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Business transfer potential in Finland: aging entrepreneurs as sellers and predecessors

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Introduction

Aging is one of the greatest social and economic challenges of the 21st century for European societies. The proportion of people over the age of 55 will increase from 30 % in 2010 to around 37 % by 2030 (Eurostat 2012). The aging of Europe will also translate into aging of European entrepreneurs. This will have an impact not only on the ownership of enterprises but also on employment and growth prospects. Keeping enough active entrepreneurs in the system is essential. In Finland entrepreneurs are, on average, slightly older than their colleagues in other EU countries. According to Statistics Finland, in 2010 as high a share as 30 % (74 200) of Finnish entrepreneurs were in the age group 55–74 years. Various estimates (e.g., Ministry of Employment and the Economy, Finnish Business Brokers Association) suggest that in the next few years the number of businesses for sale on the market due to aging would be 1 500–2 400 (Varamäki *et al.*, 2011). Also, there is no exact data available on business transfers or acquisitions that have already taken place, for there is no definitive registry kept on business transfers (see also Stone *et al.*, 2004).

In general business transfers are becoming more popular also with small businesses (Van Teeffelen 2012; Amaral *et al.*, 2007; Stone *et al.*, 2004). Based on estimates, approximately 450 000 firms are being transferred each year across Europe affecting two million employees, and around 150 000 firms are not being transferred due to system inefficiencies, causing a risk of losing 600 000 jobs in Europe (European Commission 2011). National business policies should focus not only on start-ups and growth, but also on business transfers. The support of SMEs is vital because 90 % of all business transfers occur with limited resources in the micro-firm segment (Van Teeffelen 2012; European Commission 2002; Van Teeffelen 2010). Business transfers support business growth (e.g., Penrose 1959; Barkema and Schijven 2008; Uhlaner and West 2008).

The phenomenon of business transfers can be analyzed from different perspectives (adopted Van Teeffelen 2012, 5): (1) business transfer process, (2) business transfer services, (3) business transfer promotion including awareness raising and business transfer research, and (4) business transfer

environment. In our study the focus is on the sellers' and predecessors' perspective before actual business transfers, i.e. the pre phase of business transfers.

The objectives of our study are: (1) to investigate the potential for business transfers (both selling and successions) in firms owned by entrepreneurs aged 55 years or more, (2) to study the attitudes of the potential sellers towards succession within the family and (3) the challenges related to business transfer experienced by the potential sellers and predecessors, and the need for external advisors in the process, (4) to investigate how the entrepreneurs in the age group develop their firms in general, and whether their development efforts correlate with the business transfer potential of the firm, and (5) to study the potential roles of sellers and predecessors after the transfer.

Contribution to literature

The literature review consists of the following sections: business transfers and successions in general, business transfer markets in Europe, the attitudes of the potential sellers and predecessors towards succession inside the family, the challenges of business transfers and the need for external advisors in business transfer processes, and finally, exploration and exploitation activities in developing the firms.

The statistics reveal that many small firms in Europe lack successors and buyers. However, not all entrepreneurial parents want their children to continue their business. The attitudes of the parents (predecessors) towards their children succeeding them in the family business can be divided into three categories: (1) obligation culture, i.e. parents definitely wish their children to continue the business, (2) freedom culture, i.e. the children are at liberty to decide whether or not they wish to succeed their parents, and (3) weaning culture, i.e. the parents specifically do not want their children to continue the business. (Varamäki 2007)

Previous business transfer and succession studies have investigated strategic renewal, i.e. the successor's capability to innovate and reorganize the firm and business after taking the responsibility (e.g., Agarwal and Helfat 2009; Barney 2001; Priem and Butler 2001; Haspeslagh and Jemison 1991; see also Varamäki *et al.*, 2012a). However, the development efforts of forthcoming sellers and predecessors before the transfer have received little research attention. It can be suggested that at least those predecessors who already have successors put more effort into long-term development and investments than those who are planning to close down the firm. The notion of balance between radical and incremental entrepreneurial activities has become a consistent research theme in the past decade (March 1991; Levinthal and March 1993; Shane and Venkataram 2000; Holmqvist 2004; Burpitt and Valle 2010; Sharma and Salvato 2011). The increasing research interest in explorative and exploitive strategies arises from the managerial need to balance between radical and incremental innovations in order to stay competitive. In this study we adopt ambidexterity as our starting point, i.e. that a firm can focus on both exploration and exploitation in their development activities at the same time. Some earlier studies of aging entrepreneurs have shown that age has a negative impact on the exploration and exploitation behavior of the entrepreneurs and that an emphasis is on improving what is rather than developing the new (see Gielnik *et al.* 2012; Varamäki *et al.* 2010). It is argued that entrepreneurs become less opportunity-oriented with age increase. He and Wong (2004) operationalize exploitation activities as improving the quality of existing products, cutting production costs, reducing use of raw

materials and improving flexibility of production. As examples of exploration activities they mention e.g. development of new products, adopting new technologies and finding new markets. This operationalization has mostly been applied in our study as well.

