses responding intending to transfer to another family member, with sale to another firm in second place at 19%; management buy-outs or buy-ins at around 18% and sale to employees 11%. The figures are not directly comparable but suggest a continuing decline. More direct evidence of this trend is provided by an Austrian study[68], citing results of a regular survey by the Austrian Institute for SME Research, which showed the proportion of family businesses transferring within the family had declined steadily over a decade - from 75% in 1996 to 50% in 2006.

Overall then, for the countries where there is some evidence, succession within the family ranges from around 15% to 35% of family businesses and the numbers have been declining. In addition, even where there is no firm evidence, such as in Poland, everyday observation reported in interviews confirms the

[65] See also EIM (2005); Entrepreneurship in the Netherlands. *Business Transfer: a new Start*

[66] Erhvervs-og-Byggestyrelsen (DK): 'Ejerskifte: Din Virksomheds Fremtid', Danish Business Authority, October 2009

[67] Presentation by Danish Business Authority (Erhvervs- og Byggestyrelsen) 'Ejerskifte, Statistik om ejerskifter i Danmark baseret på spørgeskemaundersøgelse', 2009.

[68] Mandl, Irene & Voithofer, Peter: 'Transfer and succession in Austrian Family Firms', 2010

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general conclusion. At this rate, the family business landscape could be markedly changed over a relatively short time.

The reasons for this fall in the succession rate, according to interviews, come from both sides. The requirements of modern businesses in terms of management capabilities mean that owners' successors need more than a blood relationship to recommend them, while the opportunities for younger generations opened up by higher education levels and a global job market suggest that younger people may increasingly be attracted away from family businesses by career prospects elsewhere.

Moreover, the situation within families is changing. The Finnish study already referred to shows that expectations of parents with regard to the involvement of their children in a family business have evolved. Most of the parents in the study that are about to give up their business (56%) believe that their children should decide for themselves if they want to carry on their parents' business activities or not. In addition, there were fewer parents that definitely wish their children to continue their firms than parents who do not wish it. 30% of the entrepreneur parents had what was termed a 'weaning culture' – arranging for their children to pursue a different path, while only 14% had an 'obligation culture' where they obliged their children to succeed them.

An important question that arises from this analysis is whether or not the earlier concentration on the problems of transfer in family businesses might not have done a disservice to non-family businesses and family businesses alike. Transfers outside of the family have their own problems. The case study on finance for transfers, for instance, points to significant funding implications that arise from a growing tendency to transfer outside of the family. Equally, only addressing the transfer problem for family businesses meant that other issues and particularly the possibilities of exploiting more the strengths of family businesses have been neglected. As the study by the Austrian Institute for SME Research pointed out, a general lack of awareness by politicians of the economic and social/societal contribution of family businesses has meant that there have been few attempts to create a family business friendly environment.

The Complexity of Business Relations

Other changes that are taking place in the way that businesses, including family businesses, operate also require certain adjustments in how we think about business transfers. A recent French study on the transfer and sale of SMEs and enterprises of an intermediate size[69] suggests that there is increasing complexity in the business relationships that enterprises develop and the ownership patterns that reflect these relationships. This study up-dated one conducted in the previous year and together the two studies represent a major source of information on the current extent of the transfers taking place in France and of the nature of these transfers.

The extent of networking and of enterprises working together on the basis of both formal and informal relationships, are an element that complicates the picture the traditional stand-alone business. It is pointed out, for instance, that between 1997 and 2009, the proportion of enterprises with less than 250 employees that belong to a group of enterprises increased from 21% to 52 %, meaning that the legal

[69] Alain Tourdjman & Thomas Le Dret, Groupe BPCE, 'La Cession-Transmission des PME' Les Carnets de BPCE L'observatoire December 2012.

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and organisational forms of businesses are becoming more complex. Even for family businesses, the family relationships are only part of the situation. On the other hand, the study finds that family connections within this more complex situation continue to be of some significance. In addition, the situation is often more fluid than imagined in the 'classic' case. Rather than waiting for retirement, as has been already mentioned, the study shows that 54% of transfers take place before the owner reaches 55 years.

The implications of these developments are that transfer too can be more complex, for instance in putting a value on the relationships that a firm enjoys, but at the same time the potential for finding a solution may also be increased. This suggests that the need for professional assistance in negotiating a transfer is increasing, but it also strengthens the argument that transfer needs to be seen as part of processes that should aim to deliver an improved configuration of business assets within a competitive economy.

Other studies point to other complicating factors. For instance, the significant changes in the dynamics within family businesses themselves is considered by a number of studies, not least the growing importance of female family members in ownership and in formal management.

Closure of Businesses

It has been common to pose the problem of business transfer in terms of the survival of businesses and the consequent loss of employment, should they fail. In fact, Article 1 of the 1994 Recommendation states:

> 'Member States are invited to take the necessary measures to facilitate the transfer of small and medium-sized enterprises in order to ensure their survival and to safeguard the jobs which depend upon them'.

Consequently, the number of jobs under threat is a common feature of any discussion of business transfers. But, there is a question of how accurately this situation is characterised.

Clearly it is a tragedy if a successful, viable business is destroyed because of difficulties that have arisen in effecting a transfer. There may be unnecessary disruption of people's lives and the final situation after the dust has settled and resources have been re-allocated may not be as efficient as under the former enterprise.

However, the suggestion implicit in the discussion of some of the headline figures is that jobs are inevitably lost permanently. But even a failed transfer is not the same as the closure of a business that it is fundamentally uncompetitive, where there is little hope of saving the jobs involved. A viable business that is forced to close leaves a gap in supply that can be taken up elsewhere. Often this can be by some of the same people setting up a new business, but even where this is not the case, there will be gains in employment elsewhere, meaning that the net effect on employment is considerably less than initially imagined.

More fundamentally, the focus on the problem of business transfer deflects attention away from the opportunity that is potentially present either for fresh initiative to be brought into the business or for a reconfiguration of the business and its assets through merger or acquisition or new alliances with other businesses.

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Equally, it should be recognised that there are sometimes good reasons for closing a business when an owner withdraws. Sometimes the former owner had unique or very rare characteristics that cannot be replaced. In other cases the business is clearly having problems. The SBS report for 2012, for instance, comments that whereas overall those anticipating the transfer of their business were no more likely to have decreased turnover and fewer employees than average, 63% of those anticipating closure had a lower turnover than twelve months previously (compared with an average of 31%) and 24% had fewer employees (compared with an average of 19%).

5. Conclusions and Recommendations

After observing that there has never been an 'official' definition of business transfer, in practice the scope of the term has been determined by the use of examples or scenarios, in which a typical transfer is envisaged. It turns out, however, that a number of the elements of the classic situation envisaged by a lot of the discourse on business transfers are not really representative of the situation faced in most of the business transfers taking place today. In most cases they continue to represent the circumstances faced by some of the enterprises facing transfer, but reliance upon them to characterise the issue is likely to be misleading.

In particular, the image of an entrepreneur who establishes and develops a family business over a lifetime and, with impending retirement, is faced with the need to transfer the business, preferably to someone in the family, can be quite misleading and does not correspond to the way that SMEs, including family businesses, are developing. A refocusing of the conceptualisation of family business is required.

First of all, the idea of transfer as occurring with the retirement of an owner and as a third stage in a business life cycle is not really helpful, especially as the concept of retirement is becoming more and more elastic, but the process of transfer, which even in the simplest cases is still relatively complex and may be accompanied by a whole series of personal, legal, financial and emotional factors, is certainly real enough. It is necessary to recognise that it is an important event in the development of a business, but that it can take place at any point of that development and may even take place on a number of occasions. And there is no need to specify the reason why the transfer is taking place in any definition. The problems that need to be addressed can arise in a variety of different circumstances.

Equally, it has been argued that tying the concept of transfer to family businesses is not particularly helpful, either for understanding most of the processes, or for family businesses, for whom transfer issues are only one of a range that they face, where the family organisation requires specific attention.

Finally, defining the 'transfer problem' only in terms of the potential impact on employment is not the most helpful approach. It is based on a rather defensive stance that is difficult to substantiate and it ignores the fact that transfer can be regarded more positively as an opportunity for a business to re-organise, inject new ideas, talent and drive, and possibly also capital, and for the economy to gain from a re-allocation of productive assets and resources.

The **recommendations** arising from this analysis are:

1. Policy on business transfer needs to be re-focused to address the problems faced by SMEs in a wider set of circumstances than has previously been envisaged.

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2. Transfer should continue to be regarded as a significant event for SMEs, which requires policy interventions to address market failures and promote efficient outcomes.
3. The term ‘business transfer’ should be defined. For the purposes of Enterprise policy, the evaluation team recommend the following definition :

   ‘a *business transfer* is the process of transferring, for any reason whatever, the controlling interest in the business of an SME, by means of a transfer of either shares or assets. It is usually accompanied with a change in management.’
4. A more fluid conception of business transfer should be adopted. Rather than as something that happens at retirement or at the end of a business life cycle, it should be seen as something that can happen throughout the development of a business.
5. The ‘transfer problem’ should not be characterised primarily in terms of the potential effects on employment. Instead, the opportunities presented by transfers should be highlighted, particularly where they are an occasion for a re-structuring of productive assets and resources within a market.

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The Availability of Dedicated Finance for Business Transfer

1. Introduction

'A financial environment which is conducive to successful transfers' is an important objective announced in the original 1994 Commission Recommendation on Business Transfers.

This case study reviews the current situation in terms of dedicated measures that provide access to finance for business transfers in the countries participating in the evaluation and draws conclusions on how far the situation has changed since 2006. It also looks at a number of factors that are influencing both the demand for finance and its supply and how these are developing, including the impact of the current situation in the economy in general.

Finally, the case study points to financial support that is available to business transfers as part of a restructuring process and the promotion of economic growth. This type of support is seen to be linked to a more dynamic conception of the business transfer process.

2. The Reasons for this Case Study

Access to finance is critical for all stages of an SME's development and it is important to know how far policy initiatives have been able to facilitate this access at the stage where a business is being transferred. More particularly in the context of the current evaluation, it is important to know how far the situation has changed since the last major review in 2006.

However, in order to be able to make a proper assessment of the need for transfer finance in the current situation, it is also necessary to review the determinants of both the demand and supply of finance and how these are changing. After assessing the current situation with finance initiatives, the case study therefore goes on to consider a series of factors that are bringing about some major changes in the area.

3. The EU Policy Context

The original 1994 Commission Recommendation on the transfer of small and medium-sized enterprises invited Member States to take the necessary measures to facilitate the transfer of small and medium-sized enterprises in order to ensure their survival and to safeguard the jobs which depend upon them. Article 3 of the Recommendation on the 'Financial Environment' states that:

> 'Small and medium-sized enterprises should be provided with a financial environment which is conducive to successful transfers'.

The 2006 Commission Communication on Transfer of Businesses explains that a transfer generally requires more financial funds than a start-up since not only the material and financial assets have to be paid for but also the relations with clients, suppliers, trade reputation, expectations of future returns etc.

It then comments 'Financial facilities designed for start-ups are not always sufficient to finance a transfer'. The appropriate financing solution will often require a mix of equity, mezzanine finance and debt, depending on the interests of the concerned parties and the repayment limits of the business.

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Furthermore, putting together the right solution takes time and unless the preparations start sufficiently early in the process, a tailor-made solution is not always found in time to maintain a viable enterprise. The implication is that dedicated financing arrangements are necessary to address the particular needs of business transfers.

However, of the 25 EU countries at the time of the Communication, less than half had financial assistance targeted at business transfers and tailor-made measures for transfers were rare. Usually it was a matter of support for start-ups being used for financing transfers.

Part of the purpose of this case study is to consider the extent to which specific measures have been taken more recently to make finance available for business transfers. However, at the same time, there is a need to take into account other changes in the environment in which transfer takes place and to provide an overall assessment of current needs in this area.

First, it is of interest to note the extent that the finance of transfers has been covered in more recent EU policy initiatives.

The Small Business Act (SBA)[70] in 2008 emphasised that the EU and Member States should create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded, commenting that they need to care for future entrepreneurs better, in particular by fostering entrepreneurial interest and talent, particularly among young people and women, and by simplifying the conditions for business transfers.

The SBA also states that the EU and Member States should facilitate SMEs' access to finance, and in particular to risk capital, micro-credit and mezzanine finance, but as in many subsequent policy statements, there is no specific reference to provision for the finance of transfers.

The Entrepreneurship 2020 Action Plan[71], published early in 2013, has a section on 'Easier business transfers', in which it notes the implications of failed transfers and puts transfer in the context of encouraging entrepreneurship by remarking that 'acquisition of a 'going concern' may be an attractive alternative to starting a new business'. It goes on to speak of the development of 'special financial facilities designed to finance transfers' and to suggest that existing European funds could be used (in conformity with their rules and priorities) to support transfers of SMEs intending to continue running the business. But in the section on 'Better access to finance' the Action Plan puts the emphasis on the fact that entrepreneurs have difficulties raising finance in the early stages of their businesses and mainly concentrates on addressing problems at this stage.

Similarly, in the Action Plan to Improve Access to Finance for SMEs[72], published in 2011, although there is reference to a series of developments that could undoubtedly assist business transfers, including measures to improve lending to SMEs, improving the regulatory framework for venture capital,

[70] "Think Small First" A "Small Business Act" for Europe COM(2008) 394 final of 25.6.2008
[71] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Entrepreneurship 2020 Action Plan. Reigniting the entrepreneurial spirit in Europe' COM(2012) 795 final of 9.1.2013
[72] Communication from the Commission to the Council, the European Parliament, the Committee of the Regions and the European and Social Committee 'An action plan to improve access to finance for SMEs'. COM(2011) 870 Final of 7.12.2011

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improving SME access to capital markets and reviewing the impact of bank capital requirements on SMEs, there had been no specific mention of financing business transfer at all.

This tendency of business transfer to have little or no profile in EU policy positions on finance for SMEs is also apparent in the most recent statements, notably in the Commission's initial proposal for a Programme for the Competitiveness of enterprises and SMEs (COSME) 2014-2020[73], where around half of the proposed budget of €2.5 billion was expected to be devoted to facilitating access to finance for SMEs. There was no explicit reference to business transfers at all in the proposed programme, as initially proposed. Apparently this has been changed in later versions, though at the time of writing these are not publicly available.

4. The Current Response to the Recommendation on Finance

In assessing the current situation on the availability of finance to assist business transfers, it has not been possible to undertake a dedicated enquiry into the situation in each participating country, but the responses to questions relating to this issue in the survey conducted as part of the evaluation and the discussions about finance that have been part of the interview programme have provided an overview of the situation.

The Business Dynamics study[74] in 2010 identified public financial institutions in France, Finland and Germany (Oséo, Finnvera and KFW) that have provided support specifically for transfers, with developments also taking place in Portugal and Poland. It also pointed to special financial products to support business transfers developed by the private sector in France, Latvia, the Netherlands, Norway and the United Kingdom.

The same study also provided information on the quality of financial information available on firms being transferred on the basis of a survey. This is a critical consideration for purchasers, but according to the survey respondents, the quality of the information available can be quite low, although this does depend on the legal form of the firm. For sole proprietorship firms, more than 60% of the experts considered the level of information to be low or very low across all 33 European countries participating, for partnerships the percentage was 61% and for limited liability companies, it was 34%. The study recommended that 'the quality of financial information has to be improved for micro firms and in particular for sole proprietorship firms'.

The survey conducted for the current evaluation looked further into these issues.

An overall assessment was made of the extent to which the original Recommendation in this area has been implemented. This required asking if the financial environment is conducive to successful business transfer. In general terms, the responses indicated that the financial environment has weakened in a number of the participating countries.

[73] Proposal for a Regulation of the European Parliament and of the Council establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (2014 - 2020) COM(2011) 834 final of 30.11.2011

[74] Calogirou, C., Fragozidis, K., Houdard-Duval, E., Perrin-Boulonne, H. 'Business Dynamics: Start-ups, Business Transfers and Bankruptcy', PLANET S.A., CCIP, DTI and GFA 2010

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Table 1: Development in Implementation - Financial Environment

	BE	BG	DK	DE	ES	FR	HR	IE	IT	LU	LV	LT	HU	NL	AT	PL	PT	SK	FI
2006	+	/	+	+	-	+	/	(+)	(+)	+	Ø	-	Ø	-	+	(+)	-	Ø	+
2010	+	+	+	+	+	+	/	+	+	+	Ø	+	Ø	+	+	+	+	+	+
2013	+	-	+	+	+	+	(+)	+	(+)	+	Ø	Ø	Ø	Ø	+	-	Ø(+)	Ø	+

	AL	LI	NO	RS	TR
2006	/	/	/	/	/
2010	/	/	/	/	/
2013	Ø	-	(+)	(+)	(+)

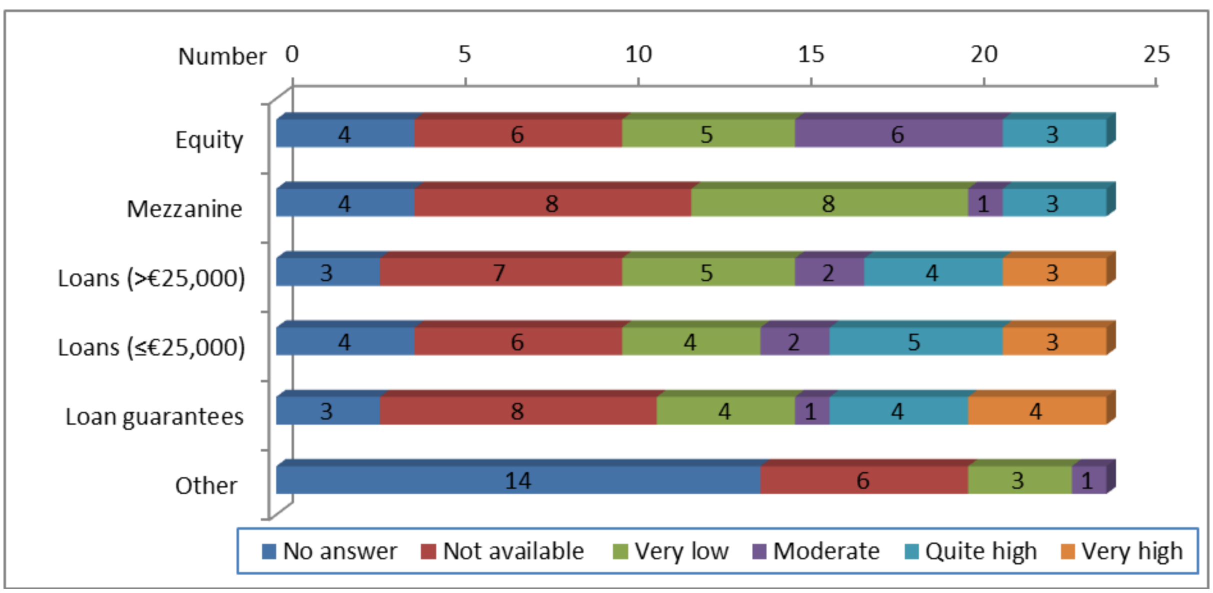
Legend:

+	Recommendation implemented	Ø	Recommendation not implemented
(+)	Recommendation partially implemented or planned	/	No comparison possible
-	No information		

Querying the survey data with the relevant respondents led to clarifications which established that the situation has actually not changed substantially since 2006, except in the sense that access to finance has generally become more difficult for all enterprises as a result of the financial crisis and possibly also because of the stricter prudential requirements that have resulted from it. This conclusion is supported by the more detailed responses to the survey.

The availability of different kinds of financial support instrument is indicated in Figure 1.

Figure 1: Availability of financial support instruments



On the availability of financial support instruments that are tailored specifically to business transfer, generally there is not much specific provision for equity or mezzanine finance for transfers, with the exception of in Belgium and France. There is greater provision of loans, with 7 countries indicating 'quite

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high' or 'very high' availability, especially loans suitable for micro businesses (up to €25,000), in the case of Finland and Spain. Loan guarantees are also available in the same countries, although this may be part of a general loan guarantee scheme for SMES. In Denmark for instance, over the period of 2009-2012, 30% of all 'Vækstkautioner' (special guarantees – up to € 268,000 - to facilitate access to loans or credits) were allocated to enterprises involved in a transfer of ownership.

It therefore appears that while for all forms of finance, a number of countries either have no support or support at very low levels, there is more provision for loans and loan guarantees (including micro finance loans) than for equity finance. The availability of mezzanine finance in this area appears to be restricted to two countries.

When asked to estimate the usage of financial support instruments tailored to business transfer, Belgium, Denmark, Germany, France and Finland indicated reasonable use of loans and loan guarantees, with other countries such as Austria, Spain and Norway indicating more limited use of them. In Finland, it was said that support from state owned Finnvera is used in about 50% of business transfers.

Some countries like the Netherlands point out that, although there is not specific provision for transfers, more general schemes for SME finance are available to enterprises involved in a business transfer. One third of all the entrepreneurs who access BMKB[75] funds use it for business transfers, while 40% of entrepreneurs use it for start-up. Slovakia is also planning support in this way.

More generally, it appears that the core group of countries that are the most active in terms of assisting SMEs involved in business transfer (Belgium, Denmark, Germany, France, Austria and to a certain extent Finland) are also the ones that have dedicated financial arrangements. In some cases, there are close operational links. In the Walloon region of Belgium, for instance, Sowaccess, which manages an on-line marketplace and provides advice to both parties in a transfer, is part of the Sowalfin Group. Sowalfin is active in co-financing on the basis of conventions signed with all the major banks and in providing access to public funds (loans, subordinated loans, guarantees and equity) that form part of a finance package, along with private sector contributions. This close collaboration between Sowaccess and the parts of Sowalfin responsible for finance make an effective combination.

At the same time, the links between private transfer advisers and banks and other sources of finance also make it easier to arrange a finance solution for those that make use of such services. This can be an important consideration in the overall accessibility of finance in countries such as Denmark, France, Germany and the Netherlands.

However, remarks in the survey and in interviews suggested that even in countries with relatively good provision, the situation differs depending on the nature and size of the enterprise. Generally, micro enterprises find it more difficult to access finance than medium-sized enterprises, but this is related to a series of broader issues that have yet to be considered in this case study. One matter relating to these issues was, however, covered in the survey in that the participating countries were asked about the quality of publicly available financial information on firms to be transferred, with a differentiation between the legal form of firms and their size (micro, small and medium). With the exception of Denmark, Germany and the Netherlands, where the information available is said to be of 'quite high' or 'very high' quality, the information available is generally characterised as either of' very low' or

[75] Borgstelling MKB - Dutch credit agency for SMEs

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'moderate' quality or not available at all. For some countries, however, the legal form or size of an enterprise (micro, small or medium) did make a significant difference. This was the case in Belgium, Spain, France, Norway and Finland, where information is generally more readily available on limited companies than on sole proprietorships or partnerships and on medium-sized more than small enterprises, while information on micro enterprises is often of very low quality.

Overall then the survey indicated that there had not been substantial change in the nature or extent of financial measures specifically intended to provide an environment conducive to business transfer since 2006. Those countries that had such measures in place in the earlier period have strengthened them in some cases, but there has not been any marked extension of provision beyond the core set of countries that were already active in the area.

It is important however, to appreciate that this is a conclusion relating to formal public policy measures specifically intended to support business transfers. There have been other changes in the financial environment that have had a considerable effect on the financing of transfers. These are to be considered in the next section.

5. Changes in the Financial Environment for Business Transfers

While the environment for the financing of business transfers is certainly influenced by institutional arrangements and policy measures that affect the availability of finance for those interested in purchasing businesses, it is also affected on the demand side by a number of factors influencing the extent of the need to raise finance at the point of transfer, especially when the influence of these factors is changing significantly.

The Implications from the Dynamics of Family Businesses

The first of the case studies supporting the evaluation has examined some longer term changes in the nature of business transfers and our conception of them. A number of these changes have a particular significance for the financial environment in which transfers take place. In the first place, it has been seen that, although family businesses continue to play a major role within the SME sector across Europe, there are important changes taking place in some parts of Europe, at least when it comes to the point at which they are being transferred.

A study for the 'Institut für Mittelstandsforschung' (IfM) Bonn,[76] published in 2012 but based on survey data from 2008 and 2009, focused primarily on family businesses in Germany. Of those surveyed, 77% were making plans for handing over their businesses. 2% intended to close the business and the rest had not considered the issue. Of those with plans for succession, 36% had not decided who would succeed them, 41% planned to hand the business on to someone in the family and a further 10% to someone within the firm, but 12% planned to hand on the business to someone external. It is interesting that for enterprises with less than 10 persons employed, this proportion rose to 18%.

