

Avenues to Improve Success in SME Business Transfers: Reflections on Theories, Research and Policies.

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Overview

1. Topics in research since the mid 1980's
2. Can we counter wide spread misunderstandings about business transfers,
3. Are social sciences capable to contribute to the success in SME business transfers?
Definitions?
Can we measure success rate?
Theory? Models?
Economic relevance SME business transfers?
4. A future (research and support) agenda

SME Business Transfer Research (1)

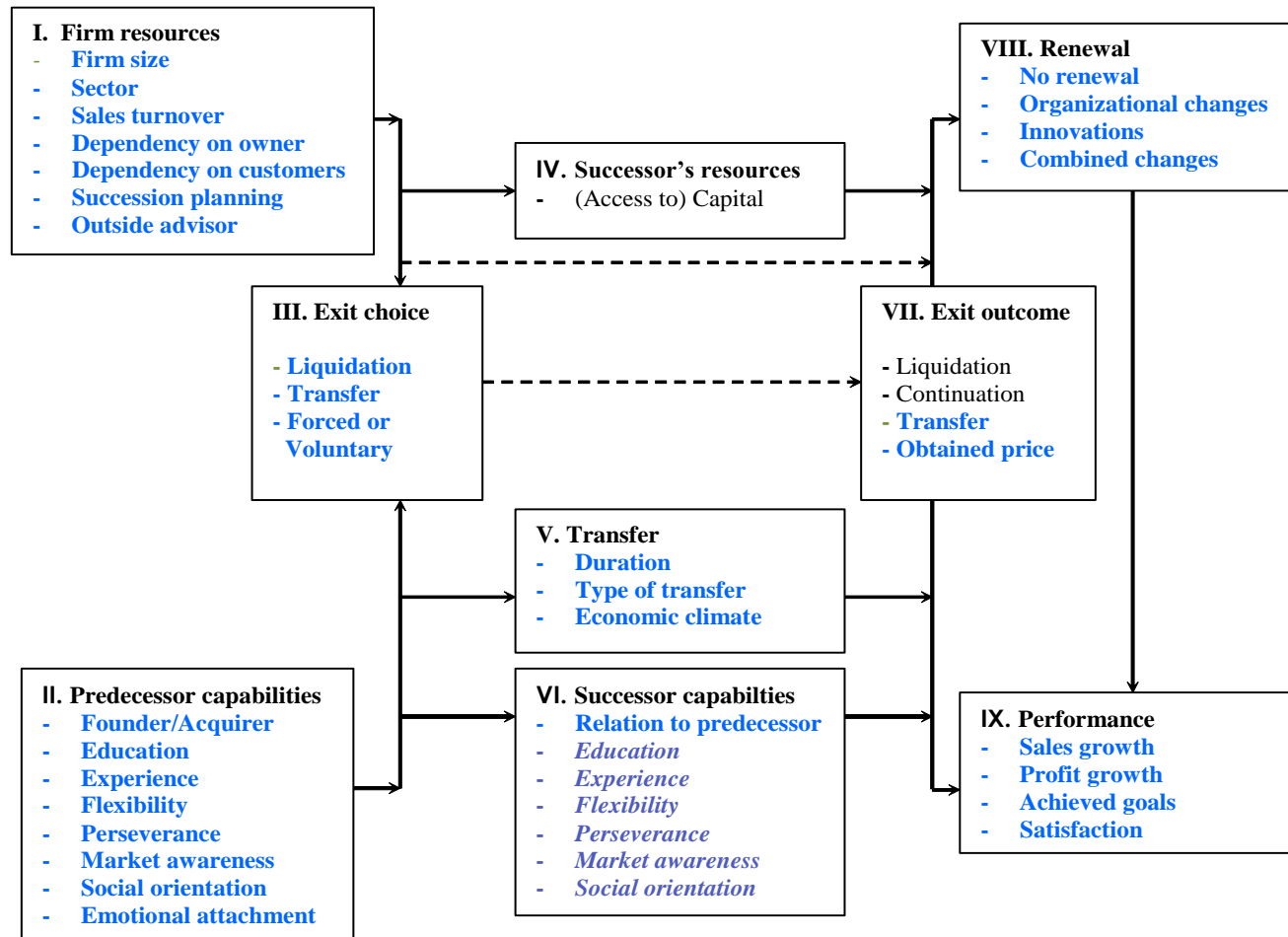
mid 1980's First publications on what goes wrong in (family) successions
(e.g. Lansberg, 1988; Kets de Vries, 1988)

1995-1997 First models for family succession
(Harvey & Evans, 1995; Morris et al., 1997)

2002 Paradigm shift:
Attention for non-family successions (European Commission, 2002)

2003-2005 International comparative studies/reviews on succession problems
(Geerts et al., 2004; Le Breton-Miller et al., 2004; Stone et al., 2004) resulting in a comprehensive model
for all types of business transfers and acquisitions (Meijaard et al., 2005)

