Facilitating business transfers for sustaining jobs and economic activity

A Policy Brief from the Policy Learning Platform on SME competitiveness

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Contents

Summary

SMEs are the backbone of European economy. While a lot of emphasis both on the EU as well as national and regional level is put on founding start-ups, a lot less attention is directed to business transfers that help to keep alive already established companies. This is despite the European Commission emphasis that "it is just as important to support transfers as start-ups because they are equally important to the EU economy."

The challenge of business transfer failures has been on the EU agenda since the early 90s. Many viable companies close due to hindering regulations or because of the insufficient attention dedicated to the business transfer process. There are both challenges on the overall policy and regulatory framework level as well as various struggles on the company level.

In order to achieve more successful business transfers, the complexities of the process should be taken into account, awareness needs to be raised and advisory as well as matchmaking services should be established and developed further. This policy brief contributes to the ongoing discussion by focusing on some of the business transfer challenges and by presenting good practices from Interreg Europe partner regions as potential solutions.

Why this Policy Brief

Interreg Europe provides an opportunity for interregional policy learning. The aim of this policy brief is to put in the spotlight projects tackling business transfer challenges in Europe. Projects such as STOB regions and Success Road are gathering good practices from various regions and work to achieve policy changes to ensure a higher survival rate of viable businesses. The policy brief highlights good practices and relevant policy changes and developments from those regions.

The approaches already employed elsewhere in Europe may serve as inspiration for others. Barriers to successful business transfers mainly exist at the local, regional, and national levels which makes inter-regional learning especially relevant. Regional governments can use EU Structural Funds to support actions that improve awareness raising programmes, online platforms, and advisory services related to transfers. Based on the experiences of Interreg Europe projects some recommendations are also provided at the end of the document.

Introduction

A business transfer refers to the process of handing over a business to new owners and new management[1]. It is a natural part of a dynamic economy where resources are reallocated, and productive assets are restructured[2]. Business transfers can occur because of retirement of initial business owners, changing competitive environment, change in the aspirations of a business owner or incidents such as illness and death of the current owner.

Business transfers are a complex process. They involve a variety of steps, including valuation of the company, matchmaking between transferors and potential successors, the actual transfer of leadership and the various legal and taxation elements that come with it. A business transfer involves the handover of both tangible assets such as machinery, supplies, and financial assets as well as intangible elements such as the owner's knowledge, clients, employees, human relations, and business reputation[3].

The problem, however, is that many viable companies close due to insufficient attention to these complexities and with them jobs are lost[4]. According to a large European Commission study conducted in 2011, every year approximately 450,000 firms with 2 million employees are transferred across Europe[5]. But in the process, each year there is a risk of losing approximately 150.000 firms and 600.000 jobs due to inefficiencies in the business transfers system[6]. The failed transfers have been attributed both to legal and taxation restrictions as well as lack of awareness among businessowners who do not think about transferring their business in a timely manner or lack the relevant support services.

Closure of viable businesses has clear negative impacts on the EU economy. The challenge of business transfer failures has, therefore, been on the EU agenda since the early 90s. The European Commission has drawn the attention of the Member States to the fact that successful transfers are important for the integrity of jobs and regional competitiveness. The Commission has promoted taking over a business as a real alternative to setting up start-ups for aspiring entrepreneurs.

The focus of this policy brief is, therefore, on managing the challenge of good businesses going out of business by presenting good practices from Interreg Europe.

EU and business transfers

Business transfer has been considered as **a crucial element in Enterprise policy** at a European level for nearly three decades. The European Commission believes that "it is just as important to support transfers as start-ups because they are equally important to the EU economy."[7] On many occasions, the Commission has mapped barriers of business transfers, promoted best practices and shared recommendations with the Member States.

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[1] Centre for Strategy & Evaluation Services (2013) Evaluation of the Implementation of the 2006 Commission Communication on Business Transfers, available at: https://ec.europa.eu/docsroom/documents/4263/attachments/4/translations

[2] Ibid.

