

# TRANSEO CONFERENCE 2012

## Improving SME Transfers



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# Small and Medium-Sized Enterprises' Succession Process: Do Intangible Assets Matter? A Study Conducted in Germany

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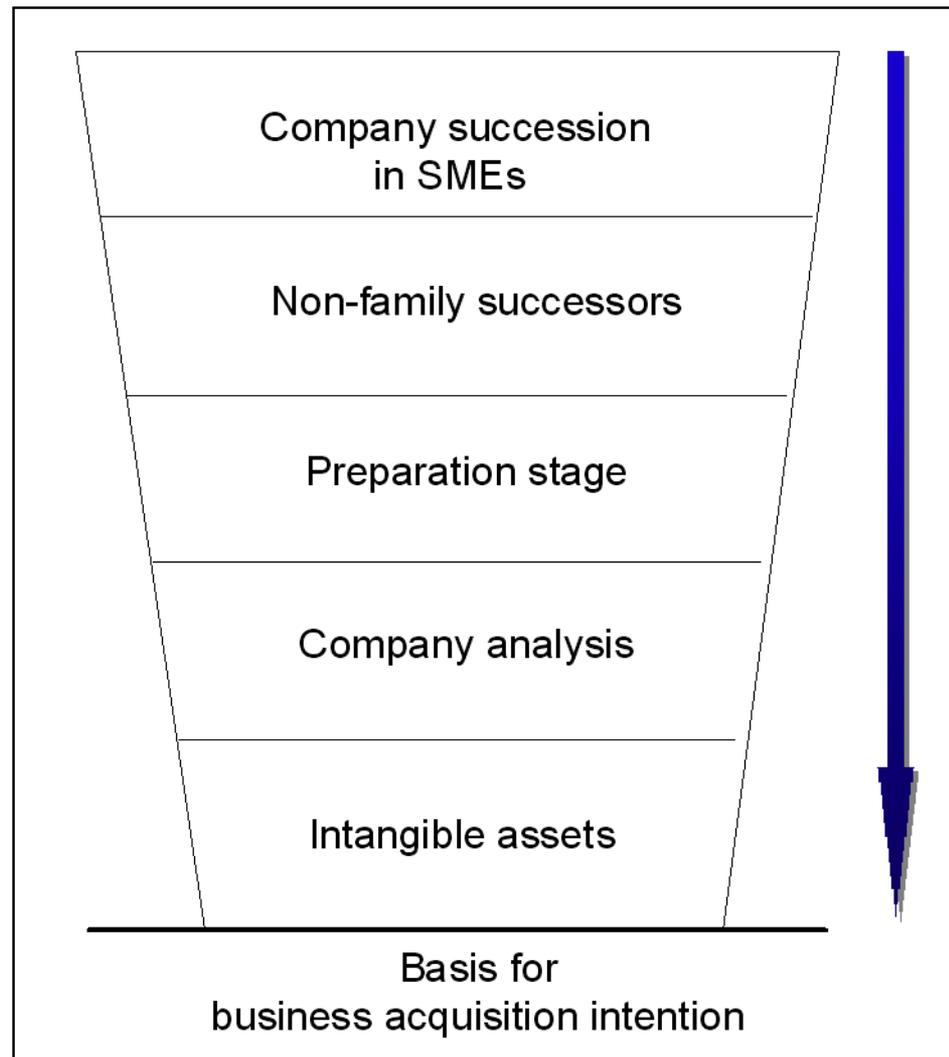
# Starting situation I

- Concentration on new venture creations
- Even though survival rates of business formations via business transfer are higher compared to that of new venture creations
- Contradicts to changing demographic conditions, to attitudes toward self-employment, to the increasing number of SMEs waiting to be transferred, and to the decline in the number of family successions
- Potential non-family successors are key → "Investor" market

# Starting situation II

- Shift from tangible to intangible resources
- Intangible assets (IA) are defined as the core non-monetary value drivers – lacking physical substance – contributing to future benefits in SMEs
- IA are regarded as key resources potential investors are looking for
- Succession literature appears to be silent: Focal point on legal, financial, tax and family related issues. With the latter the standpoint of the incumbent / seller seems to be of the highest interest
- Strategic aspects of business transfers are underresearched
- In case of non-family succession: CEO succession in large companies has attracted most attention

# Location of research



# Research aim and questions

To explore the perceived relevance of intangible assets by non-family successors in view of their business acquisition intentions

## Research questions

- Which relevant intangible assets with regard to company succession in SMEs can be found in the literature in order to develop an initial framework?
- How well do the intangible assets in the initial framework reflect the practice of succession advisors?
- How well do the intangible assets in the initial framework reflect the perception of non-family successors?
- How do non-family successors analyze the company?

