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

- Company succession in SMEs
- Non-family successors
- Preparation stage
- Company analysis
- Intangible assets

Basis for business acquisition intention
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