An integrated research model

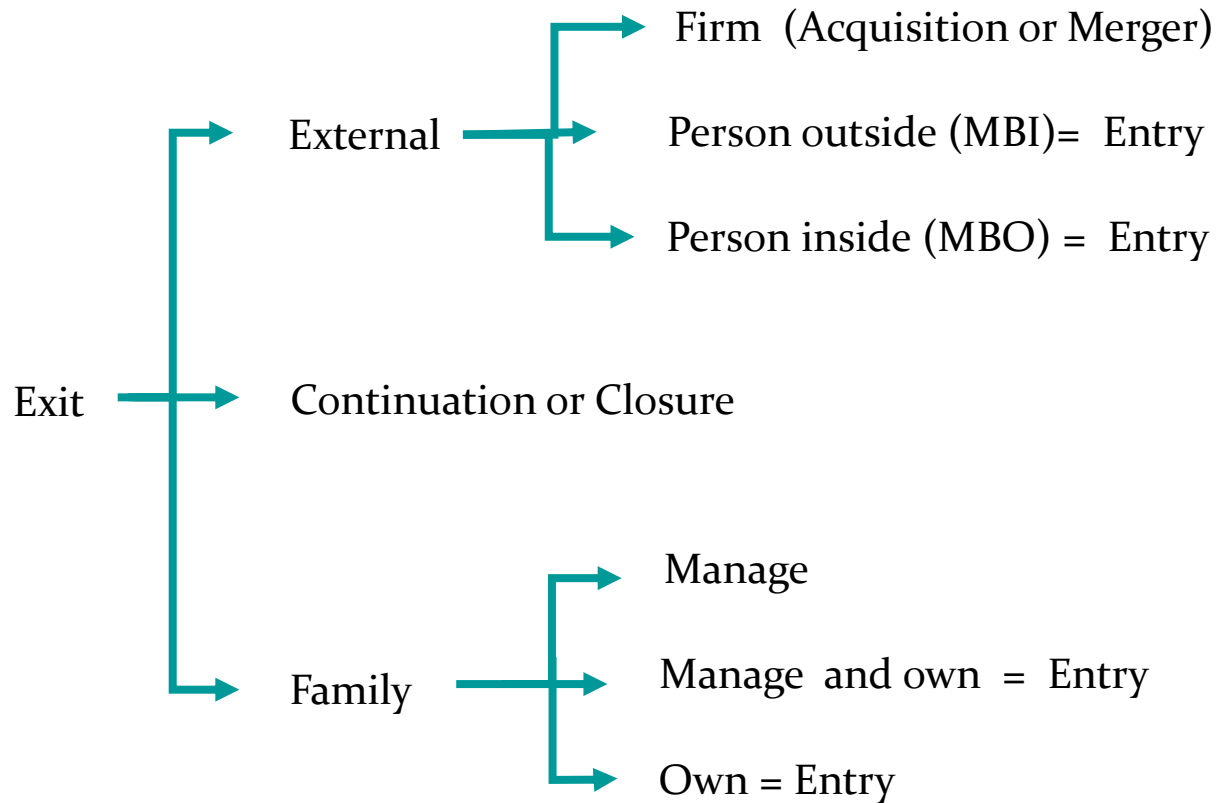


Source: Van Teeffelen (2010). Adaptation of Meijaard et al. (2005)

SME Business Transfer Research (2)

- 2007 - Several ways of entrepreneurial exit, including selling off, succession, closure.
(Amaral et al., 2007; Cucculelli & Micuci, 2008; Wennberg et al., 2010; DeTienne & Cardon, 2010; Ryan and Power, 2012; Van Teeffelen & Uhlaner, 2013; DeTienne et al., 2015)
- 2007 - Revival of succession and taking over a firm as modus of entrepreneurial entry
(Halter et al., 2007; Kay & Schlömer, 2007; Parker & Van Praag, 2010; Van Teeffelen, 2011; Block et al., 2012)

Opening Up the Perspective: Exit also Assumes Entry



SME Business Transfer Research (3)

- 2010- Intangible aspects, process and preparation more accurately defined
(Durst, 2011; Kammerlander, 2014; Michel and Kammerlander, 2014; Weesie and Van Teeffelen, 2015; Jaskiewicz et al., 2015; Samei and Feyzbakhsh, 2015)
- 2014- Paradigm shift
It can happen at any time (not just at pension age) and needs support (eco-)systems.
(European Commission, 2013; Varamäki et al., 2013; Tall, 2014; Van Teeffelen, 2015)
- 2015 - Studies to measure, compare, improve support systems
(Viljamaa et al., 2015; Van Teeffelen and Weesie, 2015)

Challenges for Sellers and Buyers

Selling Side

- No successor or buyer available (e.g. Le Breton-Miller et al., 2004; Meijaard et al., 2005)
- Access to support and advisory services (Allison et al., 2007; De Waard, 2002; Stone et al. 2004; Van Teeffelen, 2012)
- Psychological barriers leading to delay or failure (Lansberg, 1999; Sharma et al., 2001; Flören, 2002; Stone et al., 2004, Kammerlander, 2014; Weesie and Van Teeffelen, 2015)

Buying side

- Hardly education available (Van Teeffelen et al., 2014)
- Many differences between takeover entrepreneurs and start-up entrepreneurs (Coopers and Dunkelberg, 1986; Parker and Van Praag, 2010; Van Teeffelen, 2012; Block et al., 2012)
- Financing the deal, lack of entrepreneurial experience, lack of skills in change management, lack of financial knowledge, law and tax issues.
(European Commission, 2002; Eurochambres, 2009; Geerts et al., 2004; Stone et al., 2004; Van Teeffelen, 2011, 2014).