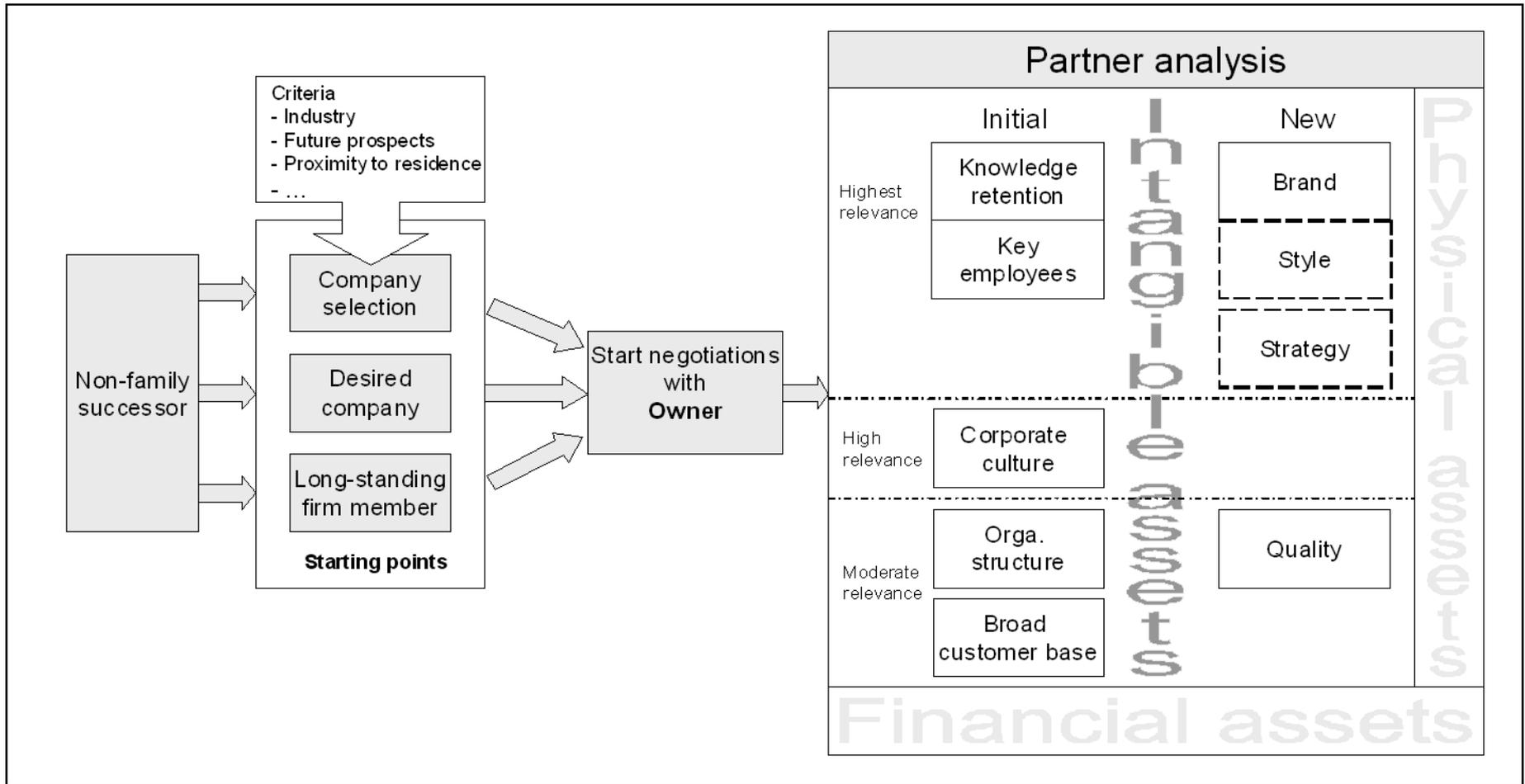
# Research design (I)

- **Strategy of inquiry**
  - Sequential mixed methods approach
- **Research methods**
  - Survey
  - Series of qualitative interviews
- **Unit of Analysis**
  - 135 German trade associations (chambers of crafts and chambers of industry & commerce)
  - Ten external successors of German SMEs
- **Sampling**
  - Associations: databases provided by parent companies
  - Successors: with the assistance of German associations
    - SME definition of the European Commission
    - Successors have acquired the entire or a significant share of the company
    - Non-family succession

# Research design (II)

- **Data collection**
  - Questionnaire
    - Online
    - June – September 2006
    - 51 completed questionnaires received
  - Series of in-depth interviews
    - Guided interview approach
    - May – November 2007
    - Lasted between 1 and 2 hours
  - Miscellaneous
    - Informal interviews with advisors from trade associations
    - Initial succession discussion between owner and potential successor
    - Participation in a workshop about company succession
- **Data analysis**
  - Integration of quantitative results and qualitative findings occurred in the final discussion → Priority was given to qualitative study

# Proposition of a new framework



# Company analysis

- Very much influenced by
  - the incumbent's preparedness to provide data
  - the prospective successor's professional background and type of succession (buy-in vs. buy-out)
- Financial statements dominate
- Successors pursue a checklist-like approach
  - Each asset is considered separately
- Particularly tax accounts are involved in terms of advisory

# Implications for research on SME business transfers

- The apparent importance of intangible assets suggests a broader set of concern
- The framework offers an alternative perspective on company succession as it highlights those intangible assets which make a company attractive to non-family successors
  - The framework expands existing approaches by comprising a clear future orientation
  - A more balanced and complete picture of company succession is possible
- Frameworks for company analysis / due diligence need to be improved / revisited
- Call for stronger incorporation of third parties to the business transfer

# Managerial and policy implications

- Consideration of intangibles in SME business transfers
- Awareness creation regarding different types of resources (and their attributes)
- Framework can support the different actors involved in business transfers
  - Improvement of quality of business transfer negotiations
- Reconsideration of current handling of company succession / business transfers at political level and educational level