[76] Petra Moog, Rosemarie Kay, Nadine Schlömer-Laufen, Susanne Schlepphorst 'Unternehmensnachfolgen in Deutschland – Aktuelle Trends' IfM-Materialien Nr. 216 June 2012 http://www.nexxt.org/service/studien/00502/index.php

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The arrangements for handing over the business have implications for the finance requirements. The IfM survey found that 60% of those who had taken over a family business in Germany had received it as a gift or an inheritance, either completely or, in a small proportion of cases, with the initial owner retaining part of the business. In cases where the business was purchased, usually more than one source of finance was accessed. 62% had used their own resources, 59% obtained bank credit and in 38% of the cases the seller gave the purchaser a loan. Public funds were involved in 10% of the cases and mezzanine finance in 2%. Clearly, if the proportion of cases where a family business is handed over to within the family falls, it is likely that the requirement for finance will rise.

Evidence from elsewhere suggests that in some countries at least, this tendency is becoming significant. In a study conducted in Finland, whose results have been made available to the evaluation, 38% of a survey of business owners over 55 years of age were planning to sell their firm to an outside buyer when they give up the main responsibility while 28% were planning to close down the firm and only 20% believed they would find a successor within the family.

In the UK, 14% of firms questioned for the Small Business Survey 2012 anticipate the full transfer of ownership in the next five years and a further 9% expect the closure of their business. And while family businesses account for two-thirds of firms in the UK private sector, of those anticipating a transfer, only 26% will pass ownership to somebody within their own family. In contrast to Germany, this was most likely to be the case for micro-businesses (27% compared to 12% of medium-sized businesses). A declining share of family succession is likely to translate into a much greater requirement for finance.

Taxation

However, another consideration in the inheritance dynamic is **the effect of taxation**. By 2006, a number of countries had either removed inheritance tax or had introduced exemptions for those inheriting business property. In the UK, for instance, there is Business Relief from inheritance tax and in France subject to certain conditions the Dutreil scheme allows three-quarters of the value of a family business to be transferred without any liability for transfer tax.

However, the pressure currently being felt on public finances has meant that there have been modifications to exemptions previously granted or even discussion of re-introducing inheritance taxes. In France, the tax authorities have indicated a tightening up in their guidelines on the rules for the Dutreil laws, specifically in the situation where there is a partial sale of securities inherited. A certain degree of uncertainty has been caused even by the potential for such developments and this has had its own impact on the financial environment.

Effects on a Business' Valuation

A series of further changes affecting the demand for finance, indicated in interviews and by members of the Expert Group, concern **the effects of the current recession and the banking crisis.** These factors have clearly affected SME access to finance generally, but there have also been specific effects on the need for finance for transfers. First of all, the recession has affected expectations concerning the valuation of businesses. Value is often set at multiples of earnings – usually between 4 and 7 times annual earnings these days (after taking out any cash in the business and debts), but this is lower than before the banking crisis.

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This in turn has reduced the number of businesses that are made available for sale. It is reported that business owners are deferring their withdrawal from their business because they believe that in current circumstances they will not receive what they think their business are really worth. They would rather wait and see if the economy recovers. This partially emotional reaction is reinforced by more practical considerations. Reduced annuity rates and very low rates of interest on savings may have disrupted retirement plans and - together with the general tendency for the retirement age to increase - are encouraging business owners to stay on.

Valuation is, of course, a broader issue and perhaps is the central question for many business owners and prospective purchasers. It is widely reported that agreeing a valuation of the business is often the most difficult part of a transfer negotiation.

There are a number of elements in the valuation of a business, depending principally on the type of business concerned and where it is in terms of its expected life cycle. Different formulae are recognised by accounting standards and practice. Ultimately though, prospective earnings are a major element in most circumstances. Owners are likely to emphasise past earnings as a guide to the future, but may also tend to emphasise the value of the goodwill and the intangible assets of the business as a source of potential future earnings. Prospective buyers may see things differently. In these circumstances it often helps to have an independent broker to find common ground between the two parties and provide the basis for a deal.

The more particular point, however, is that these problems in coming to an agreement on the value of a business have been made even more difficult in current circumstances by the increased uncertainty of future earnings and consequently the number of firms being offered for sale has fallen. This is estimated to be by about 40% since 2008, according to one Dutch expert.

Availability of Financial Information

An issue related to the valuation process is the availability of financial information, especially on small and micro businesses.

The Business Dynamics study had reported that for sole proprietorships and partnerships, around 60% of the experts surveyed considered the level of information to be low or very low across all 33 European countries, while only 34% considered this was the case for limited liability companies. The study had commented that the quality of financial information has to be improved for micro firms and in particular for sole proprietorship firms.

The problem is that in the early stages of a negotiation, the development of mutual confidence is crucial and particularly at the stage before there is direct contact between the partners, the availability of appropriate information plays can have a significant effect on this process. It also affects the ability of intermediaries to play an effective part. The absence of financial information means that they are inhibited from forming objective judgements about the performance and value of the enterprises being sold.

This is an additional factor reinforcing the tendency of intermediaries to concentrate on the larger SMEs, although Sowaccess in Belgium, for instance, works with enterprises with a value of between €300,000 and €5 million.

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The situation is made even worse if the enterprises being transferred have been operating in the black economy at all. Valuations have to be based on recognised data and if part of the business' activity has been hidden, this can have significant implications for the sale price when a transfer is being arranged.

Enterprises of all sizes do need to be made aware of the importance of sound financial information, as part of the long term preparations for transfer. This may even be a counter-weight in the otherwise laudable tendency to reduce the administrative burden on SMEs in matters of financial reporting.

Sources of Finance

Comments by a number of experts have broadly confirmed the figures from Germany referred to above in relation to the sources of finance for a 'typical' transfer. Usually it is a matter of putting together a package. A purchaser would usually be expected to provide around 30% of the purchase price from funds he/she is able to access. Loans can form a large part of the rest. Equity investment is relatively minor, mainly restricted to the purchase of medium-sized firms and often in the form of mezzanine finance.

The general view is that **the availability of appropriate bank finance is not a major problem**. Businesses that are about to be transferred usually have an established track record and most of the experts who commented on this issue said that if the case for financing a transfer was presented properly and had merit, the banks would usually provide the necessary finance. As indicated above, in a number of countries there may also be public loans or public guarantees covering a large proportion of the loan, though hardly ever 100%.

An interesting development, commented on by a number of experts, is **the increasing involvement of the previous owner**. This may be in the form of a loan in an 'earn-out' arrangement or even an equity investment, implying a longer-term engagement. In this way the previous owner can often act as a business angel and provide advice and guidance as well as finance, on the basis of a particularly intimate knowledge of the business.

It is also the case that there is an increasing number of high net worth, or just relatively well-off, individuals interested in purchasing established businesses, including former owners who have sold on their previous business. Often this can be part of a semi-retirement plan, but in other circumstances it can be associated with more active involvement, possibly as a Business Angel or in the form of private equity investment. A number of experts mentioned that there is a growing presence of private investors in the financing of transfers, in many cases encouraged by tax incentives such as the fiscal package of 2007 in France. In some cases, however, the source of the funding is from outside of the EU.

It is difficult to know the extent of the contribution made by former and existing business owners and others with wealth available for investment. In the Finnish study referred to earlier, 6% of the respondents showed an interest in making capital investments in other firms. Scaled up to a national level, this would mean over 4,400 entrepreneurs interested in playing this role. Furthermore, 78 of the entrepreneurs over 55 years of age that were surveyed were thinking of buying another firm after the business transfer. On a national level this would translate into some 2,200 entrepreneurs. This evidence relates to only part of the potential pool of private investors and it would suggest that although the effect should not be exaggerated, it is of real significance.

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It is somewhat surprising in this context, therefore that **Business Angels** in the usual sense (i.e. not former owners) have not figured more prominently during the investigations for the evaluation, even though interviewees have been prompted to comment on their involvement. It is true that the classic conception of a Business Angel is of an almost avuncular figure who assists a young start-up entrepreneur with funds and advice. However, it is easy to conceive of a similar role for someone making a parallel contribution for a large proportion of the businesses involved in a transfer, especially if a more dynamic conception of business transfer is adopted, along the lines proposed in the first case study. It is not easy to establish the scale of support provided by even a typical Business Angel. The evaluation report on Business Angel Markets and Policies[77] rehearses some of the problems in establishing the number of Business Angels and the level of their investment, but there is clearly a range from relatively low levels up to half a million euros or more. The average size of a deal was estimated to be in the range of €100,000 - 200,000 for most countries. Sums of this amount could clearly form a useful part of an overall finance package in many cases of business transfer. It would appear, then, that there is definite scope for promoting a greater Business Angel role in the transfer context as well as in relation to start-ups and perhaps particularly in assisting young entrepreneurs interested in taking over an existing enterprise rather than setting up a new one.

The involvement of **young entrepreneurs** in business transfer, however, was also mentioned much less frequently than might have been expected on the basis of the profile that has been given to this possibility in EU and national policy statements and initiatives. Part of the explanation might be found in an interesting study conducted by the Economist Intelligence Unit, on behalf of Zurich[78] and published in November 2012. This study points to an emerging long-term economic risk arising from a major disparity in the distribution of personal wealth in the UK, where 80% of net personal wealth is owned by the 'baby-boom' generation. In contrast the younger generation is increasingly characterised as 'capital-lite'. On average, young people in the UK graduate from university with £53,000 (€62,000) of debt. More generally young people in Britain have low levels of personal savings and are increasingly reliant on credit. Furthermore, they find it more difficult than their parents to enter the housing market. The net effect is that with lower levels of personal capital and home equity than their baby-boom parents, they have a substantially weaker base from which to raise finance. Elsewhere in Europe, the reasons for a growing inter-generational wealth disparity may differ. It may, for instance, be the result of high youth unemployment, but the problem is not confined to the UK and is a factor affecting the ability of business transfers to bring fresh blood into established businesses.

Some experts observed that although small, **private equity** interest in transfers was increasing. Others, however, commented that the expectations from private equity in terms of the anticipated returns, the typical time horizons and the degree of control expected meant that private equity investment was only possible in a small proportion of transfer cases.

Transfer of ownership or sales to employees or **management buy-outs** are also possible exit routes for business owners and this route is said by some to be of growing interest, especially for owners who are keen to see the business that they have established thrive well into the future. The potential for this

[77] CSES 'Evaluation of EU Member States' Business Angel Markets and Policies' October 2012

[78] The Economist Intelligence Unit 'Derailing the future of economic growth: The demographic time bomb facing the UK SME economy' November 2012

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route does, however, vary between countries. Banks are said to be unsympathetic generally to funding transfers to employees and recourse is often made to specialist agencies established to support co-operatives. However, the number and financial capacity of such agencies varies considerably between countries, meaning that this route is more significant in Italy, Spain and France, for instance, than in other countries.

Management buy-outs are often supported by venture capital or private equity funds and are observed only in larger medium-sized enterprises. A transfer to employees can take place in all but the smallest SMEs and can take various forms. The most interesting in terms of financing the transfer are those cases where a co-operative is established, since across the participating countries, there are a number of support structures though the co-operative federations that are linked with specialist providers of financial support.

In the past, there has been a tendency to resort to a co-operative structure when a business has faced financial difficulties, often in an attempt to save the jobs of those employed in the firm. This, of course, is not an ideal situation in which to launch a co-operative. More recently, with rising levels of education and skill in the workforce, there has been a tendency to consider a co-operative in more positive circumstances, although even here it is more likely to be a practical solution in some situations than in others. Requiring substantial amounts of initial equity or saddling the co-operative with high levels of debt are obviously disincentives for those considering participation in a co-operative, so it is easier to establish them in business activities that have low capital requirements or are labour-intensive, such as generally in the service sector, and where the degree of cooperation among employees is high (e.g. ICT, consulting, creative activities)[79]. It is in these areas that finance arising from the establishment of a co-operative is particularly relevant.

Transfers as Part of the Restructuring of an Industry

The tendency to transfer a greater proportion of family businesses to new owners that are not relatives and other factors, such as developments in on-line markets and the growing professionalisation of intermediaries have moved the process of business transfer more closely to the mergers and acquisitions market or at least towards normal market transactions in the allocation of business resources. These developments are explored more fully in the first case study and this section relies to a certain extent on the fuller explanation of them to be found there, since the last two sources of finance to be considered are very much in line with this shift in the nature of business transfer and its place within a modern economy.

The support measures concerned are available in Portugal and Spain – where funding is available to transfers through measures that are designed to promote the concentration and consolidation of enterprises.

In the case of Portugal, FACCE (Fundo Autónomo de Apoio à Concentração e Consolidação de Empresas) that was established in 2009 with a budget of €175 million, is a fund for the support of restructuring and the concentration and consolidation of enterprises, particularly SMEs. It is operated by 'PME Investimentos' and managed with IAPMEI's support. It can be used to provide finance for business transfers that contribute to the consolidation process. The funding can take the form of participation in

[79] From the guide La reprise d'entreprise par les salariés en coopérative. p.183-184 Guide transnational www.les-scop.coop.,

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equity, the purchase of debt instruments or a loan. The whole package can be up to 40% of the total finance required and up to €10 million. It is interesting that this particular measure, conceived of as part of an integrated response to the financial crisis is based on a dynamic conception of the development of SMEs and their transfer and their potential to contribute to a strengthened industrial structure.

Similarly in Spain, among a series of finance programmes for SMEs from ENISA (Empresa Nacional de Innovación) a public company, attached to the Ministry of Industry, Energy and Tourism, funding for transfers is available under a Mergers and Acquisitions programme if the project involves a corporate transaction (merger, acquisition or division) designed to increase the company's competitiveness. The programme provides loans of between €200,000 and €1,500,000. Again, this placing of transfer into the context of a dynamic development of the competitiveness of the enterprise reflects a broader tendency that is a significant theme in the evaluation.

6. Conclusions and Recommendations

The review of the current situation on the availability of finance for business transfers has shown that **there have not been any major developments since 2006** in terms of initiatives specifically designed to provide 'a financial environment which is conducive to successful transfers' - in the words of the initial 1994 Recommendation. The core set of countries that were making specific provision in 2006 have continued to do so and in most cases have consolidated and strengthened this provision, but there have been no significant new initiatives in any of the other countries specifically designed to assist business transfers.

Having said that, there are other sources of finance that can be used to fund transfers and the general view of members of the Expert Group and others interviewed is that, even though the current financial environment has made the situation more difficult, essentially **any transfer that can present a good business case will be able to find appropriate finance**, from a bank or increasingly from other sources. This suggests that the longstanding emphasis in policy commentary on **the need to prepare for a business transfer well in advance is also critical from a financial point of view**. If businesses are to access finance to fund a transfer, they need to present a good case and this needs careful preparation and planning.

While traditionally for family businesses, the transfer to successors within the family has often been through gifts or inheritance, the increase in the number of transfers to persons outside of the family, which appears to be a strong trend, means that **financial transactions are likely to increase in volume**.

The effect of this long-term increase in demand for finance is currently being reduced, as business **owners are deferring the sale of their businesses**, because of a fall in business values with the recession and the disruption of retirement plans caused by low annuity rates and low interest on savings.

Currently, the funding of transfers appears to from variety of sources, but **private wealth has become more important**, partially as a result of tax incentives, and not least because of a growing **tendency for former owners to continue to have an interest**, including a financial interest, in their former businesses. In this context, encouraging business angels more explicitly to engage in the transfer market is an obvious step to be taken, though there are signs that a parallel encouragement of young entrepreneurs of the 'capital-lite' generation may be less effective. Other possibilities include a greater involvement of employees, including in the form of a co-operative.

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More generally, however, interesting developments in Spain and Portugal were noted in which **finance is available for business transfer under schemes that aim to promote the restructuring of industry** and the concentration and consolidation of enterprises. These financial measures are in line with seeing transfer as part of a process, highlighted in the first case study, of encouraging growth and improving competitiveness by bringing about the renewal of enterprises or a more efficient configuration of resources through restructuring.

The **recommendations** arising from this analysis are:

1) Although for well-prepared businesses, there does not appear to be a major problem in accessing finance for transfers, this situation has to be monitored, especially the factors leading to an increasing need for funds.

2) Further analysis is also advisable of how well prepared funds established with more general objectives are, for dealing with the particular circumstances of business transfer, and of their effectiveness in assisting the subsequent development of the enterprises transferred.

3) Good preparation and planning for a transfer, frequently including the involvement of transfer professionals, is essential for obtaining a satisfactory price for a business being transferred. This message needs to be part of awareness campaigns highlighting the importance of proper planning and preparation.

4) Enterprises of all sizes do need to be made aware of the importance of sound financial information, as part of the long term preparations for transfer. This may even be a counter-weight in the otherwise laudable tendency to reduce the administrative burden on SMEs in matters of financial reporting.

5) Business Angels need to be encouraged to engage in the transfer market as well as with start-ups.

6) The encouragement of young entrepreneurs to take on the challenge of an existing business needs to be more soundly based. An investigation needs to be undertaken of the implications of the 'capital-lite' generation for such developments.

7) Linking the availability of finance to the restructuring of industry and the longer-term promotion of growth is an interesting development that might be more widely adopted.

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On-line Markets for Business Transfer

1. Introduction

The 2006 Commission Communication on Transfer of Businesses called for the organisation of transparent markets for business transfers. At around the same time an Expert Group examined a series of specific on-line markets, described how they operated and formulated a series of recommendations on how they should develop. This case study examines more recent developments with regard to on-line markets for business transfer before commenting on how the situation has developed since 2006 and the implications for future developments.

2. The Reasons for this Case Study

Transparent marketplaces in which enterprises can be bought and sold are an important means for effective business transfer. On-line market places are an obvious way to organise such transactions, but earlier policy statements have emphasised that they need to be supplemented with professional mediation services.

This case study examines the way that such market places have evolved since 2006, when they were last considered in detail at a European level and draws conclusions about the implications for the future.

Although subsidiary in this context, a recurrent theme in the following exposition is the extent to which such market places operate across borders.

3. The Position in Earlier Work

The effective transfer of businesses is clearly assisted by the existence of efficient market places in which sellers and purchasers can meet and also gather information about comparable opportunities and some of the subsidiary elements that are necessary for a successful deal.

Such market places have existed for a long time, in the past created, for instance by the emergence of a publication in which announcements of an intention to buy or sell were routinely made. The emergence of the Internet has greatly facilitated this process, allowing the market place both to be open to many more participants and also be become much more sophisticated in terms of the extent and quality of the information offered and the processes involved.

Because of the central importance of open, transparent markets in the facilitation of business transfer, and within this the particular contribution of on-line markets, their development has come to be seen as a critical element in the promotion of effective business transfer. This was already the case at the time of the 2006 Commission Communication on 'Transfer of Businesses – Continuity through a new beginning'[80], which is the main point of focus for the current evaluation. In its Recommendations for Future Work, the Communication called for the organisation of transparent markets for business transfers. It commented:

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[80] Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions 'Implementing the Lisbon Community Programme for Growth and Jobs. Transfer of Businesses – Continuity through a new beginning' COM(2006) 117 final of 14.03.2006

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> 'To facilitate transfers to third parties the match making between potential buyers and sellers should be helped by establishing and supporting impartial services for the concerned parties. Such services have to go beyond the mere establishments of databases for transferable businesses and to include a comprehensive mediation service to guarantee ordered and well-structured transfers in the spirit of partnership.'

It also pointed to the market places operated by Chambers of Commerce or similar impartial institutions in a number of Member States.

Shortly afterwards in May 2006, the Commission published the Report of the Expert Group on Markets for Business Transfers and since then there has been further work, notably by Transeo, the European Association for Transfer. This case study will review this work, provide an overview of on-line markets currently and consider the salient issues in the current state of development.

The 2006 Expert Group Report on Markets for Business Transfers

The 2006 Expert Group Report entitled 'Markets for Business Transfers. Fostering Transparent Marketplaces for the Transfer of Businesses in Europe' provides a kind of baseline against which subsequent developments can be judged. It is therefore worth setting out the main elements of this Report before going on to consider more recent developments.

The report was based on the work of an Expert Group, nominated by the national authorities of 18 EU Member States plus Turkey. Denmark, Croatia, Cyprus, Estonia, Ireland, Latvia, Lithuania, Malta, Portugal and Slovakia did not participate.

The Report commented that an increasing number of retiring business owners hand over their enterprises to people outside their family, sometimes to employees but often also to young entrepreneurs who want to set up their own business or to other investors. In order to respond to this situation, it was increasingly important to be able to have marketplaces that match supply and demand for business transfers and, in some countries, public or quasi-public institutions have created special on-line markets.

The Expert Group had analysed nine marketplaces, operating in Belgium (Overnamemarkt in Flanders and Sowaccess in the Wallonia Region), Germany (Nexxt-Change), France (Passer le relais), Italy (Borsa delle Imprese), Luxembourg (Bourse d'enterprises), the Netherlands (Ondernemingsbeurs), Austria (Nachfolgeboerse) and Finland (Yrittajat). These systems are analysed in considerable detail and there will be subsequent reference to some of their characteristics. However, at this stage, it should be noted that most of these on-line markets had only been established in the previous three years, but that together the nine sites contained around 11,000 transferable businesses and the success rate of those offering businesses for sale was estimated to be around 25%. It was also observed that there was a considerable disparity between the number of sellers and the number of buyers, with a preponderance of the former.

The Report went on to analyse the desirable features of these on-line markets and the elements that represented good practice. These were listed as follows:

- National databases should not be fragmented. If a comprehensive national database cannot be established, at least there should be a national portal for all such databases.
- Databases and portals should provide links to well-established databases in other countries.

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- A neutral and trustworthy host organisation is a key success factor for a transfer database. Natural candidates for this function are Chambers of Industry and Commerce and Chambers of Craft Industries and Business Support Organisations, particularly in countries where membership of these organisations is mandatory.
- A transfer marketplace will be more successful if it is not restricted to a database with a discovery service only. Useful additional services that could be provided include information on transfer issues, mediation services during negotiations and tutoring.
- Anonymity is of central importance, especially for most potential transferors. Contact details or descriptions that would reveal the identity of a firm should only be published with the authorisation of the person placing the advertisement. Contact queries could be directed to an anonymous mail box. More security is provided if contacts are organised by the database host organisation or by intermediaries.
- It is advisable for the host organisation to ensure a certain level of quality of database entries. This should include at least a regular check to see if advertisements are still valid. Assistance in drafting advertisements is also often useful. Moreover, an ex-ante check of companies before inserting an entry into the database could be considered.
- In order to adjust and improve marketplaces and to account for public funds that might be used to support them, a systematic follow-up of its success (e.g. in the form of a "success rate") and the factors that determine the success is advisable.
- Promoting awareness of on-line marketplaces is necessary among their potential users, by choosing a suitable domain name, by linking with other types of government business support, by advertising, by awareness-raising campaigns and by the distribution of information in related contexts (e.g. Chamber of Commerce and trade seminars on other topics).
- Minimum search criteria are specified: economic sector and trade, geographical situation (region or even city) and size (indicated by size classes of employees and/or turnover). Other useful search criteria are price (range) and the planned date of the transfer.

The Report did refer to other forms of provision in the other countries represented in the Export Group, but mostly the on-line markets covered are public or semi-public. Even so, there is a considerable variation in practice in the way that the systems considered operate. This will be examined further below.

Transeo Working Group Matching Platforms

More recently, Transeo, the European Association for Transfer, has had a working group examining matching platforms. The full report of this group has not yet been published, but Transeo has kindly shared some of the results that are already available.

The Transeo Working Group has also looked in detail at a series of on-line marketplaces and examined their characteristics. To a certain extent, these overlapped with the platforms identified by the previous Expert Group, but reflecting the membership of Transeo and other organisations with which it is in contact, the cases considered include on-line markets developed in the private sector.

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The main focus is on on-line systems in Belgium (Sowaccess), Denmark (Match-online.dk), France (CRA), Italy (StudioCentroVeneto), the Netherlands (MKBase), Finland (the Finnish Company Acquisition Ltd) and Norway (Gess.no).