Data and results

The data for the study were collected in May 2012 as a web-based survey to the members of Federation of Finnish Enterprises. The target group consisted of the entrepreneurs in the age group of 55 years or more. A total of 14 355 questionnaires were sent out. Finally, 2 843 responses were received, the response rate being 19.8 %.

38 % of the entrepreneurs in the age group are planning to sell the firm to an outside buyer at the time the entrepreneur gives up main responsibility. 28 % are planning to close down the firm. 20 % believe they will find a successor within the family. Future outlook for succession was the most positive among men, those with lowest educational backgrounds, in the age group of 58 years or younger, and among portfolio or serial entrepreneurs. The highest expected close down rate was among the entrepreneurs with an academic education and the lowest among the entrepreneurs with the lowest level of education. Aging increased pessimism about the business transfer. Family entrepreneurship affected future outlook for business transfer positively. Previously experienced succession increased likelihood of another succession.

The second objective was to study the attitudes of the potential sellers towards succession inside the family. According to the results, there are more parents who do not want their children to continue the business than those who definitely want their children to continue. Among the entrepreneur parents 30 % represent weaning culture and only 14 % obligation culture. The majority of the aging entrepreneur parents (56 %) represent freedom culture.

The third objective was to study the challenges experienced by potential sellers and the need for external advisors related to business transfer process. The two biggest challenges according to respondents were finding a successor or a buyer and business valuation. This is consistent with previous research (e.g., Thornton 2005; Van Teeffelen 2012). Except for these two problems, other factors were not considered to have significant relevance to the problem (e.g. taxation).

The fourth objective was to investigate how entrepreneurs aged 55 or more develop their firms in general, and whether the development efforts correlate with the business transfer potential of the firms, and the fifth objective was to study the potential roles of sellers after the business transfer. The results reveal a special group of firms that can be called "The Bold and the Beautiful". These firms that are doing well are doing well in every aspect of the business. These firms are owned by habitual entrepreneurs, or they consider themselves family firms. Experienced entrepreneurs and habitual entrepreneurs have better management tools and systems to business development. The entrepreneurs that already know the successor invest in the firm development and strategy work and take the risks in doing business. The most successful entrepreneurs are also the most willing to share their knowledge and financial capital for the benefit to other entrepreneurs after their exit from business.

Discussion and practical implications



The business transfer market works for the buyer at the moment. There are more businesses for sale than there are buyers on the market (see also Stone *et al.*, 2004). For growth businesses this provides an excellent opportunity to implement acquisitive growth strategies in addition to organic growth. The majority of the respondents that had been searching for a buyer had offered the firm directly to a competitor or other entrepreneurs (67 %). This supports the view that on national level the extensive retirement of entrepreneurs is likely to lead to some decrease in the total number of firms, but to some increase in average firm size, as the buyer in many cases is another firm. The growth of average firm size can be a positive development, because it means that the remaining firms have more resources available, and they might be able to improve their competitiveness.

From the sellers' perspective the results show that an aging entrepreneur should start preparing for the business transfer early enough. Finding the buyer is the most significant problem in business transfer. However, more than half of the entrepreneurs, that did not know who would take over the business after them, had not even been looking for a buyer for their business. An aging entrepreneur should be prepared for a time-consuming process; taken together, finding a buyer and completing the actual business transfer may take a couple of years and sometimes even longer.

The key conclusion of this study in terms of business policy is that the efforts to promote business transfers should be organized with a more long-term view. Project funding alone is insufficient; client entrepreneurs, entrepreneur organizations, municipalities and government should be involved in funding. Business transfer promotion activities need both national coordination and regional business transfer help desks. The main focus of Finnish business transfer policy has lately been on the aging entrepreneurs and the continuity of their firms. This has been, and continues to be, justified due to the baby boomer retirement and the large number of aging entrepreneurs. But a functioning business transfer market needs also buyers: an effort should be made to give equal attention to buyers as well as sellers in planning and developing business transfer promotion measures (see also Van Teeffelen 2012).

According to the results, it is possible to use the sellers' experience and financial capital for the benefits of other entrepreneurs. The entrepreneurs of at least 55 years of age have an average of more than 20 years of business experience. More than one-fifth of these entrepreneurs, meaning 1000–1500 entrepreneurs each year, are interested in participating in the advisory board of another entrepreneur / enterprise, acting as a mentor or becoming a member of board. Further, about one fourth of the aging entrepreneurs will have significant of financial resources available after the business transfer, and 6 % of the aging entrepreneurs are interested in private equity investments.

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