

**SMALL AND MEDIUM-SIZED ENTERPRISES' SUCCESSION PROCESS: DO  
INTANGIBLE ASSETS MATTER?  
A STUDY CONDUCTED IN GERMANY**

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**Background**

While a multitude of articles have focused on start-ups (e.g., Delmar & Shane, 2004; Townsend, Busenitz & Arthurs, 2010) a lack of articles deal with company succession as an alternative way of embarking on entrepreneurial activities is apparent. This is surprising since, according to the Austrian Institute for SME Research (2004), the survival rate for company formations through company succession is higher than that for new venture creations. The situation outlined above presents something of a contradiction to changing demographic trends, which will reduce the pool of prospective successors, to attitudes toward self-employment, and to the increasing number of SMEs waiting to be transferred (Commission of the European Communities, 2006). Additionally, it has to be mentioned that in Germany family succession is decreasing (Schlömer & Kay, 2008). A failure in company succession is usually connected to a loss of employment, which can have a great impact on an economy's prosperity (Carter & Jones-Evans, 2006). Taking the market situation as discussed above, it can be reasoned that non-family successors take on a critical role, which induces them in a position to select a company that best matches their expectations.

In the past decades, a change regarding the critical assets in firms can be observed. In addition to financial and physical assets, intangible assets are now considered crucial to the success of all organizations (Spender, 1996). In the meantime, it is acknowledged that intangibles are the main driver of company value and growth in most industries (Hand & Lev, 2003). A central feature of intangible assets is their future perspective. This means that the focus is on future success potential and not on past performance. Nonaka, Toyama and Konno (2001) argue that prospective investors view intangibles as a key resource in their deliberations. Following this notion, it can be argued that companies of all sizes are increasingly prompted to spot these resources as their most precious assets and staff as the most sought-after resources.

With company succession, a primary concern is whether the company in focus has the potential for a sustained existence. Consequently, a business transfer will also be assessed as a failure when the company enters a state of crisis or consequently disappears from the market shortly after succession has taken place.

The importance of strategic aspects in general (Dyck et al., 2002) and of intangible assets in company succession seems to be neglected in the academic literature so far. Many research

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activities can be found in the field of company succession revealing a particular focus on the incumbents' perspective (e.g., Birley, 1986; Santora & Sarros, 1995) or of those of their family (e.g., Lee, Lim & Lim, 2003; Lambrecht & Donckels, 2006). On the other hand, in the case of non-family succession it is the question of CEO succession in large companies which has attracted most attention (Bagby, 2004). Moreover, when taking a closer look at the succession process, specifically in Germany, a focal point on financial, legal, and tax issues is given (Amelingmeyer & Amelingmeyer, 2005).

The humble research attention may be a result of the fact that the intangible assets phenomenon is a relatively young field of study. One in which the increased interest had been shown only during the last decades of the previous century. Additionally, the missing curiosity can also be the result of a rather monetary perspective when dealing with the topic of company succession. On a more general level, it further appears that possible implications of company succession due to changes in demography are still undervalued.

In view of the agreement regarding the central importance of succession issues in general (Kesner & Sebor, 1994; Pitcher, Chreim & Kisfalvi, 2000) and in SMEs in particular (Morris et al., 1997; Giambatista, Rowe & Riaz, 2005), the lack of information available on the relevance of intangibles in company succession represents a deficiency which this study endeavours to tackle. Due to demographic trends and the increasing meaning of intangible assets to companies as outlined above it is clear that there is a need to gain a far better understanding of the perceived relevance of intangible assets to non-family successors in SMEs. Moreover, a better understanding of the non-family successors' perspective is required because the outcomes of their succession activities can have critical implications for the economic prosperity of nations (Carter & Jones, 2006).

### **Location of research**

#### ***Company succession***

In this study, company succession is defined as the transfer of the property and/or management of a firm from one individual to another (Ip & Jacobs, 2006). Non-family successors are defined as individuals or teams of individuals from outside the family who are interested in starting a venture through buying an existing firm. It is hypothesised that prospective non-family successors will be interested in those companies offering future prospects, which may in turn improve the likelihood of sustainability. Company succession is viewed as a process which comprises several stages. The focus of this study is on a specific subset of this process, namely the preparation stage. This stage comprises the search for and analysis of potential target companies. Thus in this stage company analysis takes a critical role.