Details will be provided by Transeo of the performance of each of these on-line markets, but overall conclusions at the moment are along the following lines:

- Ideally, matching platforms should be hosted by a neutral organisation.
- They should provide a national overview of businesses available for transfer.
- They should be more than a “website” managed by private stakeholders, where neutrality and independence are not guaranteed.
- Both the seller and the buyer should be anonymous, which implies the existence of a support structure behind the on-line database, to conduct active matching.
- Personal contacts of platform managers with potential sellers and buyers improve the chances of accurate matching and of keeping profiles up to date.
- There should not be too many search indicators.
- The quality and reliability of profiles made available in the platform and the corresponding quality of the services provided by the platform team is essential.
- The internationalization of matching platforms is also essential to enable SMEs that could be sold abroad to be matched with the relevant candidates. A collaboration between regions and countries is very important and represents a real challenge. Professionals should be in charge of the implementation of such interconnections between platforms.
- Awareness of matching platforms among sellers and buyers could be improved.

4. How On-line Markets Are Developing

Further information, particularly of a contextual kind has been provided during the course of the current evaluation exercise, in the form of responses to survey questions and those arising during interviews and also in presentations at the second expert group meeting. Together with the information provided by the earlier work, the additional input has made it possible to put together the following overview of the current situation:

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Overview of Available On-line Markets

Key to Abbreviations: S = Survey results; ExG = Expert Group; Tr = Transeo study; Pb = Public or semi-public; Pr = Private

Country	Site	Source	Public/private	
Austria	Nachfolgeborse Osterreich: www.nachfolgeboerse.at Nachfolgeborse Wien: http://wkwicfo8.wkw.at/online/page.php?P=339	S/ExG/Tr S	Pb Pb	2012: Offers 2,553 Demand 440 2011: Offers 2,411 Demand 422 2010: Offers 2,150 Demand 418
Belgium	Sowaccess.be (Wallonia): http://www.sowaccess.be/ BruSade.be (Brussels) Ventreprise (Wallonia) & Overnamemarkt (Flanders): www.Ventreprise.be www.Overnamemarkt .be	S/ExG/Tr S S/ExG/Tr	Pb Pr	2012: Sowaccess : 20 Transactions (SME) 2011: Sowaccess : 22 Transactions (SME) Ventreprise.be, otherwise known as Overnameweb.be has been active since 2005 in Belgium, France and the Netherlands
Bulgaria	A few private internet sites for buying and selling of business	S		
Denmark	Match-online.dk: www.match-online.dk http://www.match-online.dk/executive/ www.danskfirmabors.dk, www.virksomhedszonen.dk, www.amino.dk/virksomhedsbors Portal : http://startvaekst.dk/omejerskiftedanmark	S/Tr S S S	Pb/Pr Pr Pr Pr Pb	Match-online EXECUTUVE is for larger enterprises Match-online.dk has assessed its activities. Before the crisis there were between 250 and 300 enterprises for sale on the site. Since 2010 the figure has gone down to appr. 180 enterprises each year.

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Finland	Suomen Yrittäjät (The Federation of Finnish Enterprises) Yrityspörssi: http://www.yritysporssi.fi/ Suomen Yrityskaupat (The Finnish Company Acquisition Ltd): http://www.yrityskaupat.net/ Also some other national public and private platforms and a few public or semi-public regional on-line data-bases.	S/ExG S/Tr		2012: 55 (ads 850) 2011: 45 (ads: 650) 2010: 35 (ads: 500) Total amount of ads for sale is about 2000 in all on-line matching platforms.
	Yrittajat	ExG	Pb	
France	Bourse de la transmission: http://www.reprise-entreprise.bpifrance.fr/ Portal to other sites : http://www.reprise-entreprise.bpifrance.fr/oseo/articles/partenaires	S	Pb	BPI France – formerly Oseo
	Passer le relais : http://www.passerlerelais.fr/	ExG	Pb	Ile de France region
	CRA (Cédants et Repreneurs d'Affaires)	Tr	Pb	National non-profit association 250 transfers each year. 570 transferable companies in the database. Website has 40.000 visitors each month.
	Numerous matching platforms are available. For instance ; Fasacq, CCI, Brutade, IT-FFB, Chambre de Métiers et de l'Artisanant, FDC, MECANET and AGORABIZ.com.	Tr+		
Germany	Nexxt-change: www.nexxt-change.org	S/ExG /Tr	Pb	2012: 1189 2011: 1316 2010: 1265 Tr: With approximately 7.000 transferable businesses in

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				their database Nexxt-Change is able to realize about 1500 transfers each year. Each month 2 million visitors enter the German website.
	Deutsche Unternehmberbörse Dub.de GmbH www.Dub.de	Tr	Pr	Tr: This company has on average 600 transferable companies in their portfolio. Each month 110 000 visitors enter the website
	MA Strategie: http://www.ma-strategie.de/	Tr	Pr	The focus is on transactions which exceed the volume of 1 million euros.
Hungary	http://www.topceg.hu/ www.cegalku.hu	ExG	Pr	
Ireland	Not aware of any specific links.	S		
Italy	Incontrerete (Chambers of Commerce national platform)	S		
	Borsa delle Imprese	ExG		For the region Emilia Romagna
	StudioCentroVeneto	Tr		
Latvia				
Lithuania				
Luxembourg	Luxembourg Chamber of Craft Industries http://www.cdm.lu/entreprise/conseils-aux-	ExG	Pb	Mediated by the Chambre des Métiers

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	entreprises/cession Luxembourg Chamber of Commerce: http://www.cc.lu/cession-transmission-dentreprise/ http://www.espace-entreprises.lu/fr/cession-transmission/	ExG	Pb	Only by direct contact with the Chamber
Netherlands	There are several sites, privately run, that match buyers and sellers. www.investeringsplaza.nl, http://www.bedrijventekoop.nl/	S	Pr Pr	Exact numbers do not exist, about 40 to 50 %, 14 % of all transfers are the result on an on-line match.
	Ondernemingsbeurs http://www.ondernemingsbeurs.nl/	ExG/Tr	Pb	500 transferable businesses and 15 000 unique visitors on the website each month
	MKBase: http://www.mkbase.nl/	Tr	Pr	Offers 4,000 profiles and 550 advisers
	www.Brookz.nl (www.Overnamematch.nl.)	Tr	Pr	Circa 300 transferable companies can be found in their database nowadays, and between the 30 and 50 transfers are realized each year
Poland	Bizvendo: http://www.bizvendo.pl Startinvest: http://startinvest.pl/ogloszenia/sprzedam-firme Sprzedambiznes.pl: http://sprzedambiznes.pl/ KupSprzedaj.pl	ExG	Pr Pr Pr Pr	Advertising site with supplementary tools Advertising site Advertising site General Advertising site

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	http://www.kupsprzedaj.pl/			
Portugal	Fintrans www.fintrans.pt	S	Pb	This platform has however a very limited scope, serving mainly for sellers and buyers to manifest their interest. There is no matching mechanism. 2012: 7 For 2013 the creation of a national web platform dedicated to business transfers is planned, in which IAPMEI will bring together the business associations and the main private brokers
Romania				
Slovakia				
Spain	Plan de Continuidad Empresarial : http://www.plancontinuidadempresarial.es/ Reempresa: http://www.reempresa.org/ http://es.negocius.com/	S S	Pb Pb Pr	2012: 13 2011: 8 2010: 10 Advertising site – 42,000 businesses for sale Advertising site
Sweden		ExG		There are two nationwide commercially operated marketplaces
United Kingdom	Businessesforsale.com: http://www.businessesforsale.com/	ExG	Pr	Advertising sites Over 64,000 businesses for sale in 26 countries (incl franchises)

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	Daltons Business: http://www.daltons.co.uk/business/		Pr	31,000 businesses for sale
Albania				
Croatia				
Liechstenstein				
Norway	Gess.no http://www.gess.no/ finn.no http://www.finn.no/	S/ Tr S	Pr Pr	 Advertising site
Serbia				
Turkey	Sirket Ortagim: https://www.sirketortagim.com/anasayfa.aspx	S	Pr	Private initiative

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This 'Overview of On-line Markets' does not make any claim to be comprehensive, but it does bring together the sites that have been considered in earlier work, plus a number of other representative sites and in that sense allows an overview to be obtained of the current situation across Europe.

It will be seen that most of the sites previously considered have continued to flourish and to increase both the numbers of the businesses for sale and the numbers of those looking to purchase a business. The German site, Nexxt-Change, for example, now regularly has over 7,500 businesses for sale on offer and facilitates over 1,000 transfers each year.

There continues to be a variety of forms taken by on-line markets and indeed this variety has been extended. In particular, there are substantial differences in the extent to which intermediaries are active in mediating between buyers and sellers. This intermediation can take different forms. It can be as little as a reference to the possibility of professional advice right up to a compulsory checking of the information posted and intervention. A number of sites offer both possibilities, allowing clients to choose the form they wish to use.

Parallel to this there is a fair degree of variation in the charges for using the on-line facilities, with the commercial sites typically offering differing levels of service with corresponding charges. Usually the charges consist of a standard fee for putting information on the site for a certain amount of time, but there are also cases where the buyer is charged a percentage of the price agreed (0.6% in the cases identified).

The case for intermediation lies in the market failures relating to information transmission. Initially there is an asymmetry of information between seller and buyer. The seller knows his or her business better than the buyer and has an incentive to hide certain facts. Checking by an intermediary can help alleviate the problem. There is also the need in many cases for confidentiality. A business owner cannot let it be known that he or she is thinking of selling a business, without this potentially affecting the behaviour of customers, business partners, employees, suppliers and providers of credit. All of these effects can reduce the value of the business. Being able to preserve this confidentiality is also facilitated by the use of intermediaries.

Intermediaries can also play a useful role both in bridging differences between sellers and buyers, notably in relation to the perceived value of the business, and also in helping to arrange finance and ensuring that the business under new ownership gets as promising a start as possible.

Valuation is an issue that is considered more in the case study on the financing of transfers, but in the current context, it should be noted that the seller often perceives the business to be worth more that the buyer is willing to pay.

This sort of professional input is clearly easier to build into the procedures of a specific on-line market, when it is associated with a business support agency, as is the case with Sowaccess in Belgium (Wallonia), Nexxt-Change in Germany and the Bourse de la transmission in France. In other cases, there are issues to do with the assurance of the professionalism of the advice offered. Again this is a question that is considered in another case study – in this instance, the case study on support services. However, in the current context, the issue of the role of intermediaries and their professionalism can usefully be seen in the context of a broader perspective on how on-line markets operate.

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The previous studies have not paid much attention to the broadly-based 'advertising' sites. Some of these sites have existed for a long time in the sense that they originally took the form of a physical publication of the kind referred to at the beginning of this case study. One explicitly claims to have been 'connecting buyers and sellers since 1870'. Nowadays they essentially consist of a website on which it is possible to advertise a business for sale. The notices posted on these sites consist of a structured statement of the main features of the business. Some access to additional information and commercial advisers is often provided, but basically they envisage a more or less direct contact between the sellers and the buyers, without any substantial intermediation.

Frequently these 'advertising' sites will also offer franchises and sometimes property and other goods and services for sale, but from the business transfer perspective, they are quite interesting. First of all, they cater for a relatively large number of businesses when compared to the on-line markets previously highlighted. Secondly, the businesses advertising are mainly micro and small businesses. In addition, the sites often have an international dimension, with businesses in different countries and often different language versions. A site used in the UK, for instance - Businessesforsale.com – claims to have 64,000 businesses for sale in 26 countries. However, the businesses involved are often mainly in the service sector – retail, hotels, personal health care etc. and are generally relatively small, with an annual turnover seldom above €1.5 million. In other words they serve a particular market, in which individually most of the businesses concerned are not substantial in terms of their impact on the economy. Collectively, however, because of the numbers involved, they are rather more significant and consequently ought to be a definite part of policy consideration in the business transfer area.

Finally on 'advertising' sites, it should be said that, although the model is relatively simple, they are gradually becoming more sophisticated. A Polish site, Bizvendo, developed with EU funding support (ERDF) and launched in 2011, operates in English and German as well as Polish and has various support features built in. There is an on-line tool to help sellers prepare an information memorandum, setting out the firm's basic business information and also a step-by-step instrument to help owners to value their business. The site can also direct businesses to advisers of various kinds and to potential investors. In this respect, they are moving in the direction of some of the already established private sector on-line markets, such as Bedrijventekoop in the Netherlands, which also has on-line tools to help business analysis and valuation and provides access to advisers. In some cases, some of these sites are operated by businesses that are active in the area of mergers and acquisitions.

In contrast, the on-line markets considered in the earlier reports are often in a better position to assist somewhat larger enterprises (though still SMEs) and enterprises to be found in manufacturing and some parts of construction, the ICT sector etc. Essentially in these cases, the business and transfer issues are rather more complicated than when it comes to selling a small retail outlet, simply because the business is more complex, both in its operations and in its finance structure, and because it usually involves more people. In these circumstances, there is clearly a greater need for professional assistance and mediation.

The overview presented in the table above also allows a perspective on what might be called 'structural' changes in the situation with on-line markets. It is noticeable that with the exception of the Spanish 'Plan de Continuidad Empresarial' and in Portugal, where the SME agency IAPMEI, is shortly to launch a new national platform, there does not appear to have been much of a development in the sort of sites recommended by the Expert Group in the intervening period. There is a concentration of such sites in a

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core group of countries – Belgium, France, Germany and Austria, but the attempts of various Chambers of Commerce in Italy to create regional sites have met with varying degrees of success and have not yet led to the establishment of a similar facility. Elsewhere such developments as there have been have involved ‘advertising sites’ more than anything else.

The situation in the newer Member States is worth noting. As yet, the issue of business transfer does not appear to have very much profile in these countries and the on-line markets that have developed are definitely of the ‘advertising’ kind. Poland illustrates how these have multiplied, though, as remarked before, it is interesting that some of these sites have begun to offer more support and access to professional advice. It may be argued that these are more appropriate for the kind of enterprise that is being transferred. However, it is not only the newer Member States that rely on this type of on-line market. The UK, Ireland and Sweden appear to be in the same position. Furthermore, they exist in one form or another in most countries.

The Expert Group commented on the problem of the proliferation of on-line markets, suggesting that if a comprehensive national database cannot be established, there should at least be a national portal for all such databases. The PBI site in France (formerly Oséo) acts in this way and there appears to be a similar motivation behind the ‘Startvaekst’ site that is being developed in Denmark and the ‘Suomen Yrityskaupat’ site in Finland. However, there is clearly scope for other initiatives of this kind elsewhere.

5. Conclusions and Recommendations

There is a gradually growing set of on-line markets for business transfers that are extending across Europe. However, with the exception of Spain and potentially Portugal, new on-line markets are not being provided by the ‘neutral and trustworthy host organisations’ such as Chambers of Industry and Commerce or other Business Support Organisations, envisaged in the 2006 Report from an Expert Group on these markets. Furthermore, although there is often reference to additional services, including information on transfer issues, mediation services and tutoring, and there is some evidence of a growing sophistication in such services, all the new sites stop short of the type of the comprehensive mediation service called for in the Commission’s 2006 Communication.

Having said this, and recognising that professional mediation can be vital for a successful outcome in transfers of larger and more complex SMEs, examination of the nature of the businesses posted in ‘advertising’ sites suggests that they are providing a valuable service that can often be the most appropriate for micro and small SMEs that have a relatively low turnover and a relatively straightforward business model.

Overall, therefore, there appear to be some positive developments taking place in the development of on-line markets. However, there is clearly still scope for additional provision to be made and especially for the sort of integrated market and mediation service that larger SMEs require and that was called for in the 2006 Communication.

In addition, it should be noted that all on-line markets are showing a gradual tendency to move beyond national boundaries and accept both businesses for sale and interest in buying from countries beyond the home country of the site. This effect could be multiplied, if more sites had links to counterparts in other countries.

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Recommendations

1. National authorities should encourage the development of on-line provision for both micro enterprises and larger more complex SMEs.
2. All sites should be encouraged to provide access to impartial advice and the quality of the information posted should be monitored. There is a strong case for mediation in sites with larger SMEs and more complex deals.
3. Quality standards for platforms could be developed, with corresponding certification systems in order to promote their credibility and the trust of their users. The operators of such sites could be encouraged to co-operate in developing and implementing such standards.
4. Sites should be encouraged to link with other sites, including sites from other countries.

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Developing Effective Advice and Support

1. Introduction

It is commonly acknowledged that the process of transferring a business can be very complex. It requires a combination of organisational, financial, fiscal and legal expertise – not to mention a way of addressing the emotional concerns for those involved – so most business owners feel the need for some degree of expert support and advice throughout the process. Support for SMEs is especially vital since a large number of business transfers occur in the micro-firm segment, where resources of all kinds are limited.

However, several studies have shown that there is a lack of good advice on transfer for the owners of smaller businesses. Many traditional SME advisers, such as accountants, lawyers and banks, appear not to be able to cover the whole transfer process, and there seems to be a tendency for advisors to target larger companies, in that their services are too expensive for small firms.

2. The Reasons for this Case Study

The aim of this case study is to examine in more detail claims that the business support available to small-firm owners in the transfer process is not as effective as it should be.

This case will examine the evidence for these claims, having first investigated what the survey conducted for the evaluation reveals about the existence and quality of business support and mentoring in Member States currently. It will then go on to look at the emotional issues that can emerge in connection with a transfer. On this basis it will seek to identify areas where some improvements might be possible, examine the case for promoting more professional services, possibly based on regulation, and point to examples of possible solutions that may constitute the way forward.

3. Background

Efforts to inform entrepreneurs about the importance of preparing themselves for transfer well in advance of the event are generally thought to improve the chances of successful business transfers. The **1994 Commission Recommendation** sought to incite Member States to encourage initiatives - both at public and private level - to stimulate increased awareness, information and training of businessmen about transfer (article 2) as part of the wider set of recommendations.

By the time the Commission published its **2006 Communication**[81], only 8 of the then 25 Member States had implemented this particular recommendation, with another 7 having either partially implemented it or planning to do so. It was therefore thought necessary to reiterate the plea to Member States to organise or support activities to make business owners aware of the need for a timely preparation, for instance by personal mails aimed at business owners of a certain age or awareness-raising activities for business advisors such as accountants, banks and tax advisors. It was also necessary to increase the awareness of buyers and especially of young entrepreneurs, to the potential advantages of taking over a transferred business. Member States were also encouraged to promote mentoring schemes in order to address the psychological barriers faced by owners that have to let go of their business.

[81] Commission Communication '*Transfer of Businesses - Continuity through a new beginning*' (COM 2006/117)

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In this context it was noted that the European Parliament had suggested that the Commission should launch a pilot project laying down principles for a European training and mentoring scheme which would improve the transfer of knowledge and core competencies essential for business transfers.[82] The **pilot action *'A Helping Hand for SMEs – Mentoring Business Transfer*'** was coordinated by Eurochambres working with 33 of their members on the ground. The project which was carried out over 33 months from 2007 to 2009 aimed to provide free support to 1,000 buyers in 18 countries, each for a ten-day period. Apart from delivering the mentoring service on the ground through Eurochambres' partners in Member States, the project included an evaluation component which assessed the quality of the mentoring provided.[83] Given the differing conditions for transfer in participating countries, each mentoring session was tailored to the specific needs of the buyer in question. An assessment of satisfaction at the end of the project's implementation period showed that participants generally found the experience 'useful'.[84] It was recommended that a mentoring service should be implemented at a national or regional level in order to adapt the service to the local specificities in terms of the profile of the mentees and of the business transferred.

By 2010, when the **Business Dynamics report**[85] took stock of Member States' implementation of the recommendation on awareness-raising, support and mentoring, the situation had improved further. By then, 22 of the 27 countries involved had either implemented, partially implemented or planned to implement[86] the Commission's proposal, at least with regard to awareness-raising initiatives.

The report also provided a further analysis of the existence in Member States of training and mentoring schemes aimed at owners and prospective buyers and gave an overview of the type of organisations providing these. In 7 countries (BE, FR, DE, IT, PT, SK, SE) there was a high degree of availability of such initiatives, with training mostly provided by Chambers of Commerce, business associations and public bodies, and mentoring offered by private organisations or Chambers. 10 countries (AT, BG, DK, FI, EL, LU, NL, PL, UK, TR) had a more moderate provision with private organisations being the most likely organisers, although public bodies were involved in Denmark, Finland and the UK. In 6 countries (HR, EE, HU, LV, LT, RS, SL) no training or mentoring was available at all[87]. The report did not investigate the quality of such initiatives.

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[82] EP budget reference line 02 02 03 03, pilot project within the meaning of Article 49(2) of Council Regulation (EC, Euratom) No 1605/2002 of 25.6. 2002 on the Financial Regulation applicable to the general budget of the European Communities, OJ L 248, 16.9.2002, p.1.

[83] This project component was carried out in cooperation with two French partners (CRCI Rhône-Alpes and University of Savoie). A short description of the main conclusions of this analysis can be found below in section 7 on Mentoring.

[84] The average satisfaction rate was 1.97 with 1 being 'very useful', 2 'useful' and 3 'satisfactory'. The areas of advice that scored best were 'accounting & finance' (1.87) and 'human resources' (1.89), whereas 'legal & fiscal aspects' and 'IT systems' received average rates of 2.07 and 2.12, respectively.

[85] Business Dynamics: Start-ups, Business Transfers and Bankruptcy, European Commission, January 2011

[86] It should be noted that the report did not distinguish between the different levels of implementation in the same way the previous report had done.

[87] Since the survey for the current Study was completed, the creation of a new Family Business Institute in Croatia has been announced which will provide advice and training on transfer for family businesses. The announcement

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4. The Current Situation on Support for Business Transfer

The survey conducted as part of the current Evaluation asked respondents to rate the availability of initiatives specifically targeted at preparing business owners and prospective buyers for transfer. The survey also looked at awareness-raising, but this case study will mainly examine initiatives to provide more tailored business support and training and mentoring schemes. A total of 24 countries responded with two responses from Belgium (Flanders and Wallonia).

As the table below shows, a large proportion of the countries responding reported that the **availability of business support** specifically relating to transfer, and aimed at owners, was either **very low or moderate** (16 countries/66.6%). The situation with regard to potential buyers was not very different (15 countries/62.5%). Only 3 respondents considered the provision to be very high (BE, DK, LI) with 3 countries saying that it was high (FR, DE, LU).

Table 1: Availability of business support initiatives preparing owners and buyers for transfer

b. Business support measures	**Aimed at owners**		**Aimed at prospective buyers**	
	Nº	**%**	**Nº**	**%**
Very low	8	33.3	9	37.5
Moderate	8	33.3	6	25.0
High	3	12.5	4	16.6
Very high	3	12.5	2	8.3
Not available	2	8.3	3	12.5
Total	**24**	**100.0**	**24**	**100.0**

Some examples of initiatives were given in this context. In Denmark, for instance, a special business transfer awareness and support campaign targeting buyers, sellers and business advisors was launched in the autumn of 2012, anchored in a public-private cooperation of more than 35 stakeholders with the intention of creating a lasting effect after funding has ended. As an element of the campaign, 600 enterprises are being offered a guidance session free of charge to provide them with the necessary skills for the transfer process and where relevant referral to private service providers[88].

In Portugal, IAPMEI (Instituto de Apoio às Pequenas e Médias Empresas e à Inovação) runs a programme FINTRANS which provides technical advice and support for pre-assessment of the company, and technical support to prepare a business presentation for potential buyers with disclosure of selected information to potential investors. In addition the programme offers participating enterprises the opportunity to facilitate access to appropriate financing solutions through partnerships with

came in connection with the adoption of the first ever SME Strategy (2013-2020) and a new law for Craft businesses in October 2013.

[88] http://erhvervsstyrelsen.dk/pressesoeg/547119/5 / http://startvaekst.dk/ejerskifte/0/4

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financial institutions. There are plans to create a nation-wide transfer platform in 2013. Private support initiatives are typically conducted by international business advisors, who are frequently in demand, but often do not have sufficient technical staff to do this sort of work.

In Belgium, the three regions (Agentschap Ondernemen in Flanders, Brutrade in Brussels and Sowaccess in Wallonia) have developed well-organised systems of awareness and preparation programmes for sellers and buyers and facilities for matching. The Flemish government also offers subsidies for businesses to obtain advice on how to put together a transfer plan and Sowaccess offers access to diagnostic tools for both sellers and buyers, plus training and information sessions and pre- and post-takeover clubs where buyers can exchange experience and tips. As a subsidiary of a corporate finance group, their services are also tied in with access to finance.