What have we accomplished so far?

Can we counter some of these wide spread misunderstandings?

1. Only well performing firms are seen as viable and transferable!
2. Micro firms are hardly transferable!

(Geerts et al., 2004; Amaral et al., 2007; Cucculelli & Micuci, 2008; Wennberg et al., 2010; Van Teeffelen & Uhlaner, 2013)

3. Long term planning and preparation are crucial!
4. Advisory services are supportive!
5. The market for selling and purchasing SMEs is self propelling!

Planning and Preparation and Advisors

Sellers side and (post-) transfer performance

- Planning and preparation seems to be negatively or unrelated to objective transfer performance (Astrachan and Kolenko 1994; Morris et al. 1996, 1997; Avila et al., 2003; Meijaard et al., 2005; Berent et al, 2009; Van Teeffelen et al., 2011) , but are positively related to satisfaction scores of the seller (Morris et al, 1996, Sharma et al, 2003, Van Teeffelen et al., 2011).
It is about a mental process and orientation unless complex legal/tax constructions are needed.

Buying side and (post)-transfer performance

- Need to be well prepared (Eurochambers, 2009; Van Teeffelen et al., 2014; Jaskiewicz et al., 2015; Samei and Feyzbakhsh, 2015;)
- Bankers prefer higher educated buyers and buyers with a good business plan (Moog en Felden, 2010)
- Buyer with previous entrepreneurial experience performs better (Van Teeffelen, 2012)
- Innovates en reorganizes after succession or firm acquisition (Van Teeffelen & Uhlaner, 2010)

No evidence for added value of advisors (Meijaard et al., 2005; Morris et al., 1997; Van Teeffelen, 2012)

- Business brokers are unavailable for most micro firm transactions (De Waard, 2002; European Commission, 2002; Next Generation, 2007; Van Teeffelen, 2007), accountants (70%) are poorly equipped and/or inexperienced (Allinson et al., 2007; Stone et al., 2004; Van Teeffelen, 2009).
- Bankers lack uniform criteria for financing (Moog and Felden, 2010; Braaksma, Smit & Verhoeven, 2011)
- Expensive one-to-one advisory services instead of cheap group programs (Van Teeffelen, 2011)

Added Value of Planning and Preparation and Advisors

Research limitations:

- It is a complex process in different phases, more than one advisors needed (Van Teeffelen, 2012; Michel and Kammerlander, 2014)
- Research is vague on the qualifications, experience, phase of and cooperation between advisors
- No check if sellers or buyers disregard sound advice of advisors

What is needed? Better controlled and comparable situations in studies.

Can we counter some of these wide spread misunderstandings?

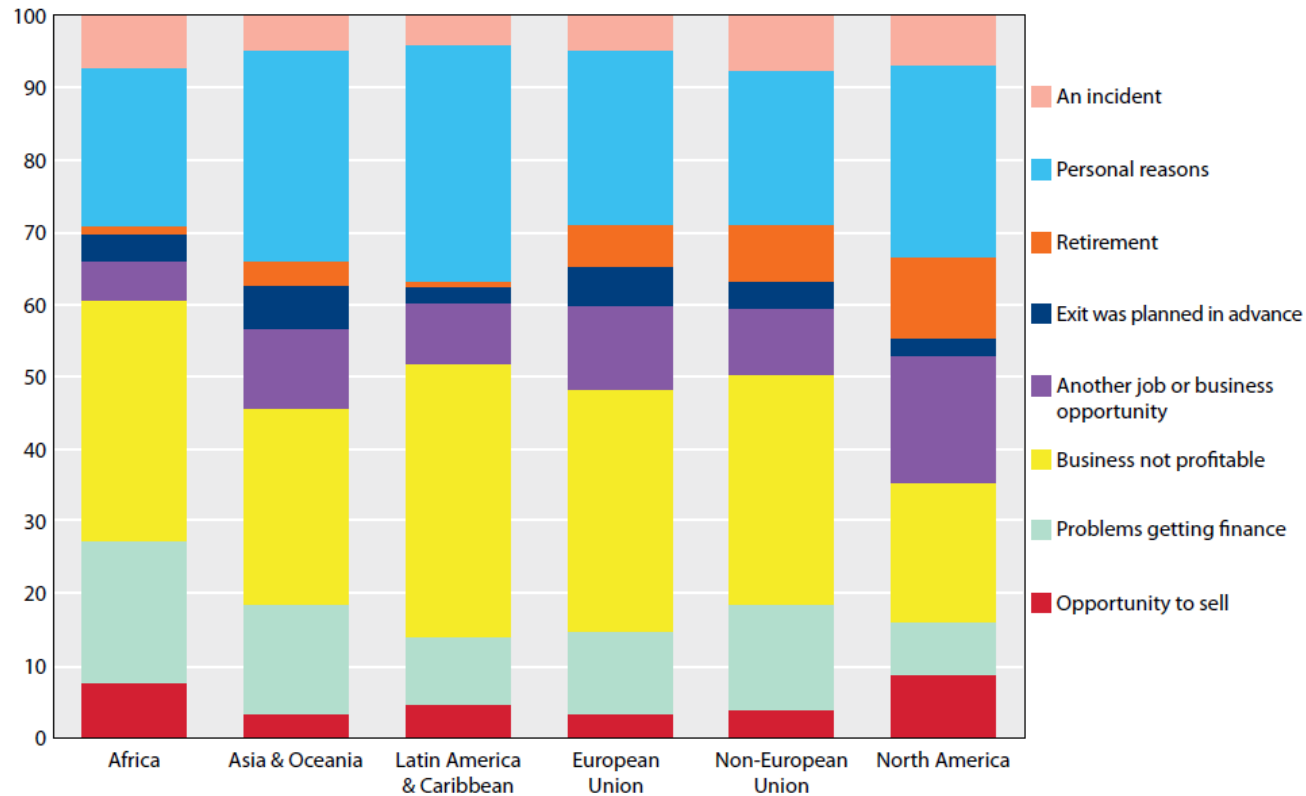
5. It is all about the money! Getting the right price and capital provisions (Van Teeffelen et al., 2011; Kammerlander, 2014)