[3] European Commission (2012) Facilitating Transfer of business. Guidebook Series: How to support SME Policy from Structural Funds. Directorate-General for Enterprise and Industry, Belgium, available at: https://op.europa.eu/en/publication-detail/-/publication/fe11a558-a838-47be-89a4-4df967b2c9a6

[4] Centre for Strategy & Evaluation Services (2013)

[5] European Commission (2011) Business Dynamics: Start-ups, Business Transfers and Bankruptcy, available at: https://ec.europa.eu/docsroom/documents/10448/attachments/1/translations

[6] Ibid; While these are still the most often cited figures on the EU level, it should be mentioned that they were achieved through quite rough projections and have been even called "misleading" by the Centre for Strategy & Evaluation Services (2013).

[7] European Commission, Transfer of business subpage, available at; https://ec.europa.eu/growth/smes/promoting-entrepreneurship/advice-opportunities/transfer-business_en

1994

In 1994, a **Commission Recommendation** on the transfer of small and medium-sized enterprises set out a series of **measures to support businesses facing a transfer**[8]. The Commission had identified that failed transfers and subsequent loss of jobs and economic activity was not due to market forces but "insufficient preparation for succession and the inadequacy of certain aspects of Member States' law.[9]" The Commission recommendations included elements of awareness raising and improvement of procedures and tax regulations. The 1994 Commission Recommendation is still the main reference point for European level policy to promote a better environment for business transfers.

2006

Progress in relation to this Recommendation was made in 2006 when the Commission published a **Communication**[10] that reviewed the Member States' implementation of the recommended measures. In its essence the Communication was a reminder to the Member States to **continue improving their regulations and frameworks for business transfers**.

2011

One of the key studies on business transfers in Europe was conducted by the Commission in 2011. Titled as "**Business Dynamics: Start-ups, Business Transfers and Bankruptcy**", it conducts an analysis on the extent of implementation of the 1994 Commission recommendations and identifies main obstacles remaining to successful business transfers. Figures from this study have been referenced in various Commission Communications since then.

2013

In 2013 another evaluation was conducted on the Member States progress. The "**Evaluation of the Implementation of the 2006 Commission Communication on Business Transfers by Centre for Strategy & Evaluation Services**"[11] found that progress since 2006 had been relatively poor.

The "**Entrepreneurship 2020 Action Plan: Reigniting the entrepreneurial spirit in Europe**" from 2013 also dedicates a section on easier business transfers, marking it as one of the six key areas where "action is needed to remove existing obstacles impeding [business] creation and growth"[12]. The document reiterates the challenges and recommendations identified in the 2006 Communication and 2011 study.

2020

In 2020, the Commission published a **Communication titled "An SME Strategy for a sustainable and digital Europe**" where it promised to continue its work on "facilitating business transfers" and "support Member States in their efforts of establishing a transfer-friendly business environment.[13]"

[8] European Commission, 94/1069/EC: Commission Recommendation of 7 December 1994 on the transfer of small and medium-sized enterprises, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:31994H1069

[9] Ibid.

[10] European Commission, COM/2006/0117: Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions 'Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses - Continuity through a new beginning', available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52006DC0117

[11] Centre for Strategy & Evaluation Services (2013)

[12] European Commission, COM/2012/795: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Entrepreneurship 2020 Action Plan: Reigniting the entrepreneurial spirit in Europe', available at: https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0795:FIN:EN:PDF

[13] European Commission, COM/2020/103: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'An SME Strategy for a sustainable and digital Europe', available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1593507563224&uri=CELEX:52020DC0103

EU financial support for business transfer

In addition to providing recommendations to Member States, the European Commission has **allocated financial resources** to support this policy area. The COSME programme[14] is one of the main references for potential business buyers. Other programmes have also provided relevant financing. For example, the Entrepreneurship and Innovation Programme (EIP) had a call for proposals in 2013 to develop models and quality standards relating to training of advisors, online platforms for business transfers, awareness raising programmes, and data collection methods on business transfers[15]. Furthermore, European Structural Funds have been encouraged to be used to support business transfers as exemplified by the guidebook[16] produced in 2012. European Regional Development Funds have been allocated to projects working on business transfers through Interreg programmes. Later chapters of this policy brief focus on such projects from the Interreg Europe community.