In Spain, the Ministry of Industry, Tourism and Commerce (MINETUR) has set up a specific plan for business transfer - 'Plan de Continuidad empresarial' [89] as part of a major €84 million. Plan to provide support to entrepreneurs.

There are a number of transfer platforms that have been set up to support business owners and buyers, among others the WKO portal in Austria [90] and in Italy, where different regions have set up the so-called KBS platform[91] which provides support to business owners through trained experts within business associations. The Kit.Brunello.System (KBS) is a toolset repeatedly recognised as a good practice by the Commission, Following the recommendations of the Commission BEST Report, it includes 15 good practice tools in several languages for organising awareness-raising and surveys, such as a handbook for micro businesses and tools for self- and group analysis. What is particularly interesting is that these tools are available free of charge and thus challenges the notion that transfer advice has to be expensive. Furthermore, there are currently plans within Confindustria to organise a tour in 5 regions to run an awareness and training campaign for business owners and managers and family business members and the Iurcovich Institute in Rome contributed with significant research, consulting and training courses in the field of transfer.[92] However, there are very few private business consultants focused on transfer in Italy, and the ones that do exist have not adopted the systematic approach that is used elsewhere.

In Finland, there are measures in some regions to provide advice along with access to finance for buyers through Finnvera's Regional Business Transfer Advisory Service.

However, in several countries there appears to be very little support, and the initiatives that are available are mainly privately organised. This is the case in Lithuania, for example, where it is only private M&A advisors and corporate banking departments of national banks that offer some minor initiatives for their clients. In Norway, it is also banks that offer transfer advice, such as tax planning, to owners.

[89] www.plancontinidadempresarial.es/Documentos/Guia_Transmisiones_VG_web.pdf

[90] Platform set up by business transfer consultants for buyers and sellers http://portal.wko.at/wk/format_detail.wk?angid=1&stid=596872&dstid=7271&opennavid=0

[91] http://kbs.studiocentroveneto.com/scvtool/?lang=en&id=15

[92] http://www.iurcovich.it/

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Survey respondents also provided information about **training and mentoring initiatives**. Here again, many countries have limited availability of such measures, especially those targeting prospective buyers. A third of the 24 respondents state that there is 'very low' provision of schemes aimed at owners, and even less availability for prospective buyers (45.8%). Where the picture is somewhat better than for business support is with regard to mentoring schemes aimed at buyers, where 37.5% say that the availability is either 'high' or 'very high'. The countries suggesting that there are a lot of measures at the disposal of businesses are Belgium , Denmark and Liechtenstein ('very high') and France, Germany and the Netherlands ('high) with Austria and Wallonia also having 'high' availability for potential buyers. In the case of the Netherlands, this is largely based on private sector provision.

Table 2: Availability of training/mentoring on business transfer for owners and buyers

c. Training/mentoring schemes	Aimed at owners		Aimed at prospective buyers	
	Nº	%	Nº	%
Very low	8	33.3	11	45.8
Moderate	5	20.9	1	4.2
High	4	16.6	6	25.0
Very high	3	12.5	3	12.5
Not available/No answer	4	16.6	3	12.5
Total	**24**	**100.0**	**24**	**100.0**

In spite of the fact that the frequency of transfer within families has decreased in recent years, several countries provide **transfer support especially for family businesses**. As the figure below shows, this is particularly the case with regard to awareness-raising initiatives, but mentoring and training are also provided by 8 of the 24 responding countries. This is provided in AT, BE , DK, FI, IT, NL, LI and LU; other support measures for family businesses exist in BE, DK, FR, HU and LI. Several countries have plans to introduce this type of support (LT, PT, SK, AL, HR) with HU, IE, LT, PT, AL, HR also planning to provide mentoring/training for family businesses.

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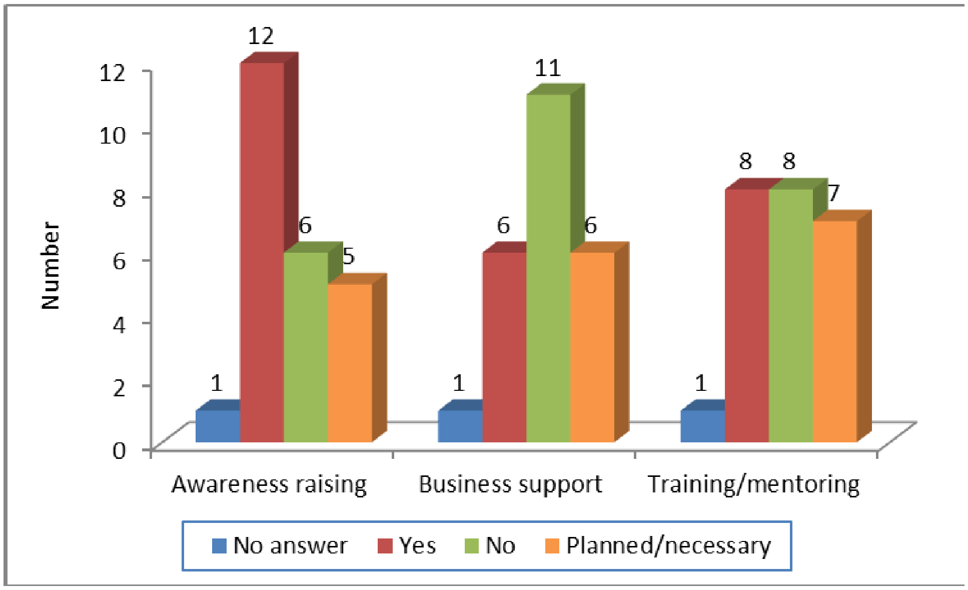
Figure 1: Availability of specific initiatives for family business transfers



Other business transfer initiatives on offer in some countries include **measures specifically targeted at business advisers, such as accountants, lawyers, bankers and other intermediaries** with a view to improving their understanding of the issues surrounding business transfer and the quality of their services. Less than half of the countries responding (10 in total) offer this type of support. No examples of this type of initiative were provided by the survey respondents.

Table 3: Availability of specific initiatives for business advisers involved in transfer

Options	№	%
Yes	10	41.7
No	9	37.5
Measure planned/ necessary in future	5	20.8
No answer	0	0.0
Total	**24**	**100.0**

Although the existence of services to support small business throughout the transfer process is of paramount importance, the uptake of such initiatives and their quality and effectiveness is obviously a precondition for their success. The survey also investigated this aspect, as table 4 below shows.

When it comes to the **effectiveness of the support** on offer in terms of bringing about successful business transfers, the verdict is somewhat mixed. Nearly half the respondents (48%) estimate that the initiatives available in their country are either 'quite effective' or 'very effective', with just over a third

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(36%) who consider training/mentoring initiatives to be effective. However, there are quite a lot of cases where respondents either did not answer or suggested that the type of measure was not available. The countries where transfer initiatives are judged to be most effective are FR, HU, PT, LI, SR and HR for business support, and BE (Wallonia), NL, SR and TR for training/ mentoring.

Table 4: Effectiveness of different types of initiative in achieving successful business transfers

	Business support		Training/mentoring	
Options	**Nº**	**%**	**Nº**	**%**
Data not available/no answer	6	25.0	9	37.5
Not effective	0	0.0	0	0.0
Moderately effective	6	25.0	6	25.0
Quite effective	6	25.0	5	20.8
Very effective	6	25.0	4	16.6
Total	**24**	**100.0**	**24**	**100.0**

The above analysis shows that most countries provide some degree of business support and mentoring and/or training specifically aimed at transfer, although these measures are not always judged to lead to successful transfers. The following section will look at some of the reasons why SMEs continue to face problems in connection with the process of transfer in spite of the various initiatives that exist.

5. The Problems relating to Business Support Services

In the past ten years, a number of studies have highlighted the need for SME owners to have access to professional support during the transfer of their business, given the complexity of the process. Not only does a successful transfer require an understanding of a vast array of organisational, financial, fiscal and legal issues, it is also likely to put those involved under significant emotional pressure. Potential buyers are just as likely to need quality support, but may be less prone to suffer emotionally in the process. Business transfer has sometimes been compared to selling a house, with the big difference that there is typically plenty of support out there for house sellers and buyers, in spite of the economic transaction being significantly simpler than that of a business transfer.

There is some **differentiation of perceived need among different types of business owner**. A Finnish study whose results were made available to the evaluation found that the need for external expertise was more often expressed by women and entrepreneurs with no vocational education. In terms of the size of the business, the greatest need for external expertise was perceived in firms with 5–10 employees, whereas one person firms had the least need. Furthermore, the need for assistance was greater in family businesses than in non-family ones, and in manufacturing firms. There also appears to be a link between the continuing viability of a firm and its need for expertise. It was entrepreneurs looking for an external buyer who had the greatest need for external expertise, but this did not mean that those planning a generational transfer within the family were not in need of assistance.

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In its Final Report, the Expert Group involved in the **2002 MAP project** on the transfer of SMEs[93] stressed the need for appropriate professional support to steer buyers and sellers through the process, but suggested that, although many support services do exist, they are often fragmented and tend to concentrate on one specific aspect of the transfer process. In addition, advisers are rarely equipped to deal with the whole spectrum of advice needed. The report concluded that a holistic approach to transfer advice was needed. Moreover, existing support measures should be made more visible and be better co-ordinated. Raising awareness should be the starting point for successful transfers and practical support should only follow afterwards. The report also suggested creating a virtual pan-European business transfer platform with a network of national transfer centres, based in bodies such as Chambers of Commerce or other existing support networks for SMEs; an idea that was never actively pursued, at least not at a European level.

The **Small Business Service** (DTI) in the UK reached some of the same conclusions in its 2004 report '*Passing the baton – encouraging successful business transfers*'.[94] According to the authors the business support systems in the UK and the rest of Europe – whether public and private – are not as equipped as necessary to deal with the increasing volume and complexities of the business transfer market and It was proposed to set up an accredited training programme for advisors to equip them with the skills and knowledge to adequately manage business transfers, and for private and public sector support to be better coordinated. It is not clear whether these recommendations have been taken any further, as there is no UK representative on the expert panel and support services in the UK have been radically re-organised in recent years.

Several other studies have examined the failure of markets to provide adequate advisory services on transfer. One Dutch study by the **ING bank**[95] found that professional SME advisers have a tendency to specifically target medium-sized firms over small ones and that their services are too expensive for small businesses. **Dr. van Teeffelen at the Utrecht Hogeschool** has also authored several research studies on this issue. His 2009 study on the role of advisers and their way of working on business transfer[96] showed yet again that many advisors are ill equipped to provide advice over the entire process, a point which is further exacerbated by a lack of cooperation between different types of advisers. The study concentrated on the involvement in the different phases of transfer of four different types of business advisers: accountants, business brokers, banks and business consultants, typically based within Chambers of Commerce. The study did not include lawyers. Accountants are often seen as the preferred advisers of small business owners, a notion which was further supported by the data of this study. But in terms of transfer advice, accountants are mainly involved in the preparative phases and do not have the full picture necessary to guide businesses through the process. The study actually revealed that a quarter of accountants choose to withdraw from subsequent stages of the transfer process, as they are afraid of potential liability if advice provided is incorrect. In the phases following general

[93] *Transfer of businesses – continuity through a new beginning*. Final report of the Expert Group on the transfer of SMEs - MAP 2002 project. August 2003

[94] *Passing the baton – encouraging successful business transfer, Evidence and key stakeholder opinion*, Small Business Service (DTI), I. Stone, P. & G. Braidford (2004)

[95] *How entrepreneurs rate advisers*, D. De Waard, ING Economic Department, 2002

[96] *Adviseurs aan het word: werk- en zienswijze bij bedriftsoverdracht*, L. Van Teeffelen, Kamer van Koophandel Nederland, 2009

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awareness-raising and preparation, it appears to be business brokers that are the most active, being involved in both the matching, negotiation and contracting stages, whereas banks are the favourite advisers for the contract phase. Consultants from Chambers of Commerce appear mainly to have a role in the initial stages of the process and are the ones that are most active in providing businesses with an initial orientation and in raising awareness of the issues at stake. It should be noted, though, that in some countries they are only allowed to provide advice on orientation and planning.

Dr. van Teeffelen and other researchers also question the added value of financial advisers. As van Teeffelen states in his 2012 report *'Avenues to improve success in SME business transfers':* [97]

> 'Financial advisors have a detrimental effect on post-transfer performance, increase the duration of the transfer process and have no effect on the price obtained'. He goes on to say that 'accountants, bankers, business brokers and lawyers have little success in overcoming acquisition obstacles related to financing and unexpected financial shortfalls, as well as cultural and staff problems after acquisition.'

The fact that business owners wanting to sell up have to rely on several different advisers with diverging 'agendas' and opinions of what is important, is also likely to confuse them and create problems. It would appear, according to van Teeffelen, that a lot of advisers act out of commercial self-interest and propose to their clients what is most advantageous to themselves.

Other experts consulted have commented that there are significant differences in the role of accountants across Europe and their capacity to provide advice and that problems often arise if they are called on to provide advice on transfers only infrequently. In these cases especially, a lack of familiarity with the issues can lead to inappropriate advice being offered[98].

From this evidence and from comments of the members of the Expert Group and others, it appears that what is most needed in order to improve the market for business advice on transfers, is specialised transfer experts with an understanding of the whole picture from start to finish. In particular, this should include an understanding of issues that are highly relevant to ensuring a successful transfer. These include:

- an appreciation of the psychological and emotional issues arising with transfers and knowledge of how to address them
- valuation experience and expertise
- knowledge of legislation relating to changes in ownership
- knowledge of taxation issues relating to changes in ownership
- expertise in strategic management and marketing
- expertise in the integration of businesses.

[97] '*Avenues to improve success in SME business transfers: reflections on theories, research and policies'*, L. van Teeffelen, Hogeschool Utrecht, 2012

[98] Institute of Chartered Accountants in England and Wales (ICAEW) http://www.icaew.com/

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The quality of these services needs to be assured by certain quality standards or a specific Code of Conduct. Looking at the evidence from Dr. van Teeffelen in more detail, it would seem that there is scope for business brokers to be able to follow their clients throughout the full process – but as has been shown earlier, there are issues with regard to the overall quality of their services, and reservations, given their tendency to deliberately target medium-sized businesses with larger budgets. In this context, it has been mentioned that transactions under £250,000 are often disregarded, since part of the brokers' earnings are determined by a percentage of the selling price. On this basis, it would seem that in order to change the current picture a process of business adviser professionalisation is called for and especially within the group of business brokers who already have the potential to cover the whole transfer process.

6. The Role of emotional and psychological Issues

Many entrepreneurs are reluctant to let go and therefore fail to prepare for the transfer of their business, especially those who have created and built up their own firms over a number of years. Given that a transfer often involves the entrepreneur's family and close business partners, psychological and relational matters are likely to affect the process. If someone has spent their life building up a firm, they are more inclined to want to see their children take over and if they do not wish to do so or perhaps lack the necessary ability, this might act as a 'block' and stop the owner from selling up. This type of entrepreneur is also likely to attach a purely emotional value to their business and would probably want to be compensated accordingly, when selling up. However, it is questionable whether potential buyers are willing to pay for what is not of direct value to them. In order for a transfer to be successful, it is essential that the seller and buyer trust each other which is often helped by there being some kind of emotional or psychological bond between them. This is particularly important for smaller businesses; in larger companies the owner trying to sell would typically be assisted by specialists and would not get directly involved.

Emotional and psychological considerations (so-called 'soft' factors) are increasingly acknowledged these days as having an important effect on the process of transfer, yet consultants typically have very little or no experience in this field. It is important that a more holistic approach is adopted and that all aspects are taken into account in the support that is provided, and preferably early on. Reluctance to sell up will often mean that the transfer of know-how and skills takes place very late, if at all, with potentially serious effects on the continuity of the business.

7. Issues relating to Mentoring

As already mentioned the 2006 Communication urged Member States to promote mentoring schemes to deal with these soft factors and introduced the idea of launching the pan-European mentoring pilot project which was subsequently run by Eurochambres (see above).

When this pilot project '*A Helping Hand for SMEs - Mentoring Business Transfer'* finished in August 2009 after 33 months of implementation, it was recommended that a mentoring service should be continued at national and regional level. Most of the Chamber partners felt that they had learnt a lot and wanted to build on this experience in future. As the survey results show, several countries have continued to organise mentoring programmes or other types of training for business owners and potential buyers.

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Although the project was considered to be quite successful overall, it did run into a number of problems on the way and had trouble achieving the goal of providing 1,000 people with 10 man-days of mentoring each, in spite of a 9 month extension of the project. It turned out to be difficult to recruit the targeted number of potential mentees, particularly in Central and Eastern Europe where business transfer was not yet that much of an issue. This was partially due to a lack of data on transfers and insufficiently detailed business registers which made it hard to identify eligible entrepreneurs. Furthermore, as newly established small entrepreneurs, many mentees had difficulty attending the full duration of the mentoring process (10 days) due to workload and other commitments and consequently had to cancel regularly. It was also noticeable that consultancy and mentoring were not perceived as an urgent need by some entrepreneurs, while others were suspicious of outside interference. The participating Chambers also had difficulty supplying staff with the necessary expertise to act as mentors and therefore had to resort to recruiting private consultants[99].

The evaluation of the exercise also concluded that buyers mainly faced difficulties relating to accountancy and finances, access to financing, strategic and human resource management and legal and fiscal issues, with women and young buyers typically facing more difficulties. Older buyers were most interested in cross-cutting areas like strategic management, whereas younger ones wanted mentoring on accounting and financing and legal/fiscal affairs. Areas where mentoring appeared to have less value was exports, property rights and e-commerce. In terms of the length of the mentoring process, 10 days was thought to be an adequate amount of time. Participants were generally interested in further mentoring and half of them were prepared to pay for it.

One of the significant recommendations at the end of the project was the importance - for transfer support to be successful - of bringing together the whole spectrum of experts involved in the process (public authorities, Chambers of Commerce, banks, accountants, lawyers etc.) and getting them to coordinate their action efficiently. It was suggested that public-private partnerships (PPP) would be a good way of establishing this cooperation. It was also recommended that mentoring programmes should be made very flexible to fit into the needs and availability of the small business owner.

8. Possible solutions

The above analysis points to a number of problems in the provision of support to entrepreneurs involved in a business transfer, whether as sellers or buyers. Over time, a number of possible solutions have been proposed in order to make the business transfer market more successful, such as increased awareness-raising, creating advice services following the ‘one-stop shop’ model[100], setting up training and mentoring programmes[101] or improving the co-operation and co-ordination between advisers.[102]

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[99] Whereas the daily rate offered to participating Chambers of Commerce was fixed at €260, daily rates of private consultants ranged from €650 in Belgium, €800-1,000 in France and €1,200 in Germany, for instance.

[100] *Transfer of businesses – continuity through a new beginning*. Final report of the Expert Group on the transfer of SMEs - MAP 2002 project. August 2003

[101] Commission Communication ‘*Transfer of Businesses - Continuity through a new beginning*’ (COM 2006/117); Eurochambres: Final Report ‘*A Helping Hand for SMEs – Mentoring Business Transfer*’ August 2009; *Passing the baton – encouraging successful business transfer, Evidence and key stakeholder opinion*, Small Business Service UK, 2004.

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Little has been done to address the costs of advisory services. So far, there are few national programmes that have been successful in tackling the business transfer market as a whole. Initiatives have often been instigated for one particular transfer phase, at local or regional level or they have been short-term projects.

It is interesting to note that there is a marked difference of opinion between entrepreneurs themselves and business advisers as to which solutions are the most effective. In the 2009 study by Dr. van Teeffelen mentioned above, he examined these differences and came to the conclusion that entrepreneurs by far favoured access to professional advice as being the best way to overcome barriers relating to transfer (67%), whereas all categories of business advisers (excluding banks) thought that information and awareness-raising were the most effective solutions (accountants: 54%, brokers: 60% and business consultants: 92%). Few people rated 'businesses doing their homework' as being of relevance.

The cost of appropriate advisory services is a significant issue. Many small businesses are put off by the cost and feel that they are not in a position to afford the services that exist. Subsidies to cover part of the cost involved could be a possibility, but in the current economic climate many national and regional administrations would not be in a position to follow this route. Examples of this type of strategy can be found in Denmark where the government is currently offering guidance sessions free of charge to 600 firms as part of a major business transfer campaign (see above) and in Germany (Baden-Württemberg), where a 50% subsidy has been provided to sellers and buyers to cover the cost of advisory services. Inspiration can also be found in the Italian system where the KBS system offers transfer toolkits free of charge.

There exist a number of self-help manuals and there is often guidance provided on web sites that is appropriate for the simpler cases. Among these, there are some well-established examples, such as the practical guide entitled 'Transmettre ou reprendre une entreprise', published by CRA in France and the Kit.Brunello.System referred to above that has been cited as good practice by the Commission on several occasions.

It might be more worthwhile to address the fact that most advisory services are provided on a one-to-one basis which explains their costly nature. If **access to advisers** was **provided on a group basis**, costs could be reduced significantly, without necessarily affecting the revenue of advisers. Group-based programmes also allow those participating to exchange experiences and learn from each other. In the past, experience in Flanders with group-based awareness and advice sessions under the PLATO programme has been very successful, and the same has been the case in the Netherlands where a series of low-cost sessions for groups of entrepreneurs involving presentations by several transfer experts and subsequent group discussion have been very popular[103]. There may, however, be problems in addressing the specific characteristics of each case with such an approach and these can make quite a difference to the outcome.

[102] '*Passing the baton…'* study (see above); *Adviseurs aan het word: werk- en zienswijze bij bedriftsoverdracht*, L. Van Teeffelen, 2009

[103] *Avenues to improve success in SME business transfers: reflections on theories, research and policies'*, L. van Teeffelen, Hogeschool Utrecht, 2012

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It should be recognised that there is a considerable variation in the type of support that is needed. The discussion in this case study has tended to concentrate on the more complex and difficult cases, that are most significant economically and where objectively there is a real problem. There are, however, a very large number of small businesses, where a transfer is still a rather special event, but where the process is a lot more straightforward than for larger enterprises. These are cases where general business support agencies should be able to provide information and highlight the potential pitfalls, though there is clearly scope for improving awareness of transfer issues among the staff of such agencies and also for improving access to specialist assistance, where this is needed.

In many other cases, dedicated professional support is highly advisable. For these cases, an attempt is necessary to change the mind-set of business owners and potential buyers. As mentioned earlier, transfer is sometimes compared to selling a house, a transaction where people expect to have to pay a certain percentage of the sales price in order to receive the necessary professional support. It would not be unreasonable to develop a similar system for selling a business. A first step would be to **raise awareness that there is a certain cost involved in getting advice on transfer,** but in relation to the potential losses associated with a failed or unsatisfactory transfer, such costs are worth incurring.

An essential counter-part to developing a greater awareness of the need to pay for advice is **improving the professionalism and transparency** of the advisory services on offer. Currently, it is extremely difficult for entrepreneurs to gain an overview of the support services that are available to them and to judge their quality. These are often not described in any detail on the websites of the providers, and mostly there is no mention of the fees involved. Generally, advisers are not required to conform to any particular **professional standards or codes of conduct**. This applies especially to business brokers who, in many countries, appear to be able to set up in business without any prior requirements in terms of their knowledge and experience. Other groups of advisers who are bound by professional standards, such as accountants, might not necessarily be equipped to provide support in this field, since it is rare that they learn about business transfer as part of their education and training. Moreover, as already seen, advisory 'products' tend to only cover part of the transfer process, as a result of which businesses would have to rely on 2 to 3 different advisers, who might have diverging opinions on what is important.

The market for business transfer would gain significantly from having clear European guidelines governing the provision of advisory services in the field, since this would enhance the credibility and added value of transfer advisers and offer protection to their clients. The work undertaken by Transeo and its member organisations is an important contribution in the right direction and there is considerable scope for encouraging further developments building on good practice among existing providers, but there may also need to be regulatory provisions, or at least clarifications, The EU has regulated the European market in financial services and instruments through various Directives, most recently **the 2004 MiFID Directive** implemented in 2006.[104] This legislation has provided the

[104] Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ 2004 No. L145/1. This Directive was implemented in 2006 by Commission Directive 2006/73/EC of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, OJ 2006 No. L241/26 - so-called 'Level 2 Implementing Directive'.

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harmonisation needed to offer investors a high level of protection and to allow investment firms to provide services throughout the Single Market, on the basis of home country supervision.