- Access to and government guaranteed capital provisions differ widely in EC countries.
(Crijns en Vermeulen, 2007; Carnegie Consult, 2011; EC 2013).
- Financing equity is hard and complicated in many European countries (e.g. Eurochambers, 2009; ELI, 2011).
- Debt financing may differ from country to country but is very challenging for SMEs
(OECD, 2014; SAFE, 2014; Worldbank, 2014;). It does not support younger successors/buyers (EC, 2013)

Studies needed on types and effectiveness of capital provisions and tax regulations

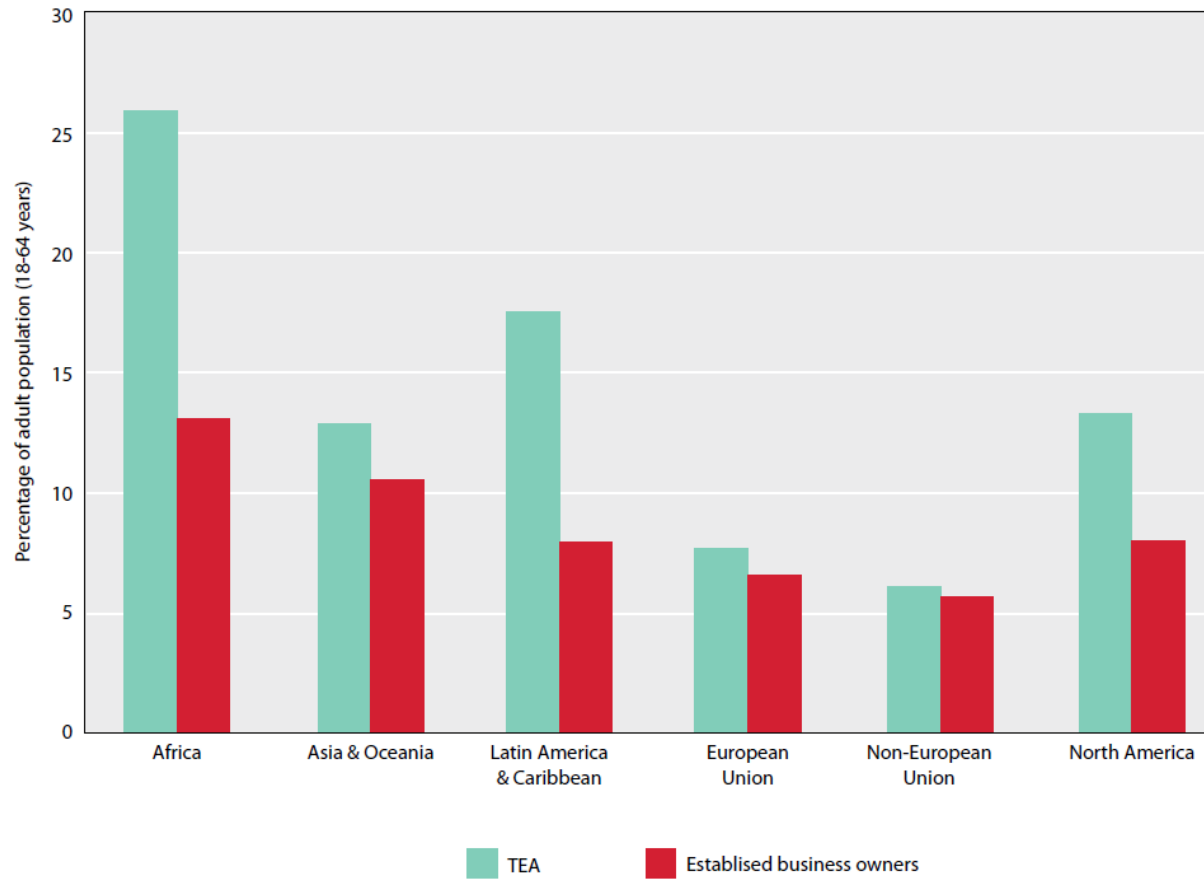
Are these the right measurements on retirement as motive? (GEM, 2014)

FIGURE 2.12 REASONS FOR BUSINESS DISCONTINUANCE IN 2014, BY GEOGRAPHIC REGIONS



Both start-ups and mature businesses! (GEM, 2014)

FIGURE 2.11 TEA AND ESTABLISHED BUSINESS OWNERS IN 2014, BY GEOGRAPHIC REGIONS



Can social sciences contribute

Question 1:

Is there a clear definition on business transfers?