National and regional financial support for business transfer

Specific financial measures have also been set up on the national level. The Danish Investment Fund VækstFonden provides loans, subordinated loans and guarantees for loans to those who want to purchase an existing company[17]. Luxembourg's Société Nationale de Crédit et d'investissement provides startup loans that can also be used in the case of business transfers[18]. In France, the public investment bank Bpifrance provides guarantees in case of business transfers to enable access to credit from banks[19]. Malta Enterprise has a financial incentive to facilitate generational transfers within a family business by covering expenses related to the transfer of immovable property[20]. These are just a few examples of financial instruments that enable successful transfers.

Challenges of business transfer

As the volume of business transfers is expected to increase due to the aging of entrepreneurs[21] it is necessary to ensure that they will be successful. Challenges related to business transfer can be viewed from two standpoints. Challenges on the macro level that encompass the overall policy framework and those at micro level, which include the struggles of transferring ownership of a business.

Macro level challenges

The main macro level challenge is good businesses going out of business because of insufficient or unsuccessful business transfers. The European Commission has identified the following challenges:

- "awareness-raising for better planning and preparation;
- quality of support and advisory services;

[14] European Commission, COSME financial instruments subpage, available at: https://ec.europa.eu/growth/access-to-finance/cosme-financial-instruments_en

[15] European Commission EIP programme (2013) Call "Transfers of Business", 118-G-ENT-CIP-13-E-NO1C06, available at: http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/fp7/calls/118-g-ent-cip-13-e-no1c06.html#additionalinfo

[16] European Commission (2012)

[17] VækstFonden website, available at: https://vf.dk/en/get-a-loan/change-of-ownership/

[18] Société Nationale de Crédit et d'investissement website, available at: https://www.snci.lu/products/start-up-loans/

[19] Bpifranxe website, available at: https://www.bpifrance.com/Bank-for-entrepreneurs/For-french-companies/Guarantees

[20] Malta Enterprise website, available at: http://maltaenterprise.com/support/family-business-transfer-ownership

[21] Koreen, M.; Pissareva, L. & Schlepphorst, S. (2019) Business Transfer as an Engine for SME Growth, available at: https://www.g20-insights.org/policy_briefs/business-transfer-as-an-engine-for-sme-growth/

- quality standards related to the functioning of online markets and their inter-connectivity;
- taxation (especially retirement tax relief, re-investment tax relief, sale to employees' tax relief, and double taxation of cross-border inheritances).
- a lack of evidence and the need to harmonise data collection for better policy making"[22]

There are also **regional differences in Europe**. Western Europe has seen generational business transfers for some time, while companies established in Eastern and Central Europe in the beginning of 90s are only now starting to reach a maturity level where discussions of hand-over should be held. This means that it is high time for regions to learn from the rich experience of those regions that have been building support systems for successful business transfers for decades.

Micro level challenges

Micro level challenges are related to the transfer of a concrete company. According to a European Commission Guidebook on business transfers, the "transfer of a business from one person to another is a **complex process** that involves much more than the legal transfer of ownership in exchange for a price. To complete such a transfer successfully, numerous problems, many of them of an emotional and psychological nature, have to be overcome[23]." Other challenges that have been identified include matching the preferences of buyers and sellers, transfer of knowledge between transferor and successor[24], building trust, and technical issues.

The micro level challenge is biggest where it is a one-man company or there is a large knowledge gap between the head of the business and the rest of the staff. Such companies are especially vulnerable to unexpected shocks related to illness or death. If no contingency or emergency measures are in place the company's activities are in sever threat.

