

# TRANSEO CONFERENCE 2012

## Improving SME Transfers



**24 & 25** May 2012

Spa, Belgium

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European Association for SME Transfer

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# Transeo Masterclass 2

## Academic Papers

Spa

May 25th, 2012

# Three laureates alphabetically

- Francesco Chirico, Carlo Salvato & Pramodita Sharma  
A farewell to the business: Championing exit and continuity in entrepreneurial family firms.
- Christina Constantinidis & Teresa Nelson  
Integrating succession and gender issues from the perspective of the daughter of family enterprise: A cross-national investigation.
- Susanne Durst  
Small and medium-sized enterprises' succession process: Do intangible assets matter?

# Schedule of Presentation

- 1. Susanne Durst** (University of Liechtenstein) 10.45 – 11.10  
Small and medium-sized enterprises' succession process: Do intangible assets matter?
- 2. Christina Constantinidis & Teresa Nelson** 11.10 – 11.35  
(Research Centre Henri Tudor, Luxemburg)  
Integrating succession and gender issues from the perspective of the daughter of family enterprise: A cross-national investigation.
- 3. Hannes Leroy, Sophie Manigart, Miguel Vermeulen** 11.35 – 12.00  
& Veroniek Collewaert (Ghent University, Vlerick Leuven Gent Management School)  
Understanding the continuation of firm activities when entrepreneurs exit their firms: Using TPB.

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

Susanne Durst

Institute for Entrepreneurship, University of  
Liechtenstein, Vaduz (Principality of Liechtenstein)