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### *Intangible assets*

Intangible assets are described as the core non-monetary resources, lacking physical substance that are able to contribute to future benefits in firms (based on Lev, 2001; Andriessen, 2004). Taking the view of intangible assets as critical resources of company success, in this study it is anticipated that this issue would prove to be of particular significance with regard to company succession as well.

### **Research aim and questions**

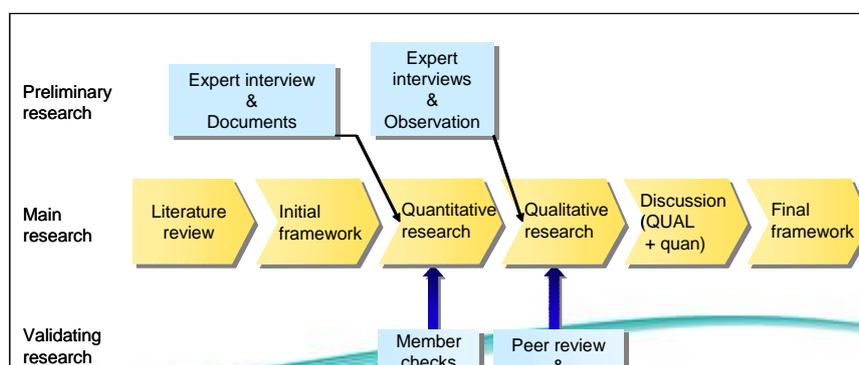
The aim of this research is to explore the perceived relevance of intangible assets by non-family successors as a driver of their company acquisition intentions. The findings are summarized in a conceptual framework describing those intangible assets that make a company attractive to this type of successor. As the study's focus is on the preparation stage, the framework is anchored in this stage. According to this aim the following research questions are formulated:

1. Which relevant intangible assets with regard to company succession in SMEs can be found in the literature to develop an initial conceptual framework?
2. How well do the intangible assets in the initial framework reflect the practice of succession advisors?
3. How well do the intangible assets in the initial framework reflect the perception of non-family successors?
4. How do non-family successors analyse the company?

### **Research design and methodology**

Acquired on the basis of a sequential mixed methods approach, the present body of research material consists of a quantitative web-survey involving German trade associations and a series of qualitative interviews conducted with non-family successors of German SMEs. The two researches are further accompanied by two ancillary strands. These strands are called preliminary research and validating research and were intended to prepare and/or validate the main empirical studies. This course of action allowed the exploration of the research aim from different perspectives (outside and inside); consequently offering a holistic perspective.

The overall research process used in this study is illustrated in Figure 1.



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Capitalization of "Qual" indicates the priority on the qualitative study

Figure 1: Research process utilised in the study

### Main findings

The findings indicate that with regard to non-family successors' business acquisition intentions, intangible assets take on an important role. It was found that many different intangible assets were taken into consideration, but five in particular were apparently crucial in reaching the final appraisal of a company's attractiveness. These are the factor 'key employees' and the closely related factor 'knowledge retention' and the factors 'brand', 'partners', and to a lesser degree 'corporate culture'. Investigation of the perception of intangible assets within a small firm setting (German trade associations) revealed that, to date, they are given only moderate weighting. This applied both to the opinions of the associations themselves and of their member companies which could be a consequence of the fact that intangibles cannot be measured. This challenges the relevance of intangibles as perceived by non-family successors. Thus there appears to be a disparity of opinion among the parties involved in succession processes, which may be expected to lead to difficulties during negotiations (non-family successor and current owner) as well as consultations about succession (non-family successor and advisor).

### Conclusion and implications

The study's findings provide a new perspective on company succession, specifically in regard to selection processes used by non-family successors, and thus this study contributes to the literature in several ways. Firstly, an alternative approach to dealing with company succession in SMEs by adopting the perspective of non-family successors (the buyer-side) is proposed. Secondly, the traditional view of company succession is enlarged by considering intangible assets too. Finally, the findings are summarized by proposing a framework which provides insights into critical intangible assets in the course of company selection (Figure 2). The framework highlights the main components of the preparation stage, namely the initial contact with the target company and the process of company analysis. The findings revealed that the 'partner' factor is seen as critical with individuals planning a succession involving several persons, so that the scope of analysis was expanded to include it. The intangibles, which were at the core of this study, are displayed according to their perceived relevance for the non-family successors. They are classified into initial intangibles (from the initial framework) and new intangibles (which emerged during the course of the study). Paired frames are used to illustrate interconnections between intangibles.