Business transfers and the challenges involved also vary **depending on whom the business is transferred to**, e.g. a family member, employee(s) or a "stranger". While no transfer is easy, transfers within a family or to employees, say in the form of becoming a cooperative, have smaller information asymmetries between the transferer and the successor. Further, such transfers can reassure clients or partners and help preserve company know-how[25]. In some countries, cooperatives have also shown a higher survival rate than conventional enterprises[26]. However, according to 2013 data, family transfers have become less common due to modern management systems and alternative opportunities for highly educated young people – succession within the family is now likely to take place in only 15% to 35% of transfers.[27]

Interreg Europe and business transfers

In addition to ensuring the survival of viable businesses and to securing jobs, transfers can also bring about new opportunities of busines renewal with the inflow of new ideas that new owners or next generations bring to the company. It is with this evidence in mind that partners

[22] European Commission, Transfer of business subpage, available at; https://ec.europa.eu/growth/smes/promoting-entrepreneurship/advice-opportunities/transfer-business_en
[23] European Commission (2012)
[24] See for example the Successionwiki chapter on Knowledge Management in Business Succession, available at: https://successionwiki.emfprojekt.de/knowledge-management-in-business-succession/#Challenges
[25] Euronews (2013) Finding the right leader, available at: https://www.euronews.com/2013/11/01/finding-the-right-leader
[26] CECOP-CICOPA Europe (2013) Business Transfers to Employees under the Form of a Cooperative in Europe: Opportunities and Challenges, available at: http://www.socioeco.org/bdf_fiche-document-2110_en.html
[27] Centre for Strategy & Evaluation Services (2013)

of Interreg Europe projects meet to exchange on good practices and solutions to support and improve mechanisms for successful business transfers.

This is the focus of two Interreg Europe projects. Like all interregional cooperation projects, their aim is to exchange experiences and good practices to facilitate a rich learning experience that would improve regional development strategies.

STOB regions

STOB regions (01.01.17-31.12.21) focuses on the challenge of business transfers in 9 EU regions. The project addresses the complexity of the whole transfer process from the first thoughts of an owner to sell the business until the actual transfer. This includes issues related to sensitisation, raising awareness, advisory services, removing barriers of transfer, accommodating various buyers (employees, women, migrants, international), financial instruments to support business transfers and valuation, rating and maintenance of value of companies in the transfer process. The overall project objective is to contribute to regional growth through business transfers and regional action plans. One noteworthy outcome of the project has been the setup of the Successionwiki webpage which provides information about business transfer in general as well as the activities and outcomes of the project. The main goal of Successionwiki is to "create a tool for an easy accessibility of knowledge [on business transfer] as well as the transportation and transparency of this knowledge.[28]"

Success Road

Success Road (01.08.19-31.07.22) focuses on family businesses in the manufacturing industry. The purpose is to ensure long term sustainability of European textile, clothing, and footwear sectors' SMEs through the development of a more integrated approach for interventions to support the SMEs to better prepare and manage their transfers. The overall objective is to implement and improve policies and new succession measures in operational programmes of partner regions so that SMEs can better face the succession phase and secure their future after a change of ownership.

Policy changes achieved thanks to Interreg Europe projects

For Interreg Europe projects, the goal is to learn from the good practices from various regions in order to improve the design and implementation of policy instruments for regional development. While Success Road began recently and has yet to achieve policy changes, there has already been an impact on some of the regions involved in the STOB regions project.

State of Brandenburg (Germany)

The state of Brandenburg has seen various policy developments thanks to the STOB regions project. The learnings of the project have impacted both the use of ERDF and ESF funding. Key catalysts in these developments have been the **intense cooperation with the partners** and the **successful set up of a regional stakeholder group**, which enabled a collaboration between relevant actors of the regional ecosystem. Such a group did not exist prior to the STOB regions project. It was the first time that business transfer was jointly discussed among relevant stakeholders.