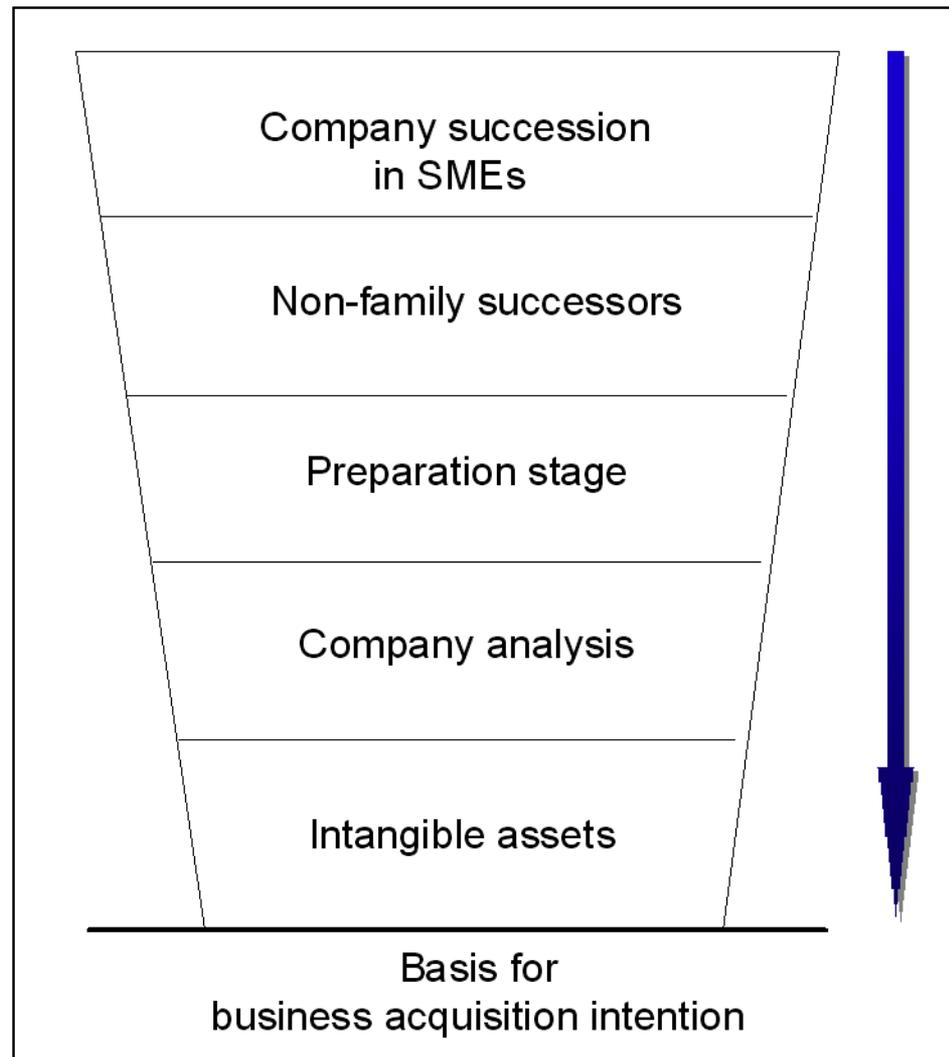
# Starting situation I

- 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?

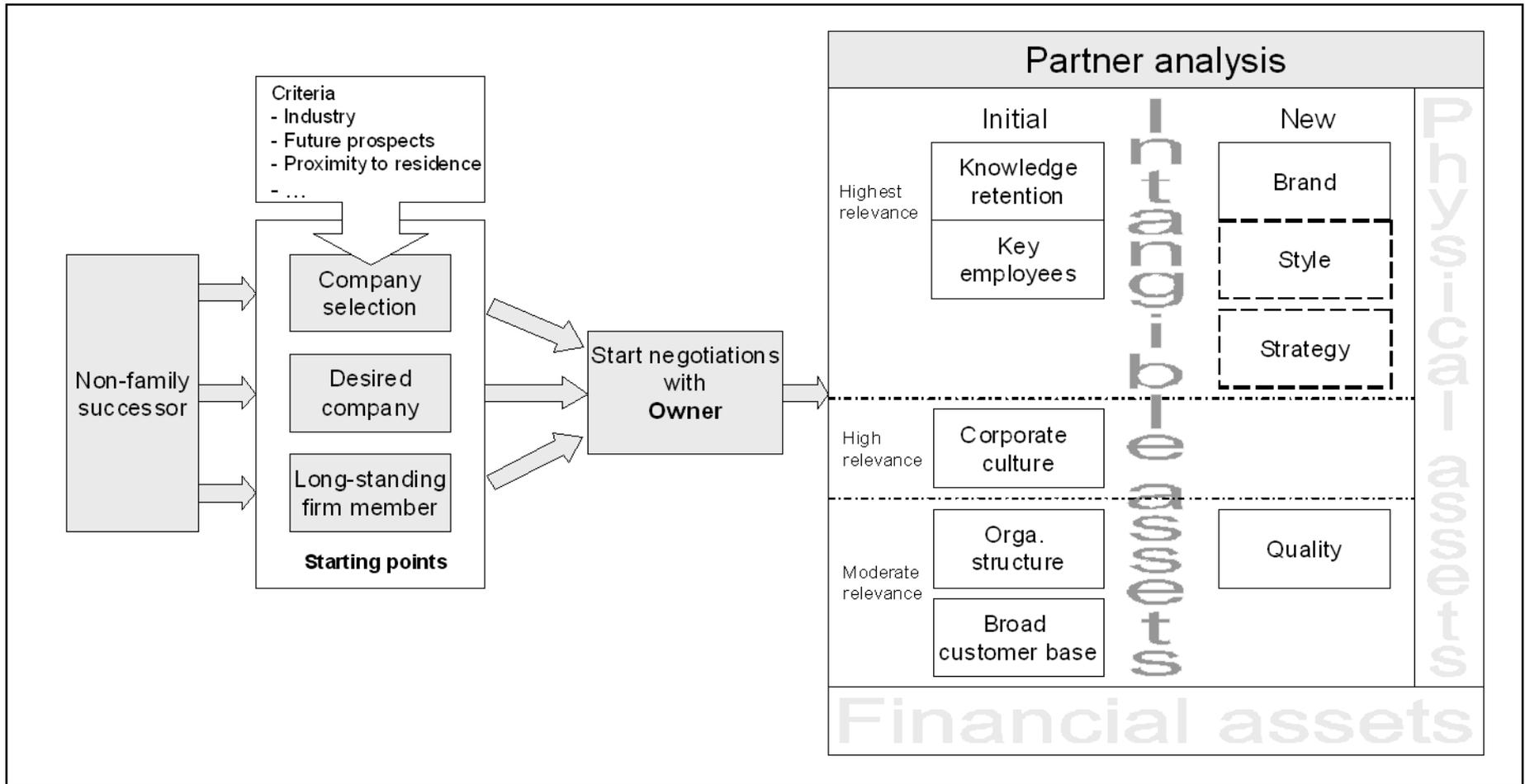
# Research design (I)