It is generally understood that this legislation applies to personal investment advice. The question is whether similar legislation is needed for advisory services offered in connection with the corporate investment decisions inherent in a business transfer, or whether some transfer advice is already covered by the MiFID Directive.

In France, there is already regulation of consultants advising on business transfer in the same way that the services of financial advisers are regulated, and a Code of Conduct has been set up to govern their activities. The Code is managed by the CCIFTE (Compagnie des Conseillers en Investissement, Finance et Transmission d'Entreprise), the main association in France for financial business advisers,[105] which is approved by the body regulating financial markets: AMF (l'Autorité des marchés financiers). The Code provides a specific definition of what is meant by 'investment advice'[106] and what is required by those who provide this type of service. The Code's field of application with regard to advice on business transfer is also clearly set out, specifying the conditions that apply to the activity carried out by this type of adviser. The different categories of advisers are specified as banks, estate agents, independent financial advisers, accountants, lawyers, notaries, transfer associations (such as CRA – Club des Cédants et Repreneurs d'Affaires), Chambers of Commerce and Bpifrance (the French investment bank).

This approach is inspired by the MiFID Directive and raises the question of whether professional corporate finance advisers elsewhere ought to be covered by the same provisions. There is an issue of interpretation of the scope of the Directive here, but in any event, the conclusions of the research showing the inadequacies of a lot of the existing provision require a response.

The development of professional services specifically advising on business transfer in a number of countries shows that dedicated professional support is possible. This is further re-enforced by the reported growing interest in this area by the larger consultancy firms. But these developments need further encouragement and action by the authorities to establish the appropriate standards and operational framework.

9. Conclusions and Recommendations

In the past ten years, because of the complexity of the process in many cases, a number of studies have highlighted the need for SME owners to have access to professional support during the transfer of their business. Not only does a successful transfer require an understanding of an array of organisational, financial, fiscal and legal issues, it is also likely to put those involved under significant emotional pressure. Potential buyers can also need quality support.

A large proportion of the countries responding to the survey reported that the availability of business support specifically relating to transfer was either very low or moderate. In several countries there appears to be very little support, there are few national programmes that have been successful in tackling the business transfer market as a whole, initiatives have often been instigated for one particular

[105] CCIFTE became ACIFTE as of 1st of July 2013 after a merger with the AACIF

[106] Definition of investment advice: to provide personalised recommendations to a third person, either at their explicit request or at the initiative of the firm providing the advice, with regard to one or several transactions

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transfer phase, at local or regional level or they have been short-term projects. In some countries, the initiatives that are available are mainly organised privately.

In terms of the effectiveness of the support on offer, the verdict is somewhat mixed. Nearly half the respondents consider that the initiatives that are available in their country are either 'quite effective' or 'very effective' and just over a third regard training/mentoring initiatives as effective.

However, there is a wider picture involving the way that a broad range of business advisers contribute at various points in the transfer process. Research cited on the role of advisers and their way of working on business transfers showed that many advisors are ill equipped to provide advice over the entire process or to provide support on emotional and psychological aspects of a transfer (so-called 'soft' factors) that have been acknowledged to have an important effect on the success of the process. Financial advisors can increase the duration of the transfer process and there is evidence that they can have a detrimental effect on post-transfer performance.

The **recommendations** arising from this analysis are:

1) Effective professional advice is needed by those involved in many business transfers. This should be a policy priority.
2) This professional advice should be based on expertise that is specific to business transfers, including in the following areas:
   - appreciation of the psychological and emotional issues arising with transfers and knowledge of how to address them
   - valuation
   - legislation relating to changes in ownership
   - taxation issues relating to changes in ownership
   - expertise in strategic management
   - expertise in the integration of businesses
3) It also needs to be clear where appropriate advice can be accessed.
4) Given the importance of preparing for transfer during the development of a business, this advice may need to be available over a considerable period.
5) The information and advice needed by smaller enterprises can often be provided by the normal business support agencies, but there needs to be explicit provision and this should be done consistently.
6) For transfers that are more complex, professional advisers specialising in business transfer are necessary. The development of these dedicated professional advisers should be encouraged and a framework for delivering quality services in this area developed by the authorities, including definition of professional standards and/or the development of codes of conduct and possibly involving obligatory registration.
7) It is necessary to ensure that specialised advisers can cover all issues that arise in a transfer context, including the emotional aspects that can have a major influence on the outcome.
8) Clarification is necessary of the regulatory basis on which financial advice can be provided.

Case Study: Issues in Cross-border Business Transfer

A5

Cross-border Transfers

1. Introduction

Although still only a relatively small proportion of the total number of business transfers, there has been an increase in transactions which have cross-border elements and the issue has been highlighted by members of the Expert Group. This case will attempt to gauge the extent of business transfers of this kind, but will also aim to establish the nature of any problems that are particular to the cross-border aspect and make proposals on any action needed.

2. The Reasons for this Case Study

In addition to examining the policy measures that formed part of the original Commission Recommendation, the opportunity has been taken to identify other developments in the field, including an apparent increase in cross-border activity and the issues particular to this side of transfers, such as issues to do with the cross-border aspects of inheritance tax.

3. The Cross-Border Dimension of Business Transfers

The purchase of an enterprise will usually involve a due diligence exercise, including checking the performance and prospects of the business, the status of its assets and property and its liabilities and debts, plus the nature of its relationships with customers, employees and other business partners. If the acquisition of the business follows the death or retirement of the former owner, there may be other considerations to take into account, including that the legal processes have been properly completed and that any claims on the business have been settled. When a cross-border acquisition takes place, the processes become even more complicated and it may be necessary to check on unfamiliar legal, taxation, employment and general business conditions. It will usually be necessary to make use of professional advisers to obtain the necessary information, assess the situation, plan the acquisition process and assist with contractual and financial matters.

Nonetheless, cross-border acquisitions can be appealing for a number of reasons. There may be personal motivations, such as the prospect of a fresh start in a new location or the acquisition of a new business may form part of (partial) retirement plans. For business purposes, there may be a number of reasons for acquiring a business in another country. There may be the opportunity to buy into another market or to extend control over more of the supply chain or to acquire a competitor and consolidate a market across different countries. Additionally, a base in another country provides a wider scope for searching for and co-operating with business partners. More generally, the process might be regarded as applying the logic of the Single Market in the context of business transfers.

The attraction of transfers across borders appears to be growing. Clearly, such a transfer may make sense in areas close to borders or in smaller countries with a limited local market, but feedback from interviews suggest that there are other considerations, such as the life-style motivations referred to in the previous paragraph. Transeo has provided the information that, in an enquiry about a growing trend towards international transfers, 73% of its members questioned, agreed that there is a definite shift in this direction.

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However, according to Sowaccess[107], although the interest in cross-border business transfer is increasing, the situation is still rather imbalanced and there are number of barriers to successful business transfer to another country.

Apart from other matters, there is the basic consideration that businesses with less than five employees are usually transferred to owners that need to work in the business every day. This restricts the potential for a new owner to operate from a distant location.

Evidence on cross-border business transfers

Small and medium-sized enterprises (SMEs) account for around 90% of firms in the European Union but only 8% of them engage in cross-border trade and only 5% have subsidiaries or joint ventures abroad. While it has become easier in recent years to set up businesses across the EU, more needs to be done to improve the access of SMEs to the Single Market, facilitate their growth and unlock their business potential.

There was an upward trend of intra-EU cross-border Mergers and Acquisitions (M&A) in value and number from the beginning of the 1990s until 2005, with a reversal of this trend staring in 2005. During the 1990-2005 period, the share of intra-EU cross-border M&A in the total number of acquisitions in the EU also increased, suggesting that M&A were increasingly used as a channel for cross-border market access across the EU.[108]

After a five-year period of continuous growth of merger and acquisition activity, reaching a peak in 2005, there has been a downward trend since the onset of the economic crisis. In 2008 the collapse of M&As that had EU companies as a target was more pronounced than the one recorded worldwide (30.9%) and by the group of developed countries (34.8%). This situation was mainly caused by significant decrease in the possibilities for companies to invest in cross-border M&A due to limited access to finance.[109]

The data from 2010-2012 for cross-border M&A show a gradual recovery, which could indicate that the number of M&A will start rising again. This could mean more interest by companies in cross-border business transfers, including those involving SMEs.

The survey responses indicated that it is rather difficult to estimate the percentage of cross-border transfers out of all business transfers in the EU. Respondents were not able to point to statistical data in this field. However some of the interviewees suggested that the cross-border transfers constitute around 1-2% of the total number, with very few cross-border deals valued at less than 5M€.

Table 1: Country specificities regarding cross-border deals[110]

- Finland: as is the situation with the general foreign investment trends, cross-border deals represent only one sixth of the total number (an abnormally low percentage, when considering the size of the Finnish economy). The ratio falls to one-in-fifteen when it comes to non-Scandinavian acquirers.

[107] http://www.sowaccess.be/en/home.html?IDC=533

[108] Mergers and acquisitions. Note N° 4. 2007 (pdf) – DG ECFIN

[109] European cross-border mergers and acquisitions- realities and perspectives; Vancea Mariana; University of Oradea Faculty of Economics

[110] Source: Transeo

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However, Finland benefits from an intense local M&A market where the supply meets a quite large domestic demand.

- Switzerland: Cross-border deals in Switzerland make up one third of the total. In particular, German and American investors have acquired small Swiss companies. Doing business in Switzerland is dominated by the discretion culture. The importance of data protection and privacy can lead to substantial information asymmetries between buyers and sellers, which are a damaging obstacle to cross-border deal making.

3.1 Barriers to cross-border business transfers

Different business culture

According to Transeo, one of the main obstacles for cross-border transactions is the difference of business culture across countries. It is well established that emotional and motivational issues are of major importance in business transfers in general. Negotiating these issues can be even more difficult in trans-border situations.

The transfer market is presently dominated by local acquirers but there are signs that there are an increasing proportion of cross-border deals, especially in smaller countries (e.g. Belgium - Luxembourg).[111] Country specificities have however been observed and some of them represent a particular obstacle to cross-border transactions. A small market-size, a local language that is not widely spoken elsewhere, atypical regulations or geographical remoteness from the demographic core of Europe generally makes a market less attractive to foreign investors.

In addition sometimes, sellers do not appreciate the importance of providing access to financial and corporate information. One interviewee remarked that these obstacles are mostly due to cultural considerations, since informal information is often available locally and sellers simply do not see the difficulties that external purchasers might face. Technical aspects can always be solved by consulting a local expert, but it is a lot more difficult for somebody from outside to access informal sources of information. One of the interviewees suggested that is some countries e.g. Eastern European Member States, the cultural differences regarding bookkeeping, transparency over financial and human resources is rooted in the historical context of that region. This practical difficulty has been confirmed by interviewees in the study.

It has been suggested that smaller owners of family firms are sometimes reluctant, to report full income and make use of transparent accounting practices. At the moment of sale, they can have an unpleasant surprise when such practices negatively affect company valuation.

The cultural differences in business transfers exacerbate problems with the general availability of financial data and the transparency of business processes in SMEs.

Availability of financial data

The success of a local M&A market – i.e. the intensity, efficiency and fluidity of the deal-making process - depends on its capacity to attract foreign investors, and the latter needs to feel comfortable when it comes to financial information.

[111] Sowaccess PowerPoint Presentation, Expert Group Meeting 27 June 2013

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The case study on finance for business transfers suggests that access to information can be a significant issue, especially in the acquisition of smaller SMEs. In a trans-border context, the difficulties are magnified.

Efforts have been made by international bodies to promote greater transparency through the harmonisation of accounting standards and practices and more extensive disclosure of financial data, but for non-listed companies, the situation largely remains uneven across the world. In the EU, the Fourth Accounting Directive[112] governs both disclosure requirements and accounting templates for companies, although there are exemptions for smaller companies and the legislation does not cover sole proprietorships. However beyond this framework, local practices and amendments have been so prolific that the Member States still present an eclectic picture today. Transeo has argued that the situation can be represented as follows:

Table 2: Current Accounting Frameworks[113]

- ✓ The Germanic group (Germany, Luxembourg and Austria): accounting is regulated by commercial law, but non-listed companies do not usually publish financial information as required by the law, since the fines applied are not material. A credit institution – Credit reform – collects some basic and unverified information from the companies themselves, on a voluntary basis.
- ✓ The Anglo-Saxon group (United-Kingdom, Ireland and Netherlands): Basic financial information (often a shortened balance sheet but rarely items from the income statement) is made public for most companies. The accounting format is not standardized.
- ✓ The Continental group (France, Belgium, Spain, Italy, Denmark, Norway, Finland, and Sweden): All non-quoted companies (even the smaller ones in some countries) are required to publish a full set of financial information, presented in a standardized accounting format. Usually 70% to 90% of the firms conform to the rules.
- ✓ The "US-inspired group" (Canada, Latvia and Switzerland): just as in the USA, non-listed companies are not required at all to publish financial data.

There is also a different business culture that lies behind the formal differences in local accounting frameworks, Anglo-Saxon systems usually emphasise substance over form. Companies are required to provide a fair view of their financial situation. In Continental Europe, most of the countries have adopted a fixed accounting system, compulsory for all companies, irrespective of industry or size specificities. This difference could lead to misunderstandings when counterparties from both systems are confronted. Country specificities have been however observed and some of them represent an obstacle, in particular in cross-border transactions.

The regulatory dimension chiefly affects cross-border transactions. Complex regulations, diverging from international standards generally put off foreign investors. The issue is even sharper in federal countries where regional entities develop their own legal framework. As far as domestic deals are concerned, the

[112] 78/660/EEC
[113] Transeo

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complexity of the regulatory environment is known and taken into account by the parties. However, some national regulations – especially when it comes to environmental matters - may hinder a deal-making process. The time required for some administrative procedures can increase.

The problem is that foreign acquirers can be reluctant to invest in an environment with different accounting conventions, since it costs time and money to investigate and react to local peculiarities. When local accounting principles differ markedly from the widely accepted international standards - as embodied in the International Financial Reporting Standards or IFRS – there is a substantial obstacle to cross-border operations. Countries that have adopted or allowed international standards for the companies' statutory financial statements improve the transparency and the attractiveness of the transaction market to foreign and local investors.

The transition from national accounting standards to IFRS, although costly, has several major advantages: increased transparency, improved management information and the standardization of information. Moreover, standardization facilitates cross-border benchmarking. For example, the introduction of the IFRS concept of fair value in many countries has positively impacted on local businesses and has been much appreciated by investors.

Tax issues

The domestic rules on inheritance taxes in the EU give rise to two potential cross-border problems, namely discrimination and double taxation. Inheritance taxation may therefore create two potential Internal Market problems. First, cross-border discrimination may arise if non-domestic assets and/or liabilities are subjected to higher levels of inheritance tax than equivalent domestic categories. Second, assets and liabilities may end up being taxed for inheritance purposes in more than one EU tax jurisdiction potentially leading to very high levels of taxation.

Inheritance tax

As established in a study for DG TAXUD by Copenhagen Economics in 2011[114], the domestic rules on inheritance tax varied substantially among the (then) 27 Member States of the EU. Eighteen levy specific taxes upon death while nine (Austria, Cyprus, Estonia, Latvia, Malta, Portugal, Romania, Slovakia and Sweden) do not do so but some of these countries tax inheritances under other headings such as income tax. Some Member States, such as the UK and France, grant exemptions if the inheritance is in the form of business assets or shares that continue to be used for business purposes. 13 of the 18 Member States with death taxes provide exemptions or special relief for transfers of family owned businesses upon death. The six Member States without such exemptions or special relief are Bulgaria, Denmark, Lithuania, Luxembourg and Slovenia.

[114] Copenhagen Economics 'Study on Inheritance Taxes In EU Member States and Possible Mechanisms to Resolve Problems of Double Inheritance Taxation in the EU' Aug 2010, revised May 2011.http://ec.europa.eu/taxation_customs/resources/documents/common/consultations/tax/2010/08/inheritance_taxes_report_2010_08_26_en.pdf

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Member States applying inheritance taxes differ regarding whether they tax the estate or the heir[115] i.e. whether they tax on the basis of a personal link of the heir or the deceased, or both, to those Member States. They may treat as a personal link the residence, domicile or nationality of the deceased or of the heir and some Member States use more than one of these factors. The meaning of these terms may also differ from one Member State to the other.

Note that while the problems of inheritance taxes as between countries can clearly be a concern for family businesses, they are also relevant for business owners that do not anticipate a transfer within the family. Even if the business is not to be passed on, most owners would wish to pass on the proceeds of its sale. In this case the prospect of inheritance tax difficulties inhibits the initial acquisition of a business in another Member State, consequently affecting the demand side of cross =-border transfers.

Furthermore, most Member States apply inheritance tax to assets located in their jurisdictions even if neither the deceased nor the heir has a personal link with the jurisdiction in question. While effective rates of inheritance tax may be low in the case of inheritances passed to heirs who are closely related to the deceased, the rates can reach 60-80% in some Member States in cases where the deceased and the beneficiary are not related.

Other Double Taxation

Dividend tax poses several challenges to businesses at a national level. Subsequently, when double or even multiple taxation applies to cross-border dividend distribution, the negative implications of taxes on businesses may be substantially larger than in a purely national context and this can represent a substantial barrier.

In the case of double taxation on cross-border dividends, portfolio investors have the possibility of converting their dividend income into capital gains by selecting investment instruments such as investment funds (Collective Investment Vehicles) that do not distribute dividends but where the investor can realise his/her share of the accumulated profit by disposing of his/her share in the CIV. Although the CIV might face double taxation as a portfolio investor as well, the small business owner in practise almost never has this possibility of converting his/her dividend income into capital gains[116] and this act as a disincentive to invest directly in real businesses.

In a number of countries inheritance and gift taxes have been reformed to facilitate transfers within the family. This is less the case with regard to taxes that affect the transfer to third parties, i.e. allowances against personal income tax, corporation tax, capital gains taxes, and in some countries earlier measures are in danger of being revoked.

The situation can be made worse if ‘tax free’ transfers are conditional upon being resident in the Member State concerned. However, certain Member States have ‘ring fencing’ rules whereby a change of residency of an owner of an enterprise leads to forced taxation of non-realised gains. Such ring fencing is typically put in place to prevent owners from moving out of a Member State with a high

[115] Communication from the Commission to the European Parliament, the council and the European Economic and Social Committee Tackling cross-border inheritance tax obstacles within the EU; COM(2011) 864 final
[116] http://www.europeanfamilybusinesses.eu/documents/EFB-GEEF%20Dividends%20Consultation%2019APR2011.pdf

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taxation of capital gains/deferred profits and realising the gain in another Member State. However, it does mean that incentives that are available at a national level become more unsure when there are cross-border elements.

However, the extent of double taxation following from cross-border inheritance cases is currently limited. The revenue in Member States from inheritance taxes amounts to less than 0.5% of total tax revenue – and the cross-border share will amount to far less. Furthermore, there is a tendency towards lower effective inheritance tax rates. There is, however, a caveat to the conclusion that the problem is only limited. It cannot be ruled out than the low share of cross-border succession cases is to some extent a result of the expectation of double taxation on inheritance and that we are therefore underestimating the problem by looking at the current number of cross-border succession cases. Confronted with the double taxation problem, it may be that some EU investors prefer to liquidate the investments in good time before they die if they foresee a situation with a risk of double taxation on cross-border inheritance. There are clear indications that the problem will increase in magnitude over the coming years as more people migrate to other Member States and back again and more real estate and other assets are purchased abroad. This will eventually lead to more and more cross-border inheritance cases in the future.[117]

According to Eurostat data and the Copenhagen Economics Study on Inheritance Taxes in EU Member States, the main reason for the limited progress on solving the problem of double taxation of cross-border inheritances may result from some cost-benefit analysis at national level. On the one hand, the efforts required to negotiate and conclude a tax treaty within the area of inheritance is generally the same as other areas. On the other hand, with the limited revenue generated from the inheritance taxes in most Member States, the potential benefits from a tax treaty are much higher in the areas of income and capital taxation. Moreover, the gains and losses from such treaties may be quite unevenly distributed both within populations and between the contracting Member States. [118] There is therefore no major incentive on the part of the national authorities to resolve the problems in this area.

To tackle the problems with inheritance tax, the Commission adopted a Recommendation[119] on double taxation of inheritances on 15 December 2011, which indicates that cross-border inheritance tax problems could be resolved without any harmonisation of Member States' inheritance tax rules by ensuring that these rules interact more coherently with each other, to reduce the potential for double, or even multiple, taxation of inheritances.

As regards double taxation, the Recommendation suggests that given that Member States have few bilateral treaties to eliminate double taxation of inheritances[120] and seem not to have taken the

[117] http://ec.europa.eu/taxation_customs/resources/documents/common/consultations/tax/2010/08/inheritance_taxes_report_2010_08_26_en.pdf

[118] Eurostat data and the Copenhagen Economics Study on Inheritance Taxes in EU Member States and Possible Mechanisms to Resolve problems of Double Inheritance Taxation in the EU, August 2010

[119] Commission Recommendation of 15 December 2011 regarding relief for double taxation of inheritances (2011/856/EU)

[120] Annex II to the Communication gives an overview of the existing double tax treaties on inheritances

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initiative to negotiate more such treaties, the focus should be on improving Member States' existing national measures to relieve double taxation of inheritances.

As regards tax discrimination, the accompanying Commission Staff Working Paper[121] sets out the principles in EU case-law for non-discriminatory inheritance taxation and aims to explain and illustrate the operation of the fundamental freedoms. EU citizens would therefore be more aware of the rules which Member States must respect when taxing cross-border inheritances. It could also assist Member States in bringing their inheritance tax provisions into line with EU law and would thus support and complement the Commission's on-going infringement actions against discriminatory inheritance tax provisions. The solutions proposed would also be applicable and beneficial to those who inherit SMEs across borders.

The Recommendation also suggests that there are plans to prepare an evaluation report in three years' time based on monitoring Member States' practices and any changes made as a result of the initiatives presented in the document. Currently, however, no Member State has taken up any of the recommendations.

Matching platforms

Only the Member States, their national, regional and local administrations and business support organisations can create the conditions for successful business transfers. Apart from reforms of laws and regulations, implementing a supporting infrastructure to reach the SMEs across Europe facing a transfer has been recognized as important in a series of policy statements. This includes the distribution of information to administrators and support providers, identification and exchange of best practice, training the trainers, the development of teaching material, tool kits and many related activities.

The Expert Group in 2006 also proposed to create a European business transfer centre, a virtual European platform to coordinate information gathering, share best practice across Europe, and facilitate cross border co-operation with regard to cross-border transfers and advised that similar centres should also be created at national level.

Such a centre could involve creating a European sellers' and buyers' marketplace in connection with the business transfer centre, to link up existing national databases and encourage countries that do not yet have such databases to set them up. [122]

The case study on on-line markets considers the development of such marketplaces in various countries across Europe and notes that there has been the growth of a limited international dimension to many of the systems used. The further development of links between such systems is an obvious way to strengthen the international dimension, but it was argued at the second Expert Group meeting that it is important to ensure high standards in this developing market in a way that guarantees the neutrality and independence of the operation. It is also important to establish clear ground rules for such developments. It has been argued that the seller and buyer should remain anonymous and there should be a support structure behind the on-line database to conduct active matching.[123]

[121] SEC(2011) 1488
[122] 2006 Expert Group report on markets for business transfers
[123] Sowaccess PowerPoint Presentation, Expert Group Meeting 27 June 2013

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Recent European judgements on cross-border cases

Judgements of the European Court of Justice in some recent cases have pointed to a series of issues that might impinge on the development of cross-border transfers, particularly if a new owner from a different Member State wished to relocate the business or change its administrative seat. In the VALE Costruzioni Srl[124] case, a limited liability company originally established under Italian law, wanted to transfer its seat and business to Hungary in order to operate there in accordance with Hungarian law. It applied to delete itself from the Italian companies register and applied in Hungary to register itself as a Hungarian company that is a successor to the Italian company. The registration was rejected by both the court of first instance and the appeal court. The appeal court argued that under Hungarian law, a company that is not Hungarian cannot be listed as a predecessor in law. The Hungarian Supreme court subsequently upheld the appeal court's assessment and stated that the transfer of the seat of a company governed by the law of another Member State entailed the reincorporation of the company in accordance with Hungarian Law and a reference to the original Italian company cannot be regarded as a conversion under Hungarian law, because Hungarian law on conversions applies only to domestic situations. However, the Supreme Court decided to request a preliminary ruling from the ECJ.