In Brandenburg, the main challenge identified was the following: "*We found out that the majority of entrepreneurs start much too late to think about handing over their businesses and*

[28] The Successionwiki website, available at: https://successionwiki.emfprojekt.de/

underestimate the efforts of the transfer process. It has become clear that there is a huge lack of awareness for the topic itself among the entrepreneurs. And even if they know about the need to deal with this subject, they don´t know how to start this process and how to go ahead."[29]

As a direct outcome of the STOB regions project, in 2019 the Ministry of Economic Affairs and Energy of Brandenburg **launched the programme** "Sensitisation of Owners of SMEs for the Early Consideration of their Transfer Arrangements". It aims to raise awareness among business owners on the importance of an early reflection on business transfer. Now, the Chambers of Commerce and Industry, the Chambers of Crafts, and other professional associations in Brandenburg can apply for additional staff (approx. 2 FTE per chamber) whose job is to provide individual support to entrepreneurs as well as to organise information events. This programme targets entrepreneurs aged 55 and older. The funding comes from the ERDF Operational Programme 2014-2020.

Another challenge identified in Brandenburg was the lack of coordination between actors who potentially deal with business transfers. To improve this, **a new pilot project** funded by the Operational Programme has been set up. The project develops a concept for a competence centre for business transfer that could function as a one-stop-agency – a central contact point and coordinator for all activities around the topic of business transfers in Brandenburg. The pilot strengthens and improves existing structures, including running ESF projects. The long-term goal is to provide input to the next Operational Programme 2021-2027 within which the complete realization of the concept, e.g. a physical establishment of a competence centre could be achieved. Inspiration for this project came from the good practices from Finland (Southwest Finland Regional Business Transfer Platform) and Belgium (Sowaccess Ecosystem) that are presented in the next section of this policy brief.

Lastly, another ESF-project for the period 2014-2020 was set up to establish **a regional "successors' club"**. In the club, successors can exchange experiences with other successors-to-be and improve their knowledge and skills in a small, closed group over a limited period. Former entrepreneurs act as mentors and experts provide lectures on special topics. The idea for this project came directly from a good practice from Denmark ("Generationsskiftenetværk" Local Transfer Network) that is covered below.

<u>Małopolska Region (Poland)</u>

Thanks to the STOB regions project, the Regional Operational Programme for the Małopolska Region now includes **vouchers for consulting** about "procedures and processes related to strategic planning and implementation of succession, with particular emphasis on protecting the durability of a functioning enterprise." Similarly to the experiences in Brandenburg, a wide range of the stakeholders were engaged in the process of updating the voucher scheme. Both the programme implementing body as well as companies that implement vouchers for their clients participated in the meetings of the regional stakeholder group.

[29] Project progress report

Good practices

The beginning of this policy brief mapped the European Commission's work on business transfer. However, it is necessary to understand that regulatory measures are necessary rather than sufficient conditions for promoting an efficient transfer of businesses[30]. As explained above, various awareness raising, advisory and other facilitation services are needed.

Such good practices have been identified in the regions partaking in Interreg Europe projects, notably iEER, SOCENT SPAs, SARURE, and STOB regions.

Awareness raising – emphasising the importance of timely succession planning

As was covered above, one of the challenges to business transfers is lack of awareness among business owners when it comes to business transfers. First, it is important to persuade business owners to start thinking about succession at an early stage, given the complexities of a transfer. Second, it is important to ensure that business owners interested in a transfer have the tools to understand the processes involved. One interesting example is the "succession-in-germany" information platform from Berlin (Germany). It offers guidance and information on business succession in Germany. Together with the German successionwiki (see the highlight-box below), it has become a central hub for business transfer. These good practices also inspired the STOB regions project to set up their own Successionwiki[31].

STOB regions
Interreg Europe

Good practice: The successionwiki: a comprehensive online lexicon for business transfer, Berlin (Germany)

The successionwiki contains around 400 unique and scientifically reviewed articles that explain different aspects of business succession. The successionwiki, as a comprehensive digital online reference guidebook, gives an overview of four main topics: (1) transfer of a company (handing over as a senior), (2) internal succession (within a family or family network), (3) external succession (buyers, employees), and (4) general aspects concerning people who seek information (e.g. advisors, students, policy-makers)

Read more about the practice here.