- **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

# Integrating succession and gender issues

The perspective of the daughter of family enterprise  
across the U.S. and EU

## Christina CONSTANTINIDIS

Researcher at CRP Henri Tudor  
Invited Professor at the University  
of Liege - HEC Management School

## Teresa NELSON

Elizabeth J. McCandless  
Professor in Entrepreneurship  
Simmons School of Management

# Key figures

- Dominant form of business structure worldwide
  - > 50% EU (35-65% GNP)
  - >70% Belgium (55% GNP)
  - > 95% U.S. (40-45% GNP)
- Only 1/3 of family businesses worldwide successfully manage the generational transition
- Survey data in Belgium:
  - 57% of family business leaders are 50+ years old
  - Lack of succession planning / no identified successor
  - Only 8% of successors designed are daughters

PWC Family Business Survey / Pirnay & Surlemont, 2007

# Main Contributions

- How gender dynamics impact the succession process in family businesses from the daughter's point of view
- Why the better understanding of these gender dynamics is an advantage for family businesses and their constituent actors

# Career aspirations of daughters

- Daughters' self-perceptions and aspirations in link with society values and norms
- Motivation to engage in the family enterprise
  - Depends on their environment, their perceptions and their family's attitudes and wishes
- Shifts in women's opportunities
  - New carrier paradigm, changing roles of women
  - Independence, social networks, self-confidence

But...

- A social environment that challenges daughters' participation to leadership in family firm