Following the VALE Epitisi kft CJEU decision, transferee Member States in the EU (or EEA) are in principle obliged to recognise companies from other Member States which under current domestic law are able to and wish to re-domicile to another EU (or EEA) Member State under the same terms and conditions as domestic companies. However, in many Member States there is no procedural mechanism for implementing such a transaction (and there is no harmonisation over the associated requirements), which means that in practical terms transfers of registered offices involving those Member States would be very difficult to achieve – the legal mechanism for giving effect to the CJEU decision is unclear. Consequently, in practice a new owner from another Member State may face difficulties in re-domiciling the company taken over.

In the VALE decision, the ECJ casts some light on an issue that had been already raised by the court's judgment in the Cartesio[125] case. According to this decision, a company must not be hindered from leaving a Member State when it intends to move to another Member State and will consequently be governed by the law of the host Member State. This statement raises the question of whether host Member States had to provide for the possibility of cross-border conversions. The VALE decision has made it clear that Member States that provide for national conversions may not prohibit cross-border conversions. While the VALE decision has clarified some aspects with regard to cross-border conversions, a lot of questions still remain unsolved.

Wishing to re-organise corporate activity and restructure a business internationally may be an important motivation for acquiring a business in another European country and within this many organisational configurations are conceivable, including the possibility that the owner might wish to continue to operate in two or more countries. Having flexibility in the way that firms are organised and formally registered and governed can only facilitate this process and although there is not much evidence that the difficulties highlighted in recent cases have posed major problems in the development of cross-border transfers, any additional flexibility can only help.

[124] Case C-378/10
[125] Case C-210/06

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In its 2012 Action Plan on European company law and corporate governance, the Commission announced further investigation of the need for and feasibility of a Directive on the cross-border transfers of registered offices. In January 2013, the Commission launched a Consultation on the cross-border transfers of registered offices of companies. The purpose of the consultation was to get more in-depth information on the costs currently faced by companies transferring their registered offices abroad and on the range of benefits that could be brought by EU action on the cross-border transfer of them.[126] The implications for the development of cross-border business transfers ought to have a place in these investigations.

4. Conclusions and Recommendations

There is a gradually growing cross-border dimension for business transfers in the EU. However, there are still a number of issues relating to the processes.

One of the obstacles to cross-border transactions appears to be the difference of business culture across countries. It is crucial to take time to understand the way of life and to build stronger contacts with the other party. This would again seem to underline the importance of good professional advice.

- Availability of easily accessible consultants with knowledge of local language and business culture could improve the interest in cross-border business transfers.

The lack of qualitative financial information constitutes a major challenge for foreign investors (and imposes additional cost and time requirements), especially those interested in smaller firms. Although efforts have been made by international institutions to promote greater financial data disclosure and harmonisation for non-listed companies, the situation largely remains uneven across the EU and this inhibits the development of cross-border transfers.

- More should be done to promote transition from national accounting standards to IFRS in order to improve business transparency and to facilitate cross-border benchmarking.

Inheritance taxation may create two potential internal market problems - cross-border discrimination may arise if non-domestic assets and/or liabilities are subjected to higher levels of inheritance taxes than equivalent domestic categories; and assets and liabilities may end up being taxed for inheritance purposes in more than one EU tax jurisdiction potentially leading to very high levels of taxation. The domestic rules on inheritance tax vary substantially among the 27 Member States of the EU. Eighteen levy specific taxes upon death while nine do not do so but some of those nine tax inheritances under other headings such as income tax.

- It seems that the 2011 Recommendation regarding relief for double taxation of inheritances is a way forward. However, the Commission with Member States should ensure appropriate follow-up to this package.

Overall, the growth of cross-border transfers has exposed a series of new barriers to the effective operation of the Internal Market. There is clearly a scope for additional provision to be made and especially for the accounting standards, harmonisation of inheritance tax issues and availability of local financial information.

[126] http://ec.europa.eu/internal_market/consultations/2013/seat-transfer/index_en.htm

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Developing the Evidence Base on Business Transfer

1. Introduction

In this case study we review the availability of data on business transfers. First there is an overview of what is currently available on business dynamics – data on start-ups and closures of enterprises, and then see what the position is as regards Mergers & Acquisitions (M&As). Afterwards the case study looks at what is available at EU and national level on business transfers, and also specifically on family businesses. After that we comment on the significance of transfers in a modern economy and suggest a possible way ahead for the future of data collection, within a context of more active monitoring of policy in this area.

2. The Reasons for this Case Study

EU policy on business transfers was established in 1994 and at that stage there was no systematic evaluation of Enterprise policy. In principle, it would be useful to establish a firm data foundation on which to base and from which to monitor developments, but since the prospects of improved data are not that promising, this case study ends with a series of pragmatic proposals to improve the situation. From this point of view, the case study should be read alongside the annex on indicators (annex A7).

3. Current Data on Start-ups and Closures of Enterprises

These data provide some context for enterprise formation and termination. As part of its Business Demography statistics[127], Eurostat records data on births, deaths and survival of enterprises.

Thus, for example, the 2010 data suggest that there are some 24 million active entities in the 26 Member States that provide data inputs on business demography to Eurostat, of which some three quarters are in the services sector. Generally, according to Eurostat, about 10% of the stock of active entities is born and dies each year. Overall, there was a decrease in births of 2.4% on 2009 in 2010 (9.9% of the total or 2,376,000 firms), but that hides a great many variations between Member States. In addition, since the reference data for 2004 were set up, it is possible to track survival rates for firms. Thus, for example, less than half the firms born in 2004 were still active in 2009. While there are differences between countries, in terms of births by firm size by employment, by far the majority are in the 0 and 1-4 employee categories (well into the 90% range), with some 90% of births in the 0 employee category in Finland, and about 80% in the 1-4 employee category in Portugal. A similar pattern is reflected in deaths of firms, 10.6% of the total or 2,520,000.

Importantly, from the point of view of this study, the Eurostat births and deaths (exits) data do not include entries into the population due to mergers, break-ups, split-off or restructuring of a set of enterprises. Nor do the statistics include entries or exits resulting only from a change of activity.

The data also track longevity of firms, but because Eurostat does not record entries into or exits from the population due to the abovementioned factors, this is not of relevance from the point of view of business transfers.

[127] Business Demography Statistics, June 2013

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Eurostat has indicated that it has no plans to try and obtain more detailed information on business transfers as the options to do this have been considered and are seen as imposing unnecessary additional burdens on, especially, small businesses.

4. Data on Mergers and Acquisitions involving SMEs

Included within the wider envelope of business transfers is what can be considered typical merger and acquisition (M&A) activities. As regards data related to M&A, especially among SMEs, very little is readily available. Some organisations such as Thomson Financial and Bureau van Dijk track mergers and acquisitions, and UNCTAD tracks cross-border M&A (direct investment), but different definitions of what is an acquisition, especially as far as what is considered to be the required level of shareholding to enable control or influence decision-making in a firm, are used and there is no consistency.

Eurofound research on restructuring in SMEs also found very little data on M&A by SMEs; and what is there is very fragmentary. It seems that the main reason for this is that SME M&As generally do not reach the thresholds relevant for registering/checking the case against competition law. According to Eurofound acquisition by SMEs seems to be an unusual way for SMEs to develop, as far as respective data are available[128]. They tend to be the target rather than the initiator of such ventures (mentioned, for example, in the national reports for the Czech Republic, Lithuania and the Netherlands). Generally the view is that the owner of the business is seen as the driver of transfer, rather than being sought out by an acquirer. As a European average, in 2005 1.7% of SMEs carried out a merger or acquisition process, while the figure is three times higher for large enterprises[129].

The Eurofound report points out that national research gives only a few indications about the extent of mergers & acquisitions within the SME sector. For France, Lithuania and Spain, the national reports mention that there has been an increasing number of SME mergers & acquisitions, resulting from general concentration tendencies. In Belgium, Denmark, France, Poland and the UK, many SMEs consider merger & acquisition as a way to tackle the effects of the global and economic crisis – either by selling their business or by taking the opportunity to buy a company in crisis and expand. Nevertheless, such trends are still far from being proportional to the SMEs' economic importance.

Another reason why there is little information available may be because it does not pay commercial contractors to identify and track the thousands of small transactions continuously taking place in the economy. And in cases where it is tracked, it does get expensive. As is explained in section 3 (e.g. in the French and Norwegian examples) there are some firms operating in this area, and such data can be accessed to help compute overall numbers.

5. Data on Business Transfers at EU and national Level

Different organisations in different countries have adopted different approaches to measuring business transfers. In particular, some approaches estimate the number of firms in business transfers that have

[128] Eurofound (2013); *Restructuring in SMEs in Europe*, Publications Office of the European Union, Luxembourg. pp.22-3

[129] Gonzalez, N.Z., Las fusiones y adquisiciones como formula de crecimiento empresarial, Minsterio de Industria, Turismo z Comercio Madrid 2007

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taken place, while others concentrate on estimating the number of potential/forthcoming business transfers. These and other differences are summarised below.

- **The European Commission**

Final report of the Expert Group on the transfer of small and medium-sized enterprises, May 2002,

This expert group report provided what they called a "rough" estimate of the number of business transfers in process at any one moment in the EU in the following way. The group started from the basis that approximately 20% of the self-employed are over 55 years old, ranging from 10 to 26% depending on the Member State, and assumed that male and female entrepreneurs at an age of 55 or above will retire within the next ten years. It also assumed that the proportion of self-employed working beyond the age of 65 will remain at the same level as in 2000. (This approach therefore has a strong focus on business transfers among the self-employed).

There are four tables in Annex 1 of the report: potential business transfers, business dynamics, reasons for transfers and types of transfers (each table in turn based on data sets of varying completeness from 12-15 Member States' national studies), which provide the basis from which to extract information and lead to the suggestion that approximately one third of all businesses need to be transferred to new owners in the next ten years (ranging from 25% to 40% depending on the Member State). This corresponds to an average of at least 610 000 SMEs to be transferred each year, of which 300,000 are SMEs with employees involving 2.1 million jobs (assuming that an SME with employees has 7 employees on average), and 310,000 SMEs without employees.

The report states that retirement is only one cause of business transfers. For example, table 3 in the same annex shows that in Germany and Austria it is estimated that it accounts for about 42-43% of business transfers, 54% in the Netherlands and 58% in France. So as the report makes clear, these data are only valid under the assumption that the different causes of transfer are of similar weight in the Member States. Consequently, it should be interpreted with great caution.

The *2006 Communication* uses the data produced by this expert group and extrapolates to arrive at the numbers supporting the heading 'One third of European enterprises are facing a transfer'. The point being made here is that one might question the value of an extrapolation based on an estimate that is seen as clearly "rough" and partial by those making it.

Review of the "Small Business Act" for Europe - The Communication from the Commission to the European Parliament, the Council, Economic and Social Committee and the Committee of the Regions (Brussels, 23.2.2011 Com (2011) 78 final).

This document states that about one third of business failures occur in the context of a business transfer and it is therefore essential to improve the framework conditions for business transfers, as over the next decade up to 500,000 businesses providing 2 million jobs will have to be transferred every year. There is not a reference to the source of the data presented.

*Business Dynamics: Start-ups, Business Transfers and Bankruptcy". The economic impact of legal and administrative procedures for licensing, business transfers and bankruptcy on entrepreneurship in Europ*e (DGENTR)

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The section of the report dealing with business transfers is based on a literature review and survey results, "as there is very limited statistical data available on the number of business transfers at European and national levels". Results are based on some 363 responses to a survey. The study indicates that no statistics on business transfers are available from Eurostat and that the only sources are national, the analysis of which is subject to important difficulties related to matching definitions employed by each country.

The Business Dynamics estimate for the number of business transfers in Europe was arrived at in the following way. Starting with the "latest" European Commission Communication (see above – 2006) estimates are made that transfers affect up to 690,000 SMEs every year that altogether provide 2.8 million jobs in the European Union. The study notes that the estimate was made in 2005 based on data for Germany, France, Italy, the Netherlands, Austria, Sweden, Finland, Romania and the United Kingdom (as seen above, it was in fact an extrapolation of the 2002 "rough" estimate). Updated data were identified for Germany and France, and the survey provided an opportunity to collect data for other countries. On this basis, an estimate for 2010 was made using data from Germany, France (2005), and Business Dynamics survey data from Austria, Finland, Norway and Romania. Using the above countries as a sample and projecting the data proportionately to include the remaining countries, it was estimated that approximately 450.000 firms are being transferred each year in the EU 27, affecting 2 million employees. This is an estimate that is somewhat lower than the previous one of 2006.

Survey respondents consider that European firms that are not transferred due to system inefficiencies could contribute an additional 150,000 firms to the EU economy, if transferred.

At the same time, no strong demand for business takeovers seems to exist (the economic climate prevailing at the time of the survey might also have influenced this result). Only around 25% of Europeans considering a business start-up would prefer to take over an existing business as opposed to starting a new one. According to experts' opinion, the number of firms in Europe which are not transferred because of reasons other than economic ones may be estimated at around 63%[130]. Based on this it was estimated that every year there is a risk of losing approximately 150,000 firms and 600,000 jobs due to inefficiency in transferring businesses.

The preceding paragraphs suggest that current EU data on business transfers are based on some strong assumptions and rough estimates from 2002 that have been extrapolated and added to by further research and estimates based on surveys. This suggests that a new fresh start should be made to develop more robust data.

Under the following bullet points we consider the national estimates that have been identified. In addition, the Eurofound Report on Restructuring in SMEs in Europe (p.17) also refers to some further

[130] A distinction was made between failed transfers due to economic reasons (i.e. no valuable assets) and other reasons. Economic reasons are a normal aspect of the business cycle. As an example, micro-firm non-transfers are often correlated with a high level of new business start-ups. This implies that instead of having firm transfers, closure and setting up a new business is preferred. In sectors like plumbing for example, owners sell their equipment to an employee who intends to establish a new business. However, this type of transfer is not visible in statistics.

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studies in Austria, Belgium, Poland and Sweden.[131] (see also 'Section 6: Family businesses' below – Austria).

- **Germany (DE)**

Unternehmensnachfolgen in Deutschland 2010 bis 2014 - Schätzung mit weiterentwickeltem Verfahren, IfM (2010).

IfM Bon has been carrying out research on business transfers for over 20 years. They have concentrated on the transfer of businesses between generations. The Institute has developed estimates for the number of business transfers in 1999, 2000, 2001 and 2004. Basic data are from the micro-census and the data on business turnover. Estimates have been based on various assumptions. These include the assumption that firms with a turnover of less than €50,000 would not have an interest in transferring their business assets. These are therefore excluded. Similarly it is assumed that owners that are 60 years old would be planning to withdraw within 5 years. The challenge to estimates based on assumptions such as these lies in the findings of research by for example BPCE (see below) that age is not the key driver in business transfers, and that many transfers involve small firms with turnovers that are less than €50,000 per year.

According to this estimate, some 110,000 businesses would be transferred between 2010 and 2014, involving some 1.4 million employees – or 22,000 transfers per year, involving some 287,000 employees per year. Of these, 85% would be driven by age, 10% by death and 4% by illness.

- **Denmark (DK)**

A report on business transfer published by the Danish Business Authority in 2009[132] contained a large amount of statistical data on the transfer situation in the Danish market. With family-owned businesses

[131] For 2012–2021 it is estimated that about one third of the Austrian SMEs will be subject to business transfer/succession (BMWFJ. Mittelstandsbericht 2012. *Bericht über die Situation der kleinen und mittleren Unternehmen der gewerblichen Wirtschaft,* Bundesministerium für Wirtschaft, Familie und Jugend, Vienna.). In Belgium, 28% of SMEs will be looking for a successor during the next 10 years (Lambrecht, J. and Naudts, W. (2007), *Overdracht en overname van kmo's in België*, FOD Economie, SVO EHSAL-K.U. Brussels.). In France, an estimated 600,000 CEOs (most of them in charge of SMEs) will retire in the next decade (Voss, E. (ed) (2007), *Structural change, company restructuring and anticipation of change in the European small and medium-sized enterprise sector*, background document Restructuring Forum 'Adaptation of SMEs to change', Wilke, Maack und Partner, Brussels, 26–27 November 2007). In Germany, it is estimated that about 66% of the companies facing a business transfer have an annual turnover of less than €1 million (Hauser, H.-E.,Kay, R. and Boerger, S. (2010), *Unternehmensnachfolgen in Deutschland 2010-2014*, IfM-Materialien 198, Institut für Mittelstandsforschung, Bonn). In Poland, 58% of SMEs are contemplating a business transfer to the next generation (Kowalewska, A. (ed) (2010), *Firmy rodzinne w polskiej gospodarce – szanse i wyzwania*, Polska Agencja Rozwoju Przedsiębiorczości, Warsaw). In Sweden, 40% of the SME owners want to sell/leave their enterprises within 10 years due to generation shifts, source: Företagarna (2008) *Alliansen i halvtid*,

[132] See Erhvervs-og-Byggestyrelsen:EJERSKIFTE DIN VIRKSOMHEDS FREMTID and EJERSKIFTE, Statistik om ejerskifter i Danmark baseret på resultater fra spørgeskemaundersøgelse Okt./nov. 2009. The report aimed to raise awareness about transfer among both owners and potential buyers and to help them prepare for it. It was based on a Study carried out by the CEBR - Centre for Economic and Business Research, an independent research organisation under the Copenhagen Business School.

making up a large proportion of businesses in Denmark, it was suggested that some 20,000 family businesses with around 160,000 employees were due to be transferred in the next 10 years. The report analysed a wealth of issues from the current ownership structure, the age of those selling, and the potential buyers, to the experience and background of the new directors and the continued involvement of families after a transfer. It showed that sale within the family constitutes 63% of all transferred businesses, with external buyers amounting to 16%, financial buyer 13% and employees 8%. In the case of transferring to the family the average age of the outgoing owner was highest with 59 years, whereas the average age of owners selling to a financial buyer was 49 years only. Based on a survey of business owners, distinguishing between family businesses and others, overall only 23.8% of businesses surveyed had an exit strategy, while 61% of businesses expected to see an ownership change in the next 10 years. 33% of owners considered continuing part-time in the business when transferred, 11% were expecting to start a new business. Statistics Denmark is currently working with the Danish Business Authority to update and improve the data related to business transfer.

- **Finland (FI)**

In Finland an approach to estimating numbers of business transfers has been developed based on a study of entrepreneurs of retirement age. Varamäki, Tall & Viljamaa developed a study focussing on transfers for those entrepreneurs of 55 years of age or older[133]. In Finland, at the time of the study, it was estimated that there were about 74,000 entrepreneurs that are 55 years old or older. A survey was carried out: 15,000 questionnaires were sent and about 20% replied.

According to the responses, it is estimated that about 28,000 firms will be transferred to new ownership in the next 10 years, or about 2,800 per year. In addition, there will be succession in family firms of about 14,800 over the period, or some 1,500 per year. About 20,000 firms are expected to close down, or 2,000 per year. This will affect some 8,000 jobs every year.

Another survey was carried out among young entrepreneurs and had 170 responses: according to this 20% of those under 50 years of age were willing to sell their business, while 42% were willing to buy, which suggests there is potential for successful business transfers.

The Finnish SME barometer estimates that about 10,000 business transfers could be realised every year during the five following years[134].

- **France (FR)**

The main sources of data identified in France were INSEE, Oséo and BPCE.

Institut National de la Statistique et des Etudes Economiques (INSEE)

In France, INSEE collects national data and surveys a certain number of firms every year (60,000 in 1987; 40,000 in 2005). It captures data on new firms made up of the whole or part of another firm on the basis

[133] Elina Varamäki - SEINÄJOKI UNIVERSITY OF APPLIED SCIENCES, Juha Tall - SEINÄJOKI UNIVERSITY OF APPLIED SCIENCES, Anmari Viljamaa - SEINÄJOKI UNIVERSITY OF APPLIED SCIENCES "BUSINESS TRANSFERS IN FINLAND - SELLERS' PERSPECTIVE"

[134] Pk-yritysbarometri, Spring 2011, Federation of Finnish Enterprises, Finnvera, Ministry of Employment and the Economy, Finland.

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of purchase of going concerns or titles of firms. This information comes from the declarations of firms registered at the Centres de Formalités d'Entreprises (Sirene). However, there is a comment that the figures underestimate the number of transmissions by about 50%.[135] Based on those estimates there were about 60,000 restarts of firms in France in 2004 of which 50,000 were micro firms (175,000 employees); 5,000 small firms (105,000 employees); and, 500 medium-sized firms (51,000 employees).

Furthermore, where INSEE estimated 60,000 business restarts, APCE (the Agence pour la Création des Entreprises) estimated 55,000. A study by Melleno came up with 40,000 and one by CNCFA/ Epsilon produced a different number as well.

La transmission des petites et moyennes entreprises (Oséo, 2005)

This study is now somewhat dated but it does provide useful methodological information and characteristics about the sample group in question. It is understood that a more up to date publication is imminent. Oséo (now *bpifrance*) has been active in the field of supporting business transfers by providing a guarantee (Sofaris) since 1984. At the time of the report (2004) Oséo had accompanied some 27,000 firms on their transfer journey, and the study was based on a representative sample of 3,000 taken from the larger total. INSEE has estimated that about half of all business transfers were financed by a bank loan. It is not clear how many of these also made use of a guarantee, but clearly 3,000 is a good number from the point of view of a sample.

The report provides a wealth of interesting details about the segment represented by the sample of firms in question (users of a guarantee). For example: 44.1% of firms were from the "services particuliers" sector (essentially hotels, restaurants and cafés) and 28.9% from commerce. 48% had no employees, and 76% less than 3 employees. 60% of firm cessations were due to retirement, and less than 10% were intra family in industry, business services and wholesale; while less than 5% were intra family in retail. The "repreneurs" were getting younger compared to studies carried out in previous years (41 years old on average and 37 years old in retail), and the main cause of ceasing activities in hotels and restaurants was to buy larger units (that is, *significantly*, not retirement). Other than cyclical factors, the main issue facing transfer was the increasing importance of debt and having to pay it back – although of course this was not usually an issue in intra family transfers. But the share of non-family transfers was increasing (p.10). Also, in the hotel/restaurant sector, property values have a major impact on the affordability of the project. After financial risk, the next most important risk factor is departure of the individual manager due to death or illness. Experience in the sector and knowledge of the firm reduces risk substantially (for example in intra-family transfers or transfer to a former employee this falls to a very low level).

BPCE L'Observatoire : Quand les PME changent de mains (2011) & La cession-transmission des PME (2012)

BPCE L'Observatoire recently produced these two key reports. The methodology for the reports was developed for firms with 10 up to 249 employees (that is, SMEs, excluding micro enterprises) and the "intermediate"-sized firms of 250-4999 employees. It excludes agriculture (traditionally an important sector for intra-family transfers) as well as finance/ assurance. This is probably a more interesting segment from the point of view of a private financial institution but excludes the largest part of the

135 Oséo (2005); La transmission des petites et moyennes entreprises, p.8.

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market in terms of number of transfers (firms with 0 to 9 employees). The BPCE estimate is that in this segment there were 12,932 transfers in 2011 and 13,256 in 2012.

The studies took measures to avoid double counting and were carried out by Experian pH using a filtering process applied to the following data bases: Altares (tracking changes in shareholdings), Infolegale, Corpfin, and INSEE (Evenements). There was also a qualitative research exercise in 2011 based on 1,480 managers of firms with 10-249 employees. The research could distinguish between natural deaths, legal disappearance, changes in directors (intra-family) and changes in shareholders.

One of the key conclusions of the study is that in this segment retirement or age of the owner is not the key driver in business transfer. More transfers occur before owners are 55 years old than after. With the proviso that this excludes micro firms (the most numerous type of enterprise in the EU, and agriculture) and is based on the French population, it does suggest a questioning of the 2002 Expert Group estimate and those based on it in 2006 and 2011.

The 2012 report looked specifically at intra-family transfers (excluding agriculture), which is a small and declining part of transmissions. This is also the part of the market that has the least onerous commitments as regards debts on transfer. It can also be very much influenced by tax changes: for example there was a jump in 2011 due to anticipated negative changes in following year. There are also more intra-family transfers in the 20-249 employees segment than in the 10-19 employees segment. One of the key problems in intra-family transfers in France is that since the legal changes in inheritance law of the last two decades it has been difficult to preserve the equal share in the inheritance of each descendant.

- **Italy (IT)_**

In **Italy** Infocamere tracks visits to the "Incontrerete" website, and Unioncamere's *Osservatorio sulla demografia delle imprese* tracks some data related to business transfer. These are reproduced below.