Advisory services – ensuring success in transfer

For many businesspeople, a transfer of their business is a once-in-a lifetime event. The transfer process is therefore mostly unknown and previous experience is lacking. Transferring a business is in its essence a complicated process that involves various matters – succession

[30] Centre for Strategy & Evaluation Services (2013)

[31] Policy Learning Platform (2019) The succession wiki: a comprehensive online lexicon for business transfer, available at: https://www.interregeurope.eu/policylearning/news/6161/the-succession-wiki-a-comprehensive-online-lexicon-for-business-transfer/?no_cache=1&cHash=1deecc55664648e3163c99da7999bc27

legislation, taxation, preparing the company for sale, price evaluation.[32] Often, therefore, there is a need for legal and managerial advice to ensure a smooth transfer.

The voucher service from Małopolska Region described previously is one of such methods to support advisory services in business transfer. Other such services can be found in Spain where many family enterprises are expected to reach a succession phase in the coming decade. Andalucia Emprende has set up a business transfer advisory service that focuses on facilitating the buying out of companies, including the formation of cooperatives. This service is relevant in cultural contexts where transferring businesses outside the family circle is not a common practice. Another similar good practice from Aragon, Spain is highlighted below.

SARURE
Interreg Europe

Good practice: Aragon's Generational Relay Programme in retail, Aragon (Spain)

This program has been co-financed by the Government of Aragon and the Aragon's Chambers of Commerce since 2005. Free technical services are offered both to the retailer who wants to transfer the business and to the entrepreneur who wants to take it. Retailers willing to transfer their business can receive legal advice regarding the transfer contract, economic evaluation, support for fiscal and administrative procedures. They also receive contacts for the transfer. The new entrepreneur can similarly receive legal advice and support regarding fiscal and administrative procedures. They are also offered a feasibility study of the business project or relevant trainings.

Read more about the practice here.

To assure that transferors and successors get the relevant help, business advisors also need to be trained in the field. For example, in the framework of an Erasmus+ Programme project "Success…ion" a Guide for Succession and Family Business Transfer was developed in five different languages[33]. Lastly, business owners can also be advised through guidebooks, such as The Family Business Succession Guidebook from Poland or The Emergency Manual from Germany.

[32] European Commission (2012)

[33] Success…ion project homepage, available at: http://succession-project.eu/index.html See also the good practice on the Policy Learning Platform: https://www.interregeurope.eu/policylearning/good-practices/item/2177/the-business-advisers-companion-for-family-business-succession-and-transfers/

In more developed ecosystems, advisory services and awareness raising activities have been brought together into single contact points or service centres. Such well-established contact points have been set up in Finland and Belgium.

Good practice: Southwest Finland Regional Business Transfer Platform, Etelä-Suomi (Finland)

A regional platform providing comprehensive support and advisory services for business transfers has been set up in Southwest Finland. The Regional Business Transfer Platform provides both buyers and sellers guidance and support along the full process path of a typical business transfer. The platform consolidates free of charge basic advice and access to a large partner network of specialised expert services (valuation, legal and tax consulting, etc). The platform also seeks to raise awareness and promote business transfer as an alternative to starting a business. A matchmaking framework is provided for buyers and sellers to meet.

Read more about the practice here.

Good practice: Sowaccess Ecosystem, Liège (Belgium)

Sowaccess has developed a complete business transfer ecosystem. It offers services and enhances partnerships at the different stages of the transfer process. While the ecosystem seeks to raise awareness through various activities and events, it also provides a comprehensive list of services for those seeking to take on a business transfer. The services include consulting and training in the preparation phase, matchmaking, negotiation, and even support in the “after buy out” phase.

Read more about the practice here.

Matchmaking – facilitating contact and removing barriers

Business transfer can be compared to the textbook example of selling a used car. The owners are in an advantageous position as they know more about the company than the potential buyer. Therefore, services bringing more transparency to the process are needed.