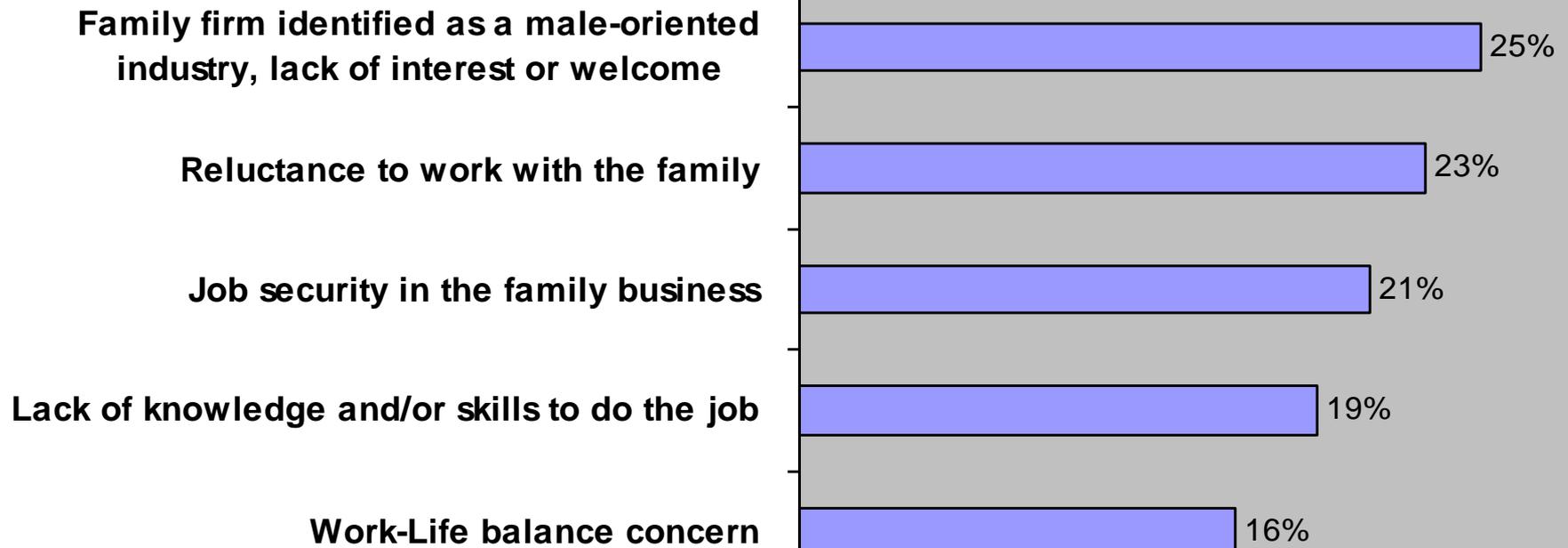
# Two empirical studies

- Survey research: United States
- Qualitative interviews: Belgium
  - Career intentions of family business daughters, in relation to their family entrepreneurial opportunities
  - Online-administered survey with 541 female business students / incl. 138 daughters of family enterprise (26%)

# Entrepreneurial intentions of daughters

- Daughters of family business are more interested than the others in being an entrepreneur (84% compared with 60%)
- But NOT in their family business
  - Only 12% were sure that they wanted to build their careers in the family business
  - While 87% stated their intention to launch their own business separate from the family firm

# Challenges to working in the FB



# Two empirical studies

- Survey research: United States
- Qualitative interviews: Belgium
  - Role and position of daughters in the family business, during the succession process
  - In-depth interviews with 11 daughters of family firms, audio taped and fully transcribed, diversified cases
  - Vertical and horizontal thematic analysis with ‘Cassandre’

# Daughters' aspirations and succession process

- **Presence of a brother, identified as the successor**
  - No pressure regarding the firm management: free career path or pressured to play a supporting role
  - Less access to resources, less well prepared, difficulties in personnel management, lack of legitimacy
  - Increased difficulties if 'push' motivations and in sectors perceived as masculine
- **Daughter as the natural successor from the beginning**
  - Parents' support, succession planning and preparation
  - Study & career choices, on-the-job training, leadership experience, social network, mentoring

# Daughters' aspirations and succession process

Dad did everything in order that I continue, because he was angry that my brothers did not want to take over the business (Liliane)

My father always encouraged me to work with him; he was very enthusiastic about this idea and I made my studies for this specific purpose (Marion)

He was putting more pressure on my brothers, but not really on me (Anne)

At the beginning, some workers wanted to test me as a young woman, and also because they had known me as a child (Sarah)

Regarding my father's contacts, these are people I have known for a very long time, and the fact that he is behind me makes things easier for me (Marie)

# Gender and the daughter's position

- **In society**
  - Men's and women's realities shaped differently by society
  - Entrepreneurs' characteristics <--> Masculine characteristics
- **In families**
  - Expectations about the daughter's role, psychological barriers to the participation of daughters in leadership
  - Daughters as 'invisible' / 'default' successors
- **In businesses**
  - Daughters' own perception as potential leaders, ease and success in assuming the leadership role
  - Lower access to resources, lack of preparation, legitimacy

# Conclusion: Why better understanding gender dynamics is an advantage?

- Family may acknowledge existing gender stereotypes and their influence on daughters' and sons' roles
- Daughters and other family members may counteract gender dynamics
- To help daughters to realize their business opportunities in the family firm, and increase their professional options
- But also to enhance the family business' leadership resource pool

# Understanding the Continuation of Firm Activities when Entrepreneurs Exit their Firms: Using Theory of Planned Behavior