Differences:

- Most studies do not define business transfers!
(e.g. Le Breton-Miller et al., 2004; Morris et al, 1997; Venter et al., 2003; DeTienne & Cardon, 2010; Parker & Van Praag, 2010; Block et al., 2012)
- Assets or shares? Do we look at legal entities only or also consider sole proprietors/partnerships
(e.g. European Commission, 2002)
- Transfer of management, ownership or both? (e.g. Meijaard, 2005; e.g. Sharma, 2003)

Legal perspective:

“A *business transfers/acquisition* is a transaction, where more than 50% of all ownership – shares or assets – are handed over to another natural person or legal entity, safeguarding the continuation of the commercial activities of the firm” (Van Teeffelen, 2010).

Process perspective

“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” (European Commission, 2013).

Note: The timespan of the transfers of ownership is flexible in these definitions.

Can social sciences contribute

Question 2:
Measuring Success Rate of Business Transfers?

Success rate (year/sector) = ((acquisitions+successions)/total supply of firms for sale) x 100%

a) supply can be measured by panel studies (e.g. Van Teeffelen, 2015)

b) number of acquisitions and successions are unknown, due to a gross lack of registration
(e.g. European Commission, 2002). But cohort studies are possible.

But are we measuring the right variables?

Post-transfer performance also seems vital (Morris et al., 1997 ; Meijaard et al, 2005).

There is a need for longitudinal performance measurement.

Can social sciences contribute

Question 3: Sufficient Theories Available?

Initial firm and incumbent situation:

Resource Based View (Barney, 1991, 2001)

Social Capital (Leana and Van Buren, 1999; Oh et al., 2004; Uhlaner, 2008; Berent-Braun, 2010, Matser, 2012)

Human Capital (Becker, 1964, 1975; Van Teeffelen et al., 2011)

Personality Traits (Markman & Baron, 2003; Driessen, 2005; Rauch & Frese, 2007, 2009)

But why doesn't it work out in the end?

Theory of Planned Behavior (Ajzen, 1991)

Threshold theory (Gimeno et al., 1997; Van Teeffelen et al., 2014)

Group Dynamics (Lewin, 1939; Belbin, 1981)

Agency Theory (Jensen and Meckling, 1976)

Coping (Lazarus, 1993, Carver and Scheier, 1994)

Question 4:

Are SME Business Transfer Relevant for Economy?

(EIM, 2007, 2011; KfW, 2009; KvK, 2011; Van Praag & Versloot, 2007; Van Teeffelen & Uhlaner, 2010; Van Teeffelen, 2012, 2015)

A third of all SMEs with employees is in need of successors every decade: 3% - 4%, per year.

1-2% of all jobs per year (European Commission, 2002).

Business in transfers in NL (0-100): 7% of all firms with employees (55.700)

Estimated loss of turnover 12 billion euro's, loss of equity of 4 billion euro's, 120.000 fte jobs

Euro Flash Barometer (2009)

Interest in taking over a business is on average 25% (start-up 50%) in EU-27

Croatia: 20% (start-up 52%)

Economic importance	Start-up	Firm acquirers
Innovation (D, NL)	low (10-12%)	high (60% -75%)
Job numbers (D, B, NL)	1,0	2,5 - 5,5
Job growth (NL)	low (10%)	mid (23%)
Increases competition (int.)	yes	?
Survival (int.)	35-50%	70-96%
<i>Total</i>	<i>small effect</i>	<i>strong effects</i>