Table 2010

Anno	Total companies ceased	Of which: No continuity - truly ceased	Of which: With continuity - did not cease	Of which: Inter-generarational transfer (1)	Of which: Not generational transfer
2007	433,515	374,694	58,821	12,502	46,319
2008	410,652	363,775	46,877	9,988	36,889
2009	379,990	337,078	42,912	9,543	33,369
2010	389,450	337,430	52,020	9,655	42,365

(1) Si stabilisce un passaggio generazionale se la media di età della compagine imprenditoriale dell'impresa cessata è inferiore di almeno 15 anni rispetto alla compagine imprenditoriale della nuova iscrizione

Source: Unioncamere, "Osservatorio sulla demografia delle imprese", 2011

These numbers suggest that about 13% of firms, over the years 2007-2010 continued to trade after apparently ceasing, and of these about a quarter were passed on within a family.

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- **The Netherlands (NL)**

The Netherlands have developed data based on an analysis of share registers at Chambers of Commerce and then applying econometric techniques. According to research by EIM and Meijaard some 13-15,000 transfers take place per year.[136] Business transfers constituted about a third of the number of start-ups (although employment effects are much greater). About two-fifths of transfers over the 15 years before 2005 were within a family, of which some three-quarters to from parent to child. About one fifth of transfers were management buy-outs and about a quarter management buy-ins.

- **Norway (NO)**

In Norway a project was carried out to estimate the number of business transfers between 2001 and 2007[137]. It used a business database (Menon) with data from registers kept by Dunn and Bradstreet that have information on all companies reporting in Norway. If the owner is a person they hold data relating to age and gender and if it is a company, information about that organisation is held. (Reservations are expressed about the quality of the shareholders' register – the report's authors suggested that that would be a good area for the government to invest in).

This study only considered firms where labour costs reported in the accounts were above €1 million (equivalent to some 20-30 employees). In effect, as suggested by other research, this means that the largest number of business transfers is excluded, although those with most impact are included.

A key aspect of this approach is that *change of ownership is related to control*. How this occurs is not hard and fast as a new owner can have blocking power with 34% of shares, if the largest shareholder. Alternatively, changes must be registered if there is more than 50% ownership. Companies are required by law to only register certain degrees of change in ownership, not all changes. The point is that there is a continuum of situations reflecting different mixes of ownership and control that may require quite detailed investigation to determine what the actual position is. To ensure that there were only actual changes in ownership a manual check was made on the 500 largest firms as a result of which 70 were eliminated. On the basis of this method 39,500 ownership changes were identified in 27,000 companies over the period 2001-2007.

The study also explicitly refers to contextual factors: the demographic structure is not expected to change in the next 5-10 years, but it appears that changes in ownership are becoming more frequent in the period covered by the study due to factors such as the economic upswing (2000-2007); tax reforms affecting changes in ownership; and, a structural change reflecting the increased disposition of owners to implement changes more frequently. The result is that the authors expected a third of the companies concerned might change ownership in the eight years ahead, and maybe more depending on the rate of business creation.

Clearly this study that focuses on a specific segment is useful and provides a great deal of insight, but it does not answer the data question on a national level.

[136] See also EIM (2005); Entrepreneurship in the Netherlands. *Business transfer: a new start*
[137] Eierskifter i Norsk næringsliv. Omfang, markedsforhold og økonomiske effecter (2009), Menon Business Economics

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- **The United Kingdom (UK)**

In the UK the *Small Business Survey* is carried out every two years. The survey asks participating firms if they anticipate closure or full transfer of their business in the next five years. It also asks firms to distinguish what type of firm they are. Thus, in 2008 and 2010 a higher share of non-family firms expected to transfer than did family firms. In 2010, 29% of family businesses expected to transfer compared to 17% of non-family businesses.

The results for the 2012 SBS had 9% of SME employers anticipating the closure of their business in the next five years. 14% anticipated the full transfer of ownership, or about 172,000/ 34,000 per year while 70% did not think either of these things would happen.

6. Family Businesses

Family businesses are of major importance in the EU. Overall it is estimated that they make up between two-thirds and four fifths of all businesses.

- **Austria (AU)**

A study to understand business transfer and succession in Austrian family firms was carried out in 2010[138]. The model and data used for this study is based on regular studies on business transfers in the wider sense (i.e. not just family business) conducted in Austria. The approach comprises a data model to estimate future transfers as well as a survey of realised transfers (plus some estimates of the number of transfers realised using the secondary data model). In the study business transfer is defined as "the transfer of ownership *and* management of a business to another person or entity whereby the original company keeps up its business activity." This does not include the instance of a company being liquidated and being reborn (e.g. as a "pre-pack") on its own or as part of another firm. The elements of the model developed for Austria are as follows:

- Data sources used are from the Austrian Federal Economic Chamber, from the main Association of Austrian Security Institutions, and KMU proprietary data.
- They include in their calculations enterprises from one-person enterprises up to those with 249 employees. However, not all one-person enterprises are included. Only those working 30 hours or more per week, not trading from home or based at client premises, with more than two constant customers and self-employed for more than three years, are included. Some 15% of one-person enterprises are considered transferable.
- From the remaining data they identify the share of firms that will reach pensionable age between 2009-2018 corrected for those that will remain professionally active after retirement or withdraw due to accidents, ill health or death.
- Finally, the result is corrected for firms that are not considered transferable: those with no or little equity, or with several years' trading losses.
- This produces the number of *potential* transfers – not those realised.

[138] Irene Mandl, DG ENTR/KMU Forschung , Transfer and succession in Austrian Family Firms

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This is quite a complex model, making use of both data from actual share registers and imputed estimates. It calculates a potential number of transfers - in contrast to an an observed figure, but also cites actual figures. According to the study, for instance, some 6,600 transfers occurred in Austrian craft and services firms in 2008. For the decade 2010–2019 it is estimated that about 55,200 Austrian small and medium-sized enterprises (SMEs; including one-person enterprises) will face the challenge of mastering a business transfer. This corresponds to about 18% of the SMEs of the craft and services sector. During the decade 1996–2006 a decreasing tendency of intra-family transfers occurred. While in 1996 about three quarters of all successions took place within the family this share amounted to only 50% in 2006 (data obtained directly from the survey).

- **UK Family Businesses**

According to a study by Oxford Economics there were about 3 million family businesses, representing 66% of firms, present in the UK. In terms of distribution by size around 75% (2.2 million) of these firms were micro businesses with no employees, with a further 639,000 (or 22%) family firms employing between one and nine employees Of these, it was estimated that that some 860,000 SMEs expected to close or transfer the business over the next five years, or some 172,000 per year.

- **Other comments**

The Italian and French data (as well as German data mentioned in the Austrian study) all suggest that the proportion of family firms handing on the business to another family member is declining.

7. The Significance of Transfers in a modern Economy

While the above review of data suggests that there is not a great deal of precision as regards the actual number of firms being transferred at a given moment, nor for those that might be transferred in the future, the number of firms affected does remain significant. Even if the 450,000 number of the Business Dynamics report is scaled down, to say 400,000, this is still about 1.5% of all firms in the EU, and a not negligible share of the approximately 10% of the number of all firms being created or exiting each year in the EU. In fact, even half that number, if one removes firms that cannot readily be transferred, such as those with 0-employees firms it is still significant.

But some trends are apparent in the data. In the first place, the share of intra-family transfers seems to be declining. This could have important longer term implications for the development of the economies of the EU, and particularly some EU Member States.

Furthermore, transfers fluctuate with the business cycle due to impacts on asset values at different stages of the cycle. This is particularly apparent in sectors where fixed asset values are very important such as hospitality and catering, which is also a sector with a high share of business transfers. This has implications in the current economic climate where in some EU Member States sellers may want to sit out the downswing and in the process may lose the chance of selling, especially if there are is a credit crunch present as well. The point here is that business transfers should not be seen in isolation, but as closely linked to issues such as SME finance, SME development and longer term demographic change when considering their role in the economy.

But generally speaking, business transfers in their various guises are a characteristic of a healthy economy, part of its underlying tissue or fabric, and there is every reason to try to ensure that transfers

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do run smoothly in the general process of creative destruction that drives the economy so that capital, both intellectual and physical, is not wasted and lost, and there are not avoidable job losses.

8. Conclusions and Recommendations

The above review of approaches to developing data on business transfers in the EU makes it clear that different approaches include different definitions, criteria and assumptions and data development methods, in their studies, for example, in terms of firm sizes, age categories, sectors, and ways to measure ownership and control. At the same time, there does not seem to be a great deal of work published on the fundamental a transferable business, and how this may influence estimates.

But the overview does make it clear that the business transfer process as a whole is highly complex and different studies take different approaches to deal with this. Some take a bottom-up approach starting with share registers; others a top-down approach using demographic projections; often a mix of the two is used and a further approach is survey based from which extrapolations to a wider population are made. The Austrian study looks particularly useful in this respect. But none of the studies use the same approach, so the quantities can't be "added up" to arrive at a comparable EU number, or estimate, nor can the results of different studies for the same country be readily compared. At best there is a mosaic, or patchwork of results, at worst it is more of a kaleidoscope.

There does not appear to be a readily available method to just, for example, add a box to an existing form that will enable identification of a business transfer. There are existing company register databases that can be accessed for this purpose, even if they are not perfect.

Few of the persons interviewed were aware of other work being carried out in other Member States, particularly when there are language barriers.

It is also clear that changes in the business environment can have an important influence on the nature and number of business transfers through for example changes in expected retirement ages due to change in business outlook; the effect of a changed business outlook on sale prices; comparisons between expected success of starting something new as opposed to buying a going concern (or its assets/ liabilities).

Recommendations

The wide range of definitional and related data issues that have been identified above suggest there is a need for detailed empirical work with a common methodology across several EU Member States to produce robust and comparable information. This is necessary so that the nature and extent of the issue can be well defined and assessed and the type and level of any intervention determined.

Such comparable empirical work could be on the basis of an agreed methodology for studies and for data collection. Different countries currently have different ways of recording changes in ownership. In the UK this is done through a dedicated institution - Companies House; in the Netherlands it is through Chambers of Commerce. These company registers are the key empirical source of information about ownership changes, even if they are not always up to date and complete. In some instances the data bases are quite sophisticated and can be consulted electronically, as in the case of Sirene. In other instances extracting information about changes in ownership is complex and carried out by specialised value added resellers of such data. Such research could be repeated periodically, say every two to three

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years, to measure changes and to allow regular publication of reports that will keep awareness of the issue in the public eye.

To obtain a full picture, it is necessary to disaggregate the *portmanteau* term ‘business transfers’ in its major components and distinguish between firm sizes (zero employees, micro firm, etc.), types of transfer (intra-family, intra-firm and to third parties), and drivers of transfer (restructuring, retirement, illness, death and desire to sell the business to buy something else). Such an exercise should also pay due attention to the fact that not all firms are transferable, and possibly trace the movements of assets and staff associated with the end of a business’ activity.

However, more immediately, it might be possible to build on existing practice and data collection. With a couple of simple questions about intentions to transfer or close over the next five years and some useful cross-tabulation, the Small Business Survey in the UK is able to generate some interesting data on the extent and nature of transfers. Encouraging other statistical authorities and other organisations collecting business data to do something similar would help generate a lot more reliable information on the basic characteristics of the transfers that are taking place.

In the countries, such as Germany and Austria, where regular surveys of transfer activity already take place, such a development in general business surveys would need to be co-ordinated with the more studies that are already focused on transfer, but the advantage of a relatively simple approach that is widely adopted is that it may eventually lead to the collection and comparison of basic data at a European level.

It might be possible to involve the the European Foundation for the Improvement of Living and Working Conditions (Eurofound) in improving the information base. Eurofound has the mandate to provide information on structural change and restructuring and currently collects data through the European Restructuring Monitor (ERM) on changes in ownership resulting in job creation or destruction. This is already an important background to the development of a view of business transfer as a positive contribution to the dynamic restructuring and development of the European economy. However, ERM currently only covers major restructuring events – transfers mentioned in national media, involving 100 or more jobs (loss or creation), or at least 10% of the workforce of large firms – and it is difficult to see how with its current methodology, this could be extended to cover smaller enterprises. However, the experience of Eurofound in collecting data of this kind and its contacts with the social partners could allow it to play a useful part in developing a consistent and practical approach to the collection of better data.

The research has identified that there is a lack of awareness among those collecting data on business transfers of what researchers in other countries are doing. This is a pity as it seems that there could be significant benefits from such knowledge sharing. Development of a thorough multilingual bibliography and translation of some of the reports, or parts of them, such as those of BPCE and Oséo, or the one by Menon for example, could provide useful knowledge to be shared. There does not appear to be a good forum for exchange ideas on measurement and we would recommend that creation and development of such a forum should be looked into. It may for example be hosted through an existing portal like www.zunia.org, or a new locus could be selected.

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The Use of Indicators relating to the Transfer of Businesses

One of the aims of this evaluation has been to highlight a relevant set of indicators to form the basis for an on-going monitoring of business transfer developments and to make a contribution to a broader process of evidence-based policy making.

The selection of indicators needs to take into account the guidance of the Commission and DG ENTR that has already been established to support the development of such frameworks. It is useful to bear in mind, for instance, the Secretariat General's 'Practical Guide on Objectives and Indicators' which emphasises the need for a practical approach that should be kept simple and tied to results-based management. The development of indicators in particular should avoid over-elaboration. Measuring progress is not an end in itself and the costs of measurement should be contained. Furthermore, it has to be remembered that, as well as being relevant to those using them, indicators should be meaningful to an external audience, which will include non-experts.

There is also guidance already developed by CSES specifically for DG ENTR that should be observed. This includes the 'Operational Guidance on Indicators' (released in February 2010) and the framework offered by the 'Operational Guidance on Formulating the Objectives and Indicators of the Management Plan', (released in October 2010). These reports echo some of the findings that have already been established in the existing Commission documentation and reinforce and further develop a number of principles that are of direct relevance to DG ENTR. As specified by the previous research, guiding the formulation of the indicators should be a recognition of the Intervention Logic which sets out the objectives, implementation mechanisms and intended results of the policy or measure intended for assessment.

In seeing where discussion of monitoring and indicator systems is leading, it helps to frame two central questions at an operational level:

- What is the specific programme or measure under consideration trying to achieve?
- What can best illustrate the extent to which the objectives are in fact being achieved?

In responding to these questions there are a number of practical considerations that should be taken into account in addition to the general orientations that have been outlined. Standard monitoring and evaluation practice emphasises that the objectives to which the indicators are to relate should be clearly expressed and conform to the SMART criteria (Specific, Measurable, Achievable, Relevant and Time-bound) in accordance with standard evaluation good practice. The indicators themselves should conform to the RACER criteria (Relevant, Accepted, Credible, Easy and Robust).

Following this logic, indicators should be developed with due regard to the principle of proportionality, they should be easy to measure and be kept as simple as possible. In their development it is necessary to consider the administrative burden imposed, the time and resources necessary for the collection of the information needed and the possible data constraints. As a result:

- Indictors should not disrupt the measures they are trying to promote;
- Existing indicators and existing data should be used where possible;
- There should not be too many indicators. They are meant to assist understanding of how policy is developing, not obscure it in a mass of indigestible detail.

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It is also worth remembering that indicators are not intended of themselves to give a complete picture. They are intended to 'indicate' important developments and sometimes will only do so indirectly, when it is not possible to capture the direct effects. The proposed indicators should contribute to the effective communication of the achievements of EU policy, illustrate its responsiveness to the needs of enterprises and the broader community and contribute to the effective discharge of the requirements of accountability on the part of those responsible for implementing the Programme. Finally, it is important to recognise that for indicators to have meaning they need to be stable over time in order to establish continuity in the monitoring system.

In addition to these broad principles there are also a series of more pragmatic considerations. Currently the preparations for the new COSME programme have included the elaboration of a new monitoring system, which includes the definition of a set of indicators that is still under discussion. In principle, indicators developed for the business transfer policy area should take into account the developing framework for monitoring and reporting under this programme and indeed the wider reporting systems of DG ENTR and the Commission generally – notably the Annual Management Plan.

In fact, it is understood by the CSES team that no indicators have specifically been proposed relating to business transfer in any of these contexts. Similarly, among the fairly extensive list of indicators developed for the SME Performance Review, which monitors progress with the implementation of the Small Business Act at a Member State level, there are also only a few indicators that might relate to business transfer. The only indicators that could be directly relevant are the following:

- Time required to transfer property (in calendar days)
- Cost required to transfer property (% of property value)

Interestingly, this situation contrasts with the number of indicators relating to enterprise start-ups and seems to be symptomatic (even within the Commission services) of a continuing concentration on start-ups, in spite of recommendations in the 2006 Communication and elsewhere for a more even-handed approach to start-ups and transfers. Other policy frameworks and indicator systems, including the DG ENTR Management Plan similarly overlook variables relating to business transfer issues. As a result, the development of a sound set of indicators could very well not only have a useful role to play in assessing progress within the current project, but may also help to strengthen the profile of business transfers as a policy issue. This is a matter that should be considered further.

As already outlined, the starting point has to be the main objectives of policy on business transfers and these, of course, are now quite well established. An issue for further reflection and discussion is whether the attention should be directed to the broad set of initial objectives or to the more focused set that are highlighted in the 2006 Communication.

The 2006 Communication recommended the following as areas for future work:

- Give political attention to both business transfers and start-ups.
- Provide adequate financial conditions for business transfers.
- Raise awareness, consider soft factors and support mentoring.
- Organise transparent markets for business transfers.
- Ensure that tax systems are transfer-friendly.
- Create appropriate structures to broadly implement the recommendations.

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The set of indicators suggested below takes both frameworks into account.

It should also be remembered that the CSES team are proposing that after a period in which the main attention has been focused on identifying the appropriate measures to take in response to the problems encountered in business transfer, the concerns of policy should now be moving towards a greater emphasis on assessing the effects of the measures taken. Have the policy measures worked?

This development is also in line with the recommendations of evaluations of the Competitiveness and Innovation Programme and a significant new orientation proposed for the COSME Programme, in that greater attention is to be paid to the longer term effects of policy measures – results and long-term impacts – as opposed to the previous concentration on more immediate outputs.

This approach would also correspond to the basic purpose of indicators, which is to provide a more efficient way of assessing the continuing relevance and the effectiveness of policies and reporting on progress in implementation and the attainment of policy objectives. In this respect, indicators have an important function in assisting the Commission and national public authorities to fulfil accountability requirements and to communicate the progress being achieved in policy to stakeholders and the wider public.

Taking all these considerations into account, the following represents the set of indicators that have been proposed to guide the investigations that are taking place and eventually to assist the effective monitoring of developments in the future.

It is important that indicators, and monitoring and evaluation procedures more generally, are recognised and accepted by the policy community that makes use of them For this reason, the list was discussed at the second meeting of the Expert Group and was modified in the light of comments at the meeting and subsequently.

It is also important for implementing a sound application of the agreed indicators, to establish a harmonised definition and understanding of the term "business transfer", and to translate this into "measureable" elements.

Finally, it will be clear that rather unusually, the list of indicators proposed will require that business transfers as an issue be given appropriate weight in Enterprise policy and that a commensurate effort will be made at national and European levels to collect the appropriate data. This approach has been taken, because existing data sources could not support an adequate monitoring system and that it is preferable to make proposals about the desirable indicators for such a system.

Indicators for Monitoring Business Transfers :

Objective	Indicator	(Potential) Source	Effect Level
General	Number of business transfers each year	National SME surveys (to be arranged)	Result
	Number of enterprises with zero employees transferring each year	National SME surveys (to be arranged)	Result
	Number of SMEs closing each year	National SME surveys (to be arranged)	Result

	The percentage of business transfers that fail within 5 years	Dedicated studies (to be arranged)	Result/Outcome
	The five year turnover growth rate of transferred companies	Dedicated studies (to be arranged)	Outcome
	The five year productivity growth rate (value-added per head) of transferred companies	Dedicated studies (to be arranged)	Outcome
Political attention to both business transfers and start-ups	Number of initiatives focusing on each policy area	Reports of authorities (currently available)	Output
Financial environment	The annual sums available from public funds for: - equity finance available to support business transfer - mezzanine finance available to support business transfer - loans available to support business transfer - loan guarantees available to support business transfer	Reports of public funding agencies (should be available with some redefinition)	Output
Transparent markets for business transfers	The annual volume of acquisitions through a representative business transfer web site in each country	Reports by the respective web sites (currently available)	Result
Awareness, Support and Mentoring	Annual public budget for business transfer awareness campaigns for sellers	Reports of national authorities (currently available)	Output
	Annual public budget for business transfer awareness campaigns for buyers	Reports of national authorities (currently available)	Output
	Number of enterprises explicitly contacted by public authorities or business support agencies to alert them to the issue of transfer	Reports of national authorities/business support agencies (currently available)	Result
	Extent of actions to encourage potential new entrepreneurs to consider taking over an existing business as an alternative to starting a new one *	Reports of national authorities (currently available)	Result
	Number of enterprises annually benefitting from public and semi-public mentoring services	Reports of national authorities/business support agencies (currently available	Result

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		with some data collection)	
Tax systems	Existence of fiscal provisions reducing taxes on assets explicitly used to finance transfer (including inheritance tax, gift tax, registration fee and provisions relating to third parties and employees) *****	Reports of national authorities (currently available)	Output
Legal Framework	Existence of Member State rules that allow decisions by heirs without unanimity *	Reports of national authorities (currently available)	Output

* Qualitative indicator

A number of these indicators are sensitive to the relative emphasis placed on different elements in the overall policy framework for business transfers. Furthermore, given that the feasibility of collecting data on some of the variables depends on developments in the definition and collection of appropriate data, it will take some time to develop a definitive set of indicators. A consensus, however, on which variables can usefully be regarded as appropriate indicators will assist in the development of the right conditions for their implementation.

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Survey Results

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Information on your organisation

Q1. Please indicate the name of your institution/organisation

Q2. Please indicate contact details

Q3. Please indicate your country

Q4. Which are the main organisations in your country that are involved in the implementation ….

Q5. Is there a specific policy or strategy at regional or national level regarding the support of SME transfers?

Options	№	%
Yes	11	44.0
No	11	44.0
Measure planned/ necessary in future	2	8.0
No answer	1	4.0
Total	**25**	**100.0**

Q6. Has the government officially appointed an organisation in order to take care of this competence?

Options	№	%
Yes	6	24.0
No	16	64.0
Measure planned/ necessary in future	1	4.0
No answer	2	8.0
Total	**25**	**100.0**

Awareness-raising, Information and Training

Q7. Please assess the availability in your country of initiatives specifically targeted at preparing business owners and prospective buyers for transfer

a. Awareness-raising initiatives	Aimed at owners		Aimed at prospective buyers	
	№	%	№	%
Very low	7	28.0	8	32.0
Moderate	3	12.0	4	16.0
High	7	28.0	7	28.0
Very high	5	20.0	3	12.0
Not available	3	12.0	3	12.0
No answer	0	0.0	0	0.0
Total	**25**	**100.0**	**25**	**100.0**

Survey Results

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b. Business support measures	Aimed at owners		Aimed at prospective buyers	
	Nº	%	Nº	%
Very low	8	32.0	9	36.0
Moderate	8	32.0	6	24.0
High	4	16.0	5	20.0
Very high	3	12.0	2	8.0
Not available	2	8.0	3	12.0
No answer	0	0.0	0	0.0
Total	**25**	**100.0**	**25**	**100.0**

c. Training/mentoring schemes	Aimed at owners		Aimed at prospective buyers	
	Nº	%	Nº	%
Very low	8	32.0	11	44.0
Moderate	6	24.0	2	8.0
High	4	16.0	6	24.0
Very high	3	12.0	3	12.0
Not available	2	8.0	3	12.0
No answer	2	8.0	0	0.0
Total	**25**	**100.0**	**25**	**100.0**

Q8. Are there specific initiatives for family business transfers?

	Awareness-raising initiatives		Business support measures		Training/mentor -ing schemes	
Options	Nº	%	Nº	%	Nº	%
Yes	12	48.0	6	24.0	8	32.0
No	6	24.0	11	44.0	8	32.0
Measure planned/ necessary in future	5	20.0	6	24.0	7	28.0
No answer	2	8.0	2	8.0	2	8.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Survey Results *B2*

Q9. Are there specific initiatives for business advisors (accountants, lawyers, bankers, and other intermediaries)?