*Forthcoming*, Journal of Small Business Management

Hannes Leroy, K.U. Leuven

Sophie Manigart, Vlerick Leuven Gent Management School, Ghent University

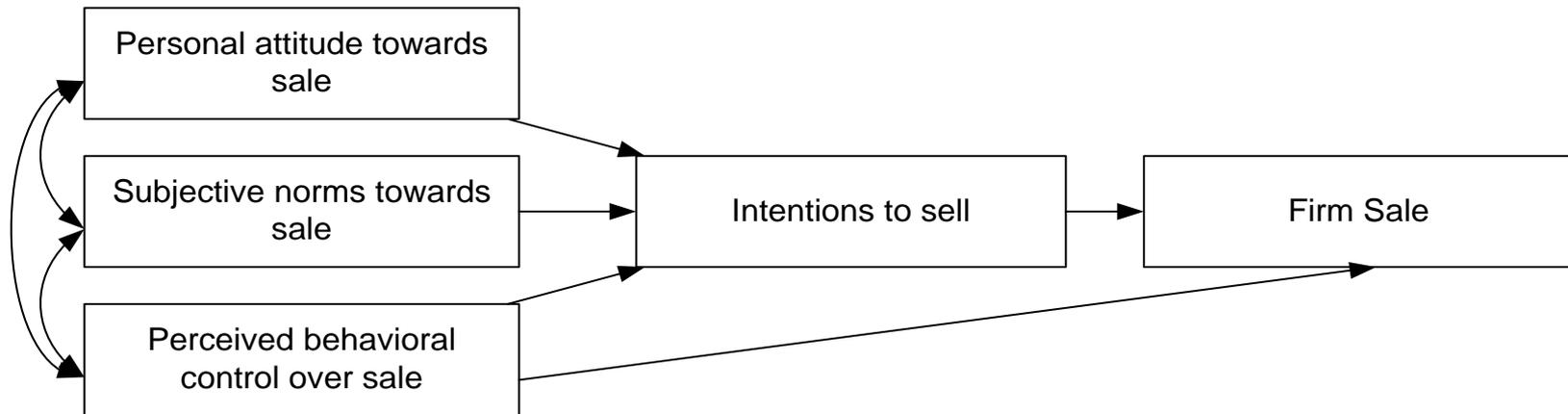
Miguel Meuleman, Vlerick Leuven Gent Management School

Veroniek Collewaert, Maastricht University

# What happens with a firm when the E leaves?

- Voluntary entrepreneurial exits
  - *Sell* company versus *liquidate* company
- Sale: full (economic) transfer of ownership
  - To family, employees, or external parties
  - Either shares or (significant part of) the assets
- Liquidation : *voluntary* closure
  - excluding bankruptcy (involuntary exits)

# Theory of Planned Behavior, applied to firm sale



# Intention to sell driven by...

- **E's personal attitude towards sale**
  - Is firm sale appealing to E?
    - Is sale out of free will?
    - How strongly is E attached to firm (psychological owner)?
- **Subjective norms towards sale**
  - Decision to sell is supported by close environment (family, friends,...)
    - Depends upon number of employees, family firm
- **E's perceived behavioral control over sale**
  - The sale of the firm seems feasible to E
    - Driven by E's education and experience

# Research setting

- Random sample of 447 entrepreneurs exiting micro-firms in Belgium between 2001 and 2006
  - Employed 10 employees at most at exit
  - Sampled from population of exited entrepreneurs
- Mail questionnaire (with phone contacts)
  - 197 respondents (30%)
    - Exclude 22 bankruptcies
- 67 (**38.3%**) of firms sold, 108 (61.7%) liquidated