Pending (Research) Contributions

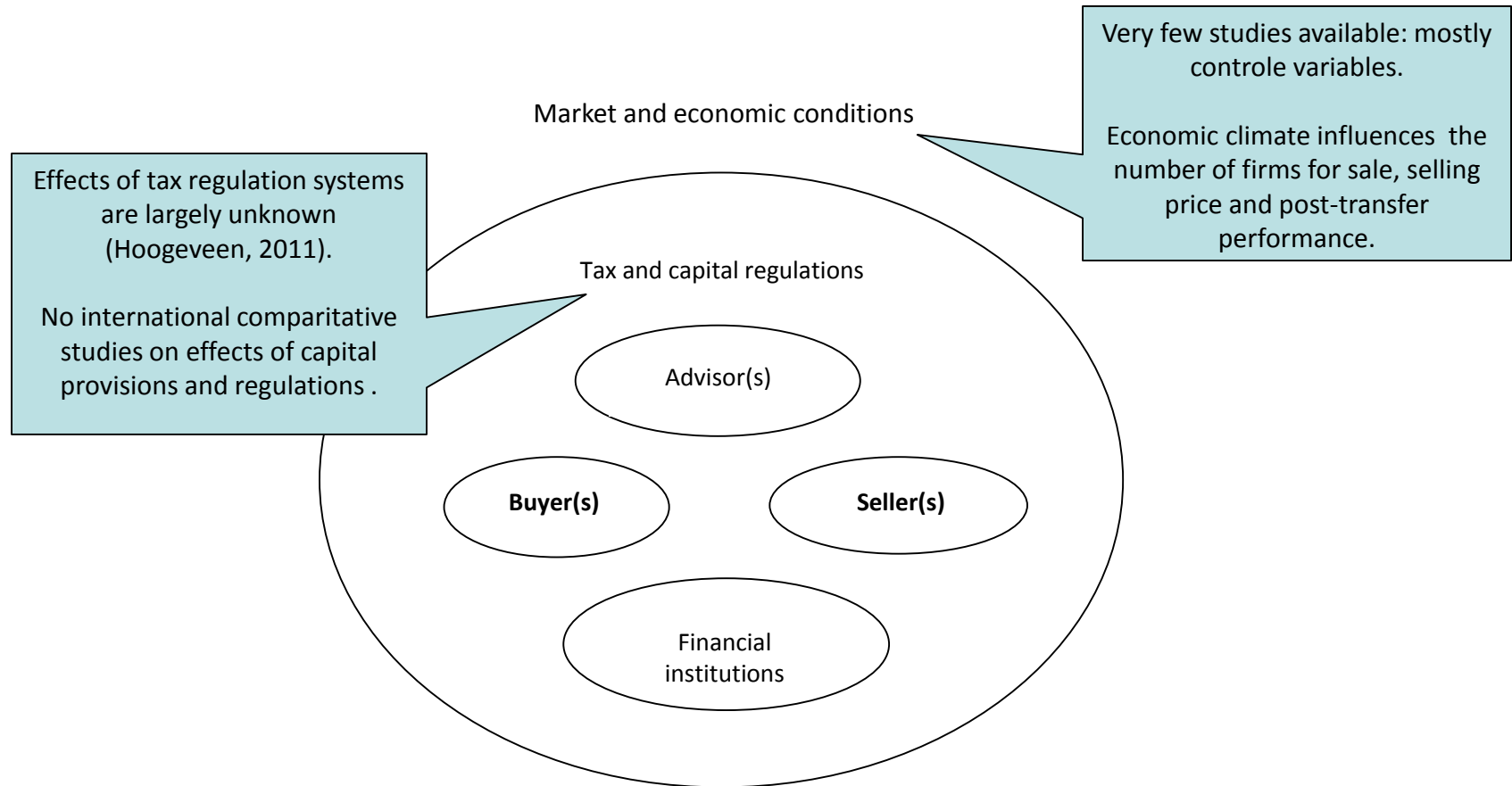
What kind of research is needed?

- *International comparable data on economic impact of SME business transfers.*
- *Studies needed on effectiveness of capital provisions and tax regulations.*
- *Better validation of barriers and finding effective coping in pre-, during negotiations (deal breakers) and post-transfer situations.*
- *Field experiments on the effectiveness of (expensive) advisory services for sellers and buyers, compared to (cheap) group programs, including control groups.*
- *In general we lack verifications of studies on success and failure in different type of economies*
- *Follow-up studies on (mid-term) firm performance and growth after ownership change.*

From knowledge to practical impact

- *University educational and programs on entrepreneurship need diversification to succession, takeover entrepreneurs and franchising. Remember start-up programs attract different types!*
- *Developing short programs for sellers including a reality check on sale.*
- *Develop effective support programs after takeover/succession to support innovations.*