Options	Nº	%
Yes	10	40.0
No	9	36.0
Measure planned/ necessary in future	5	20.0
No answer	1	4.0
Total	**25**	**100.0**

Q11. Are there any measures targeted at individual enterprises emphasising the need for a timely preparation of the transfer?

Options	Nº	%
Yes	11	44.0
No	12	48.0
Measure planned/ necessary in future	2	8.0
No answer	0	0.0
Total	**25**	**100.0**

Q12. Do measures distinguish between different types of buyers and sellers, for example by type of business transfer, age or social group?

Options	Nº	%
Yes	6	24.0
No	16	64.0
Measure planned/ necessary in future	1	4.0
No answer	2	8.0
Total	**25**	**100.0**

Q13. Please assess the effectiveness of the following types of initiative in bringing about successful business transfers in your country

	Contacting individual firms		Awareness-raising		Business support		Training/ mentoring	
Options	Nº	%	Nº	%	Nº	%	Nº	%
Not effective	1	4.0	0	0.0	0	0.0	0	0.0
Moderately effective	9	36.0	6	24.0	7	28.0	7	28.0
Quite effective	8	32.0	10	40.0	6	24.0	5	20.0
Very effective	2	8.0	3	12.0	6	24.0	4	16.0
Not available	4	16.0	5	20.0	5	20.0	7	28.0
No answer	1	4.0	1	4.0	1	4.0	2	8.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Survey Results *B2*

Q14. How do policy measures in your country supporting business transfer compare with those for start-ups? Does business transfer have:

Options	Nº	%
A lot less weight	11	44.0
Less weight	6	24.0
Equal weight	7	28.0
More weight	0	0.0
A lot more weight	0	0.0
No answer	1	4.0
Total	**25**	**100.0**

Financial environment

Q15. Please assess the quality of publicly available financial information on firms to be transferred, within each of the following enterprise types and sizes

	Sole proprie-torships		Partnerships		Ltd liability companies		Micro firms		Small firms		Medium firms	
Options	**Nº**	**%**	**Nº**	**%**	**Nº**	**%**	**Nº**	**%**	Nº	**%**	Nº	**%**
Very low	6	24.0	4	16.0	5	20.0	8	32.0	5	20.0	5	20.0
Moderate	4	16.0	5	20.0	3	12.0	4	16.0	4	16.0	3	12.0
High	1	4.0	2	8.0	4	16.0	1	4.0	4	16.0	3	12.0
Very high	2	8.0	2	8.0	5	20.0	2	8.0	3	12.0	5	20.0
Not available	8	32.0	6	24.0	4	16.0	6	24.0	5	20.0	5	20.0
No answer	4	16.0	6	24.0	4	16.0	4	16.0	4	16.0	4	16.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Q16. Are there special acquisition websites (‘matching platforms’ or ‘market places’) in your country dedicated to the selling and acquiring of established firms?

Options	Nº	%
Yes	14	56.0
No	7	28.0
Measure planned/ necessary in future	3	12.0
No answer	1	4.0
Total	**25**	**100.0**

Survey Results

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Q18. Please assess the availability of financial support instruments that are tailored specifically to business transfer

Options	Equity finance		Mezzanine finance		Loans (>€25,000)		Loans (up to €25,000)		Loan guarantees		Other	
	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%
Very low	5	20.0	7	28.0	5	20.0	4	16.0	4	16.0	3	12.0
Moderate	7	28.0	2	8.0	3	12.0	3	12.0	2	8.0	1	4.0
Quite high	3	12.0	3	12.0	3	12.0	4	16.0	3	12.0	0	0.0
Very high	0	0.0	0	0.0	4	16.0	4	16.0	5	20.0	0	0.0
Not available	6	24.0	8	32.0	7	28.0	6	24.0	8	32.0	6	24.0
No answer	4	16.0	5	20.0	3	12.0	4	16.0	3	12.0	15	60.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Q19. Please estimate the usage of financial support instruments tailored to business transfer

Options	Equity finance		Mezzanine finance		Loans (>€25,000)		Loans (up to €25,000)		Loan guarantees		Other	
	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%
Very low	7	28.0	6	24.0	6	24.0	5	20.0	5	20.0	3	12.0
Moderate	5	20.0	2	8.0	3	12.0	3	12.0	2	8.0	1	4.0
Quite high	2	8.0	1	4.0	1	4.0	2	8.0	2	8.0	0	0.0
Very high	0	0.0	0	0.0	3	12.0	3	12.0	3	12.0	0	0.0
Not available	5	20.0	8	32.0	7	28.0	7	28.0	7	28.0	6	24.0
No answer	6	24.0	8	32.0	5	20.0	5	20.0	6	24.0	15	60.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Q20. Are firms in the industrial sector required by insurance companies and banks to have an environmental audit in order to secure funding?

Options	Nº	%
Yes	3	12.0
No	17	68.0
Measure planned/ necessary in future	0	0.0
No answer	5	20.0
Total	**25**	**100.0**

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Q21. If yes, is this a source of problems?

Options	№	%
Yes	1	33.3
No	2	66.7
No answer	0	0.0
Total	**3**	**100.0**

Legal framework

Q22. Do business owners have the right to change the legal form of the business in order to facilitate its transfer without the need to wind up the firm?

Options	№	%
Yes	23	92.0
No	2	8.0
Measure planned/ necessary in future	0	0.0
No answer	0	0.0
Total	**25**	**100.0**

Q23. Are small and medium-sized enterprises allowed to establish themselves as a public limited company (PLC) with a restricted number of shareholders and a simplified structure?

Options	№	%
Yes	22	88.0
No	3	12.0
Measure planned/ necessary in future	0	0.0
No answer	0	0.0
Total	**25**	**100.0**

Q24. Is the creation of a public limited company (PLC) with only one member allowed?

Options	№	%
Yes	20	80.0
No	4	16.0
Measure planned/ necessary in future	1	4.0
No answer	0	0.0
Total	**25**	**100.0**

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Q25. Is it possible to ensure continuity of partnerships and sole proprietorships in the event of the death of a partner or the owner (legal principle of continuity)?

Options	Nº	%
Yes	20	80.0
No	3	12.0
Measure planned/ necessary in future	2	8.0
No answer	0	0.0
Total	**25**	**100.0**

Q26. Are the remaining partners allowed to decide on the continuation of the business as a going concern without the consent of the deceased partners' heirs?

Options	Nº	%
Yes	12	48.0
No	11	44.0
Measure planned/ necessary in future	2	8.0
No answer	0	0.0
Total	**25**	**100.0**

Q27. Does the partnership agreement take precedence over the terms of a will or gift (where there is a possible contradiction)?

Options	Nº	%
Yes	18	72.0
No	5	20.0
Measure planned/ necessary in future	0	0.0
No answer	2	8.0
Total	**25**	**100.0**

Q28. In the event of the death of a member of the partnership or the sole proprietor, have provisions been made so that family law and inheritance law do not prevent the enterprise from continuing as a going concern (in particular the unanimity rule for decisions relating to joint ownership?

Options	Nº	%
Yes	11	44.0
No	11	44.0
Measure planned/ necessary in future	0	0.0
No answer	3	12.0
Total	**25**	**100.0**

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Q29. Are there measures in place to ensure that the payment of the share of the deceased and compensation to minority heirs do not jeopardize the survival of the enterprise?

Options	№	%
Yes	7	28.0
No	13	52.0
Measure planned/ necessary in future	1	4.0
No answer	4	16.0
Total	**25**	**100.0**

Q30. Is it possible to conclude a succession pact?

Options	№	%
Yes	14	56.0
No	7	28.0
Measure planned/ necessary in future	1	4.0
No answer	3	12.0
Total	**25**	**100.0**

Taxation

Q31. Does the principle of fiscal neutrality apply in the following areas?

	Transfer of assets		Mergers		Division/ex-change shares		Stamp duties		Registration fees	
Options	№	%	№	%	№	%	№	%	№	%
Yes	13	52.0	15	60.0	15	60.0	9	36.0	8	32.0
No	5	20.0	3	12.0	2	8.0	5	20.0	6	24.0
Measure planned/	2	8.0	2	8.0	1	4.0	1	4.0	2	8.0
No answer	5	20.0	5	20.0	7	28.0	10	40.0	9	36.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Q32. In the case of transfer within a family, are there reduced taxes or exemptions on assets exclusively used for the business, in the following cases?

Options	Transfer by gift		Transfer by succession	
	№	%	№	%
Yes	13	52.0	13	52.0
No	8	32.0	8	32.0
Measure planned/ necessary in future	0	0.0	0	0.0
No answer	4	16.0	4	16.0
Total	**25**	**100.0**	**25**	**100.0**

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Q33. In the case of transfer to third parties, are there reduced taxes or exemptions on assets exclusively used for the business, in the following cases?

Options	Transfer by gift		Transfer by succession	
	№	**%**	**№**	**%**
Yes	5	20.0	5	20.0
No	14	56.0	14	56.0
Measure planned/ necessary in future	1	4.0	1	4.0
No answer	5	20.0	5	20.0
Total	**25**	**100.0**	**25**	**100.0**

Q34. Is it possible for heirs to spread or defer the payment of inheritance tax?

Options	№	%
Yes	12	48.0
No	7	28.0
Measure planned/ necessary in future	0	0.0
No answer	6	24.0
Total	**25**	**100.0**

Q35. Are the reduced and/or deferred inheritance taxes dependent upon the business continuing as a going concern for a minimum period?

Options	Reduced taxes		Deferred taxes	
	№	**%**	**№**	**%**
Yes	7	28.0	4	16.0
No	11	44.0	13	52.0
Measure planned/ necessary in future	0	0.0	0	0.0
No answer	7	28.0	8	32.0
Total	**25**	**100.0**	**25**	**100.0**

Q36. Is there unilateral inheritance tax relief to prevent international double taxation of inherited business?

Options	№	%
Yes	9	36.0
No	8	32.0
Measure planned/ necessary in future	0	0.0
No answer	8	32.0
Total	**25**	**100.0**

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Q37. If yes, does the unilateral tax relief apply to:

Options	№	%
Movable assets	4	44.4
Real estate	6	66.7
Applies otherwise	5	55.6

Q38. Did your country implement the Commission's Recommendation (2011/856/EU) on relief for double taxation of inheritances? Or did it take any other measures so as to provide double taxation relief for transfers of businesses?

Options	№	%
Yes	7	28.0
No	11	44.0
Measure planned/ necessary in future	0	0.0
No answer	7	28.0
Total	**25**	**100.0**

Q39. Does the tax assessment of a business take account of the possible change in the value of the business some months after the death of the owner?

Options	№	%
Yes	1	4.0
No	17	68.0
Measure planned/ necessary in future	0	0.0
No answer	7	28.0
Total	**25**	**100.0**

Q40. Are there any tax incentives in place to encourage business owners to transfer to third parties before death but after the age of 55 years (retirement tax relief)?

Options	№	%
Yes	4	16.0
No	16	64.0
Measure planned/ necessary in future	1	4.0
No answer	4	16.0
Total	**25**	**100.0**

Q41. Do tax incentives exist for the reinvestment of the profits made on selling a business?

Options	№	%
Yes	4	16.0
No	14	56.0
Measure planned/ necessary in future	1	4.0
No answer	6	24.0

Total	**25**	**100.0**

Q42. Are these incentives dependent on reinvestment in another enterprise not quoted on the stock exchange and the enterprise being actively engaged in the production or sale of goods and services?

Options	№	%
Yes	2	8.0
No	15	60.0
Measure planned/ necessary in future	1	4.0
No answer	7	28.0
Total	**25**	**100.0**

Q43. Are there any tax incentives or special rules for business transfers to employees (reduced capital gains tax, no registration fees, deferred taxation, etc.)

Options	№	%
Yes	7	28.0
No	13	52.0
Measure planned/ necessary in future	1	4.0
No answer	4	16.0
Total	**25**	**100.0**

Overall Situation regarding Business Transfer

Q46. Please assess the effectiveness of the current regulatory framework in your country in terms of providing a conducive environment for successful transfers.

Options	№	%
Not effective	4	16.0
Moderately effective	9	36.0
Quite effective	6	24.0
Very effective	1	4.0
No answer	5	20.0
Total	**25**	**100.0**

Q47. Are there any systems in place for evaluating or monitoring the effectiveness of policy measures on business transfers?

Options	№	%
Yes	2	8.0
No	13	52.0
Measure planned/ necessary in future	5	20.0
No answer	5	20.0
Total	**25**	**100.0**

Survey Results

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Q48. Please estimate the risk of business failure in the period leading up to, and during a possible transfer, in the following circumstances?

Options	Retirement of owner		Leverage buyout		Transfer within family		Owner death/ illness		Owner to start new activity	
	№	%	№	%	№	%	№	%	№	%
Low risk	1	4.0	2	8.0	4	16.0	1	4.0	2	8.0
Moderate risk	2	8.0	5	20.0	8	32.0	1	4.0	4	16.0
Quite high risk	6	24.0	5	20.0	2	8.0	2	8.0	4	16.0
Very high risk	3	12.0	1	4.0	0	0.0	10	40.0	3	12.0
No impact	1	4.0	0	0.0	0	0.0	0	0.0	0	0.0
No answer	12	48.0	12	48.0	11	44.0	11	44.0	12	48.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Q49. Please estimate the risk of business failure after transfer in the following circumstances?

Options	Retirement of owner		Leverage buyout		Transfer within family		Owner death/ illness		Owner to start new activity	
	№	%	№	%	№	%	№	%	№	%
Low risk	1	4.0	1	4.0	6	24.0	1	4.0	2	8.0
Moderate risk	4	16.0	6	24.0	4	16.0	2	8.0	2	8.0
Quite high risk	4	16.0	5	20.0	2	8.0	4	16.0	6	24.0
Very high risk	1	4.0	0	0.0	0	0.0	5	20.0	1	4.0
No impact	3	12.0	1	4.0	1	4.0	0	0.0	1	4.0
No answer	12	48.0	12	48.0	12	48.0	13	52.0	13	52.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Q50. Do you have any information indicating which factors are likely to make SMEs more vulnerable to transfer failure?

Size of firm	Micro		Small		Medium	
	№	%	№	%	№	%
Negative impact	5	20.0	2	8.0	1	4.0
Moderate impact	4	16.0	5	20.0	4	16.0
Positive impact	0	0.0	1	4.0	4	16.0
Very positive impact	2	8.0	2	8.0	2	8.0
No impact	1	4.0	2	8.0	1	4.0
No answer	13	52.0	13	52.0	13	52.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Survey Results

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Sector of activity	Industry		Construction		Trades		Horeca		Transport&Com	
	№	%	№	%	№	%	№	%	№	%
Negative impact	3	12.0	10	40.0	2	8.0	1	4.0	1	4.0
Moderate impact	3	12.0	0	0.0	5	20.0	6	24.0	8	32.0
Positive impact	5	20.0	1	4.0	1	4.0	2	8.0	1	4.0
Very positive impact	0	0.0	1	4.0	1	4.0	0	0.0	0	0.0
No impact	1	4.0	0	0.0	1	4.0	1	4.0	1	4.0
No answer	13	52.0	13	52.0	15	60.0	15	60.0	14	56.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Sector of activity	Real estate, business act.		Services		Other	
	№	%	№	%	№	%
Negative impact	1	4.0	2	8.0	0	0.0
Moderate impact	7	28.0	0	0.0	0	0.0
Positive impact	1	4.0	1	4.0	0	0.0
Very positive impact	0	0.0	0	0.0	0	0.0
No impact	2	8.0	1	4.0	1	4.0
No answer	14	56.0	21	84.0	24	96.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Financial indicators	Level of price/ earnings ratio		Level of firm's debt		Level of value added	
	№	%	№	%	№	%
Negative impact	2	8.0	8	32.0	1	4.0
Moderate impact	5	20.0	2	8.0	3	12.0
Positive impact	2	8.0	0	0.0	4	16.0
Very positive impact	2	8.0	1	4.0	3	12.0
No impact	0	0.0	0	0.0	0	0.0
No answer	14	56.0	14	56.0	14	56.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Legal form	Sole proprietorship		Partnership		Limited liability company		Family owned company	
	№	%	№	%	№	%	№	%
Negative impact	6	24.0	1	4.0	0	0.0	0	0.0
Moderate impact	2	8.0	4	16.0	4	16.0	0	0.0
Positive impact	0	0.0	4	16.0	3	12.0	5	20.0
Very positive impact	1	4.0	0	0.0	2	8.0	0	0.0

Survey Results *B2*

No impact	1	4.0	1	4.0	1	4.0	0	0.0
No answer	15	60.0	15	60.0	15	60.0	20	80.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Age of firm	**< 3 years**		**3 to 5 years**		**5 to 10 years**		**>10 years**	
	Nº	**%**	**Nº**	**%**	**Nº**	**%**	**Nº**	**%**
Negative impact	5	20.0	1	4.0	0	0.0	1	4.0
Moderate impact	1	4.0	3	12.0	2	8.0	2	8.0
Positive impact	2	8.0	4	16.0	4	16.0	0	0.0
Very positive impact	1	4.0	0	0.0	2	8.0	5	20.0
No impact	1	8.0	3	12.0	3	12.0	3	12.0
No answer	14	56.0	14	56.0	14	56.0	14	56.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

Transfer to:	**Family member(s)**		**Employee(s)**		**Individual buyer**		**Another business**		**Private equity**	
	Nº	**%**	**Nº**	**%**	**Nº**	**%**	**Nº**	**%**	Nº	**%**
Negative impact	2	8.0	1	4.0	2	8.0	1	4.0	2	8.0
Moderate impact	5	20.0	4	16.0	3	12.0	1	4.0	1	4.0
Positive impact	2	8.0	3	12.0	3	12.0	6	24.0	2	8.0
Very positive impact	2	8.0	2	8.0	2	8.0	3	12.0	0	0.0
No impact	1	4.0	1	4.0	1	4.0	1	4.0	1	4.0
No answer	13	52.0	14	56.0	14	56.0	13	52.0	19	76.0
Total	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**	**25**	**100.0**

State of Play in Previous Reviews of Progress *B3*

Table 4-4: Implementation of the 1994 Recommendation - Situation in 2006

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Country	Awareness raising	Financial environment	Change of legal form	Tax neutral restructuring	Simplification SMEs/PLCs	PLC with one member	Legal principle of continuity	Unanimity not required	Reduced inheritance tax	Deferring inheritance tax	Retirement tax relief	Re-investment tax relief	Sale to employees tax relief	**Total + or (+)**
Belgium	+	+	+	+	+	∅	+	∅	+	+	+	+	+	11
Czech Republic	-	-	+	+	+	∅	+	∅	+	+	+	+	∅	8
Denmark	-	+	+	+	+	+	+	-	+	∅	+	∅	+	9
Germany	+	+	+	+	+	+	+	∅	+	+	+	+	∅	11
Estonia	∅	∅	+	-	-	+	-	-	+	+	∅	∅	∅	4
Greece	-	-	-	-	-	-	-	-	+	+	-	-	-	2
Spain	+	-	+	-	+	+	+	-	+	+	-	+	+	9
France	+	+	+	+	-	+	-	-	+	∅	+	+	+	9
Ireland	+	+	∅	+	+	∅	+	-	+	+	+	∅	+	9
Italy	+	+	+	∅	∅	+	+	+	+	+	∅	∅	∅	8
Cyprus	+	∅	+	-	+	+	+	-	+	+	∅	∅	∅	7
Latvia	-	∅	+	+	∅	+	+	+	-	-	-	-	-	5
Lithuania	+	-	+	+	+	+	+	∅	+	+	∅	∅	∅	8
Luxembourg	+	+	+	-	+	+	+	∅	-	+	∅	∅	∅	7
Hungary	∅	∅	+	+	∅	+	+	+	+	-	+	∅	+	8
Malta	∅	∅	+	+	+	∅	+	∅	+	+	∅	∅	∅	6
Netherlands	+	-	+	+	+	+	+	-	+	+	∅	∅	∅	8
Austria	+	+	+	+	+	+	+	+	+	+	+	∅	+	12
Poland	-	+	+	+	∅	+	+	∅	+	-	∅	∅	∅	6
Portugal	+	-	+	-	-	∅	+	-	∅	∅	∅	∅	∅	3
Slovenia	∅	∅	+	+	+	+	+	-	-	+	∅	∅	∅	6
Slovakia	∅	∅	+	∅	∅	+	-	∅	+	-	∅	∅	∅	3
Finland	+	+	+	+	+	+	+	∅	+	+	∅	∅	∅	9
Sweden	+	-	+	+	-	+	∅	∅	+	+	-	-	∅	6
United Kingdom	+	-	+	-	-	+	-	∅	+	+	∅	+	+	7
European Union	15	10	23	16	14	19	19	4	21	18	8	6	8	181

Legend

+	Recommendation implemented, partial or planed implementation
∅	Recommendation not implemented
-	No information

	11 to 13 - Recommendations implemented, partial or planed implementation
	7 to 10 - Recommendations implemented, partial or planed implementation
	1 to 6 - Recommendations implemented, partial or planed implementation

State of Play in Previous Reviews of Progress — *B3*

Table 4-5: Implementation of the 1994 Recommendation - Situation in 2010

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Country	Awareness raising	Financial environment	Change of legal form	Tax neutral restructuring	Simplification SMEs/PLCs	PLC with one member	Legal principle of continuity	Unanimity not required*	Reduced inheritance tax	Deferring inheritance tax	Retirement tax relief*	Re-investment tax relief	Sale to employees tax relief	**Total + or (+)**
Belgium	+	+	+	+	+	+	+	∅	+	+	+	+	+	12
Czech Republic	+	-	+	+	+	+	+	∅	+	+	+	+	∅	10
Denmark	+	+	+	+	+	+	+	-	+	+	+	+	+	12
Germany	+	+	+	+	+	+	+	∅	+	+	+	+	∅	11
Estonia	∅	∅	+	+	+	+	+	-	+	+	∅	+	∅	8
Greece	+	-	∅	+	-	-	+	-	+	+	-	-	+	6
Spain	+	+	+	+	+	+	+	-	+	+	-	+	+	11
France	+	+	+	+	+	+	+	-	+	+	+	+	+	12
Ireland	+	+	+	+	+	∅	+	-	+	+	+	∅	+	10
Italy	+	+	+	+	+	+	+	+	+	+	∅	∅	∅	10
Cyprus	+	+	+	+	+	-	+	-	+	+	∅	∅	∅	8
Latvia	-	∅	+	+	∅	-	+	+	-	+	-	-	-	5
Lithuania	+	+	+	+	+	+	+	∅	+	+	∅	∅	∅	9
Luxembourg	+	+	+	-	+	+	+	∅	-	+	∅	∅	∅	7
Hungary	∅	∅	+	+	+	+	+	+	+	-	+	∅	+	9
Malta	+	-	+	+	+	∅	+	∅	+	+	∅	∅	∅	6
Netherlands	+	+	+	+	+	+	+	-	+	+	∅	+	+	11
Austria	+	+	+	+	+	+	+	+	+	+	+	∅	+	12
Poland	+	+	+	+	+	+	+	∅	+	+	∅	∅	∅	9
Portugal	+	+	+	+	+	+	+	-	∅	∅	∅	∅	∅	7
Slovenia	∅	+	+	+	+	+	+	-	+	+	∅	+	+	10
Slovakia	∅	+	+	+	+	+	+	∅	+	+	∅	∅	-	8
Finland	+	+	+	+	+	+	+	∅	+	+	∅	∅	∅	9
Sweden	+	-	+	+	+	+	∅	∅	+	+	-	-	∅	7
United Kingdom	+	+	+	+	+	+	+	∅	∅	+	∅	+	+	10
Bulgaria	+	+	+	+	+	∅	+		∅	∅		∅	∅	6
Romania	+	-	+	∅	+	+	+		∅	∅		∅	∅	5
European Union	22	19	26	25	25	20	26	4	21	22	8	10	11	239

Legend

+	Recommendation implemented, partial or planed implementation
∅	Recommendation not implemented
-	No information

(green)	11 to 13 - Recommendations implemented, partial or planed implementation
(yellow)	7 to 10 - Recommendations implemented, partial or planed implementation
(red)	1 to 6 - Recommendations implemented, partial or planed implementation

*2006 Data

Source: Business Dynamics Survey 2010

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Bulgaria	Name withheld	**FYROM**	N/A
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Estonia	N/A	**Montenegro**	N/A
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