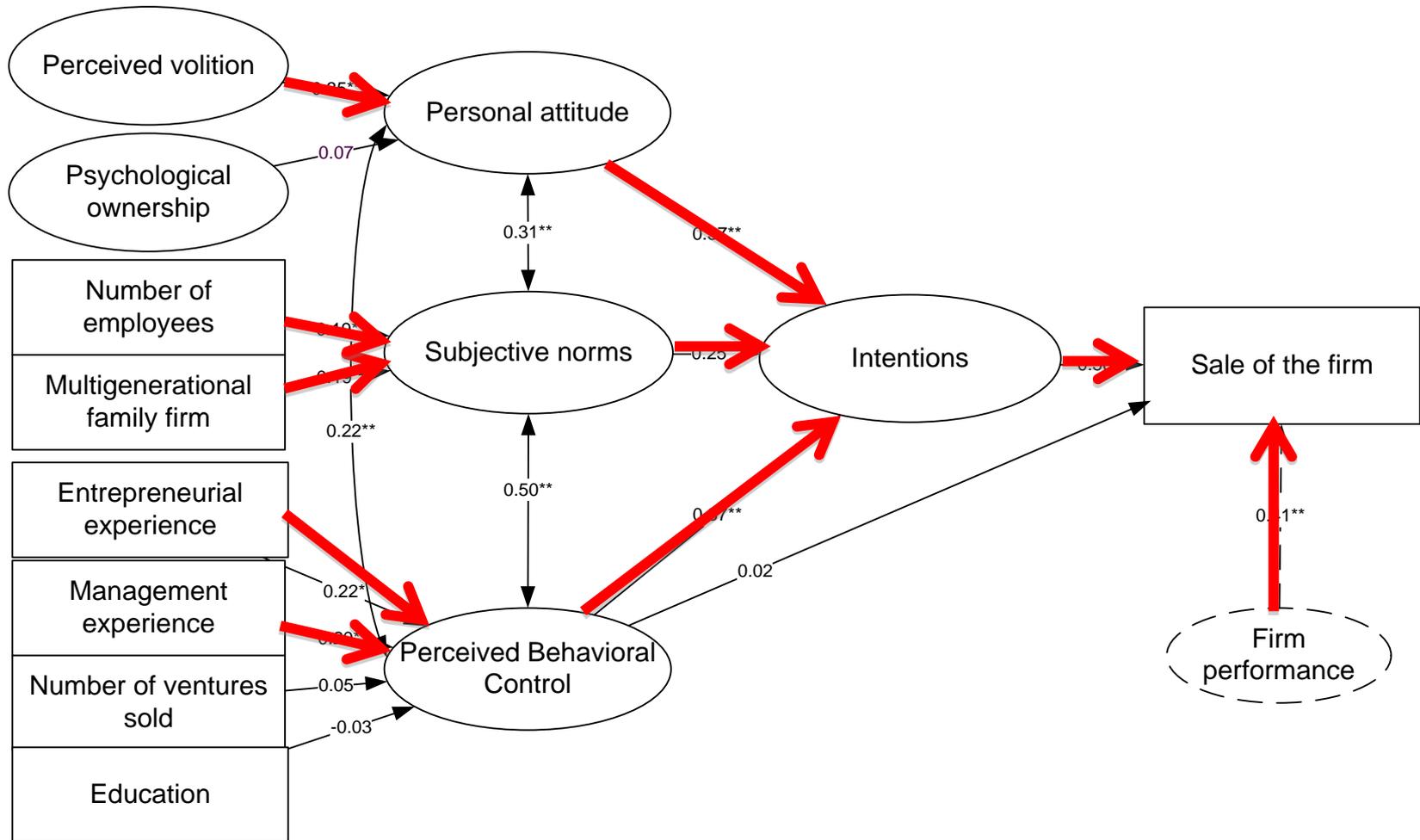
# Firm characteristics

- Average company age: 22 years
- 22.4% limited liabilities companies
  - Remainder one-person company
- Active in
  - agriculture (22 percent)
  - construction (13 percent)
  - retail or wholesale (29 percent)
  - hotels and restaurants (11 percent)
  - services (15 percent)
- Average employment at exit: 2,2 employees
- 47% of firms multi-generational family firm

# Characteristics of entrepreneurs

- 66 % male
- Average age entrepreneur: 53 years
- Years experience in running own business: 17.2
- Years experience in management: 10.1
- Education level
  - 11 percent elementary school
  - 62 percent high school
  - 23 percent university or college degree or higher.
- 11% had previously sold a firm (max 4 firms)

# Model largely confirmed



# Conclusions

- Almost **3 in 5** micro-firms do *not* survive E's exit
- Firm sale is a “planned behavior”
  - Implicit “planning” by E is important
- Higher likelihood of selling (vs. liquidating) if
  - E's exit is voluntary
  - E's entrepreneurial and managerial experience
  - The firm employs more employees
  - The firm is multigenerational
- Firm performance is positively related to sale
  - However, E's don't recognise this link (blind spot)

# Likelihood of selling is *not* impacted by

- E's psychological ownership
- E's education level
- E's specific previous experience with selling a firm
  
- industry
- company age
- year of exit

# Implications

- E's are driving force of a firm being sold upon exit
- E's should learn that selling a firm is a complicated task, one they should be highly motivated and committed to undertake to increase their chances of bringing such a project to completion.
- But this is possible in all sectors, at all firm ages
- Focus on E's, and not only on firm, when designing transfer policies
  - Awareness, training, coaching

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