Research Outcomes and Pending Questions

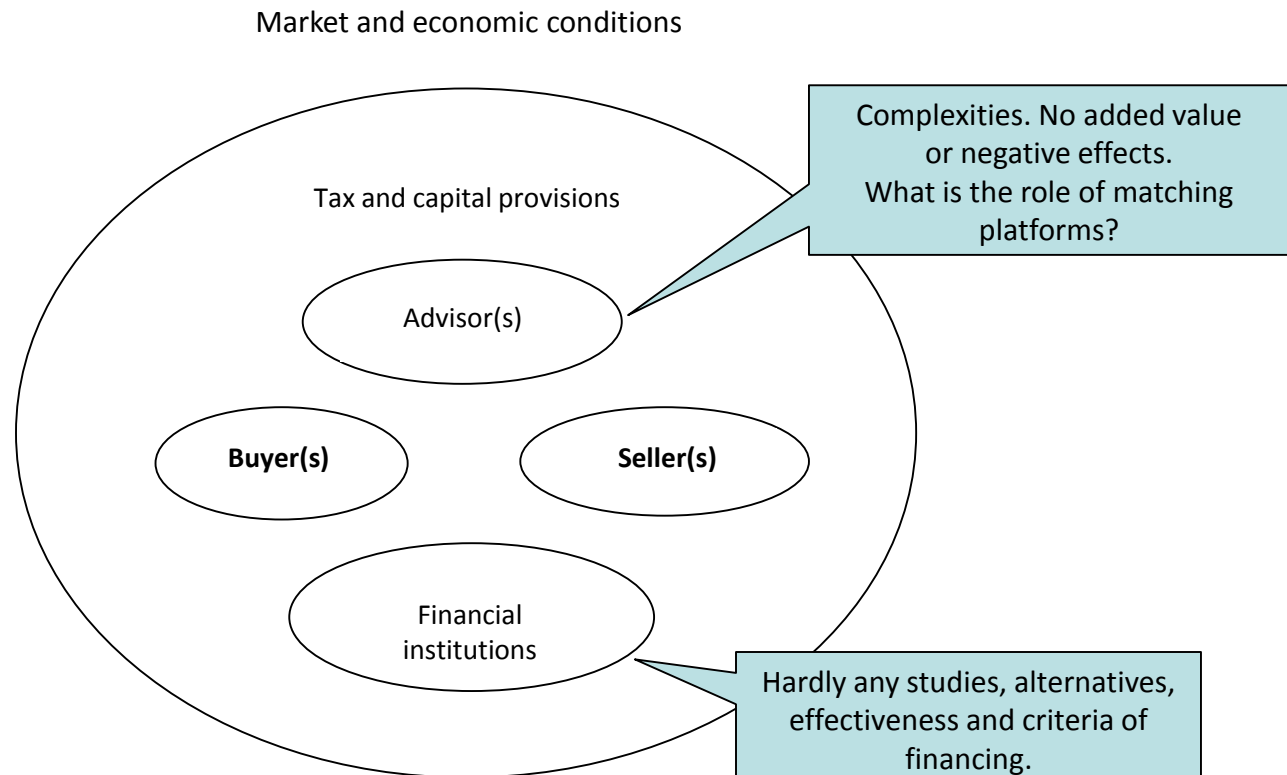


Capital Regulations for Business Transfers

- Access to and government guaranteed capital provisions differ widely in EC countries. (Crijns en Vermeulen, 2007; Carnegie Consult, 2011; EC 2013).
- Financing equity is hard and complicated in Europe (e.g. Eurochambers, 2009; ELI, 2011).
- Debt financing may differ from country to country but is challenging for SMEs (OECD, 2014; SAFE, 2014; Worldbank, 2014;). They do not support younger successors/buyers (EC, 2013)
- The smaller the sum asked for assets, the higher the rejection rate up to 8 times (EIM, 2005).

Studies needed on types and effectiveness of capital and tax regulations

Added Value of Advisors and Financial Institutions?



Added Value of Advisors?

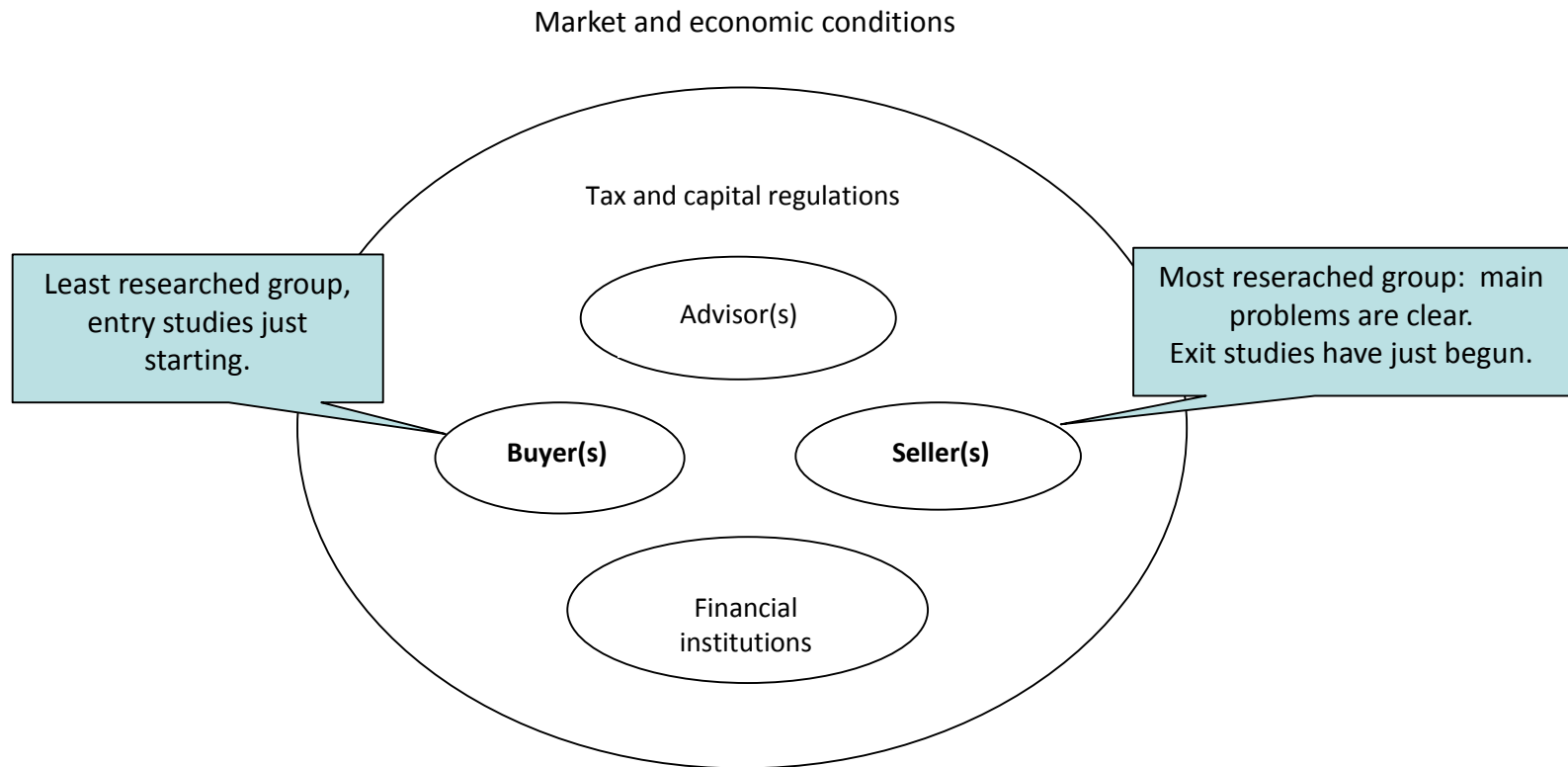
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Challenges for Sellers and Buyers?