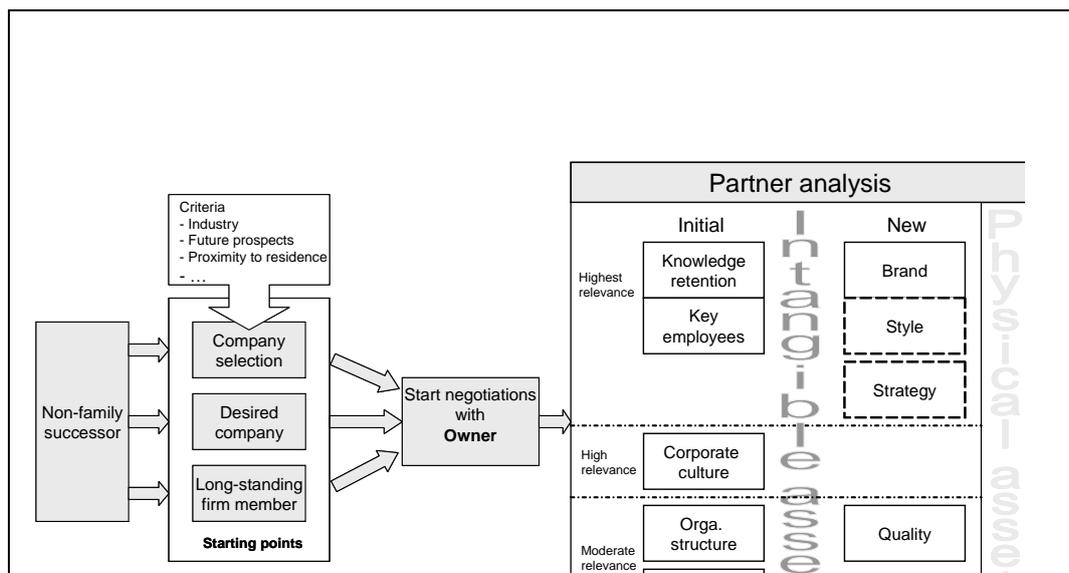


Figure 2: The conceptual framework

Focusing on intangible assets the framework displays a clear future orientation. This future orientation is regarded as crucial because this is what really matters in terms of company succession and sustainability. Hence the proposed framework can be viewed as a new due diligent approach highlighting the prospects of firms.

This study creates awareness of the relevance of intangible assets in the succession process in general and particularly in the preparation stage taking the non-family successors' perspective. Based on the study's findings it can be concluded that the preparation stage is incomplete to date. The empirical reality implies that the preparation stage is more complex as currently discussed in the literature.

In terms of company analysis the findings suggest a distinction between physical and financial asset and intangible assets to better deal with these assets' different natures, e.g., their interaction with other resources or the risk related to them. Thus current templates need to be expanded by including further intangible assets to make sure that some of them are not neglected just because they are not thought of, or because of their specific attributes compared to conventional assets. Furthermore, the templates should be reconsidered regarding their structure to be better able to take into consideration the interaction between assets. The checklist character often found is not suitable for this challenge. The present situation has also severe consequences for the following succession stages, as wrong assumptions related to a company's standing are rather likely.

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The framework appears to be a valuable tool for understanding the importance of intangibles in non-family company succession in general and particularly their influence on non-family successors' business acquisition intentions. This understanding is viewed as of high importance regarding the changes in demography and consequently, the decreasing pool of successors. The framework may guide potential successors, predecessors and advisors in their course of actions during succession and daily business respectively. Accordingly, the framework may serve as visual aid for all these groups illustrating the process from the preparation stage to the realisation stage. Understanding the meaning of intangibles to non-family successors is not only useful for the actors mentioned above but also for policy makers when specifying programmes and courses of non-family succession. The study demonstrates that increased information about intangibles in general and regarding company succession is needed. In terms of the latter, more solid information is required to bring intangibles into the mind of relevant actors (successors, incumbents, etc.). First steps may encompass a stronger integration of the topic of intangible assets in brochures provided by governments. This would also mean that the checklist(s) provided are updated. By putting a stronger emphasis on intangibles, the strategic aspect of company succession can be better embedded too.