Challenges for Sellers and Buyers

Selling Side

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- Access to support and advisory services (Allison et al., 2007; De Waard, 2002; Stone et al. 2004; Van Teeffelen, 2012)
- Lack of preparation (Kirby en Lee, 1996; Lansberg, 1988; Mandelbaum, 1994; Meijaard et al., 2005; Rue en Ibrahim, 1996; Seymour, 1986; Sharma et al. 2003; Stavrou, 1996)
- Psychological barriers leading to delay or failure (Flören, 2002; Kammerlander, 2014; Lansberg, 1999; Sharma et al., 2001; Stone et al., 2004; Van Teeffelen, 2010; Weesie and Van Teeffelen, 2015)

Buying side

- Hardly education available (Van Teeffelen et al., 2014)
- Financing the deal, lack of entrepreneurial experience, lack of skills in change management, lack of financial knowledge and law and tax issues.
(European Commission, 2002; Eurochambres, 2009; Geerts et al., 2004; Stone et al., 2004; Van Teeffelen, 2011, 2014).

More studies needed on (the entry of) successors/buyers

Which Factors Improve Business Transfer Success?

Selling side

- Trust and familiarity (Howorth et al., 2004; Sharma et al., 2003; Van Teeffelen et al., 2011; Venter et al., 2003)
- Prior experience with selling of buying a firm (Molly et al., 2010; Van Teeffelen and Uhlaner, 2012)
- Firm's relative independence of the owner, a wide customer group and turnover growth before selling off (Van Teeffelen et al., 2011)
- Market awareness, flexibility and endurance of both seller and buyer (Van Teeffelen, Uhlaner and Driessen, 2011; Van Teeffelen, 2012).

Buying side

- The buyer has previous entrepreneurial experience (Van Teeffelen, 2012)
- Well prepared (Eurochambers, 2009; Jaskiewicz et al., 2015; Samei and Feyzbakhsh, 2015)
- Bankers prefer higher educated buyers and buyers with a good business plan (Moog en Felden, 2010)
- Innovate and reorganize after succession or firm acquisition (Van Teeffelen & Uhlaner, 2010)

In general we lack verifications of studies in different types of economies

Directions for future research

Assumption on an equal profile of all entrepreneurs in literature and research (e.g. Markman & Baron, 2003; Driessen, 2005, Rauch & Frese, 2007).

Isn't more likely that successors and takeover entrepreneurs are a different kinds?

Comparing 1900 start-up entrepreneurs and 400 takeover entrepreneurs (Van Teeffelen, 2012)

Differences in profiles:

- Age, education and market awareness (human capital)
- Motives
- Dominance, risk propensity and endurance (personality traits)

Different predictors for turnover growth:

Start-ups: Age, work and management experience

Takeovers: Entrepreneurial experience and personality traits

Many Other (Research) Contributions Possible!

What kind of research is needed?

- *International comparable data on number and economic impact of SME business transfers.*
- *Studies needed on effectiveness of capital and tax regulations*
- *Better validation of barriers and finding effective entrepreneurial coping in pre-, during negotiations (deal breakers) and post-transfer situations.*
- *Field experiments on the effectiveness of (expensive) advisory services for sellers and buyers, compared to (cheap) group programmes, including control groups.*
- *In general we lack verifications of studies on success and failure in different types of economies*
- *Follow-up studies on (midterm) firm performance and growth after ownership change.*
- *Differences in profiles of start-ups and takeover entrepreneurs?*

From knowledge to practical impact

- University educational and programmes on entrepreneurship need diversification to succession, takeover entrepreneurs and franchising.
- Developing valid sector specific scans for incumbants/sellers to assess initial situation.
- Effective support programs for seller/buyers during and after take over/succession in innovations.