This is achieved through matchmaking services which bring together potential buyers and sellers in a neutral setting where knowledge gaps and information asymmetries could be resolved. Often, it is the public sector providing services that help to overcome communication and trust barriers on the market. In case the matchmaking is facilitated by an online platform or marketplace, it is important to have a neutral and trustworthy host organisation, such as a chamber of industry or commerce, and to ensure anonymity of transferors[34].

SOCENT SPAs
Interreg Europe

Good practice: "Succession of enterprises" - Intergenerational transfers, Andalucía (Spain)

To avoid the disappearance of viable enterprises due to lack of intergenerational transfers, the programme facilitates the contact between transferor and successor. This is done by setting up a communication channel and by removing barriers of information.

The main objective of the project is to ensure the continuity of viable enterprises in danger of disappearing due to problems other than economic ones, such as lack of generational transfers or change of professional orientation. In this way, the loss of economic capital and jobs is avoided.

Read more about the practice here.

Generational transfers – supporting a smooth succession within a family

Historically, generational transfer was the most common type of business transfer where the ownership of the company is handed over to the next generation within the family. According to EFB, the EU federation of national associations representing long-term family owned enterprises, there are more than 14 million family businesses in the EU, generating around 50% of the EU GDP and offering more than 60 million jobs in the private sector[35]. Given their important role in the EU economy, some concern has been raised by studies, showing that "only 30 percent of family enterprises survive to the second generation because of unsolved

[34] European Commission (2012)
[35] European Family Business website, available at: http://www.europeanfamilybusinesses.eu/

or badly solved transition of ownership and management to the next family generation, and many enterprises fail soon after the second generation takes control.[36]"

Generally, family transfers are easier than transferring to a "stranger" – information asymmetries are smaller as the family member has seen the business being run from the side-lines and parents will likely be honest about the challenges the company is facing. Yet, generational transfers also face their own challenges and different regions have implemented practices to especially help families in such transitions. These good practices include elements of awareness raising and advisory services discussed above but are tailored to the setting of family owned businesses. Some of these practices focus also on community building and peer learning, such as, for instance, the Success Through Succession outlined below, where a Family Business Forum was set up to support dialogue between family owned businesses.

iEER
Interreg Europe

Good practice: Success Through Succession (STS), Northern Ireland (UK)

The aim of the project was to increase the survival rate and growth potential of family owned SMEs in Scotland, Northern Ireland, and Ireland. STS aimed to establish regional succession planning hubs providing cross-border expertise, training, and mentoring for the family and the business. This is how the Family Business Forum was established.

In the Forum, family businesses are able to connect to each other, share experiences, exchange ideas, and learn in a friendly and sociable setting. The forum hosts regular events exclusively for family owned businesses, providing an opportunity to meet other business owners, hear stories from guest speakers and benefit from the skills of experts in the sector.

Read more about the practice here.

Services to facilitate generational transfers can also focus on the next generation, e.g. the future owners and managers of the business. A good example of this is the Local Transfer Network in Denmark. By working in small groups this method allows future business owners to share personal experiences and possible concerns. It is also noteworthy that special meetings are foreseen for the current owners to advise on how they can continue providing parental support in the future. This is important because business transfers also involve complex emotional and psychological problems[37] related to handing over something they have dedicated years of their life to. Managing such feelings of the previous business owners is equally important to ensure a smooth succession.

[36] Duh, Mojca (2012) Family Businesses: The Extensiveness of Succession Problems and Possible Solutions, *Entrepreneurship - Gender, Geographies and Social Context*, InTech

[37] European Commission (2012)

STOB regions
Interreg Europe

Good practice: Generationsskiftenetværk (Local Transfer Network), Syddanmark (Denmark)

Next generation business leaders meet every two months over a period of two years. The small group consists of successors from different industries to ensure confidentiality. Each meeting has a thematical focus and is facilitated by a consultant or an external expert in the specific field. Topics include: devising a business plan or strategy, leadership style, taxation in connection with succession planning, legal issues and paperwork.

In addition a “relaxed” parent meeting -without the next generation members- is held. In the meeting, the outcome of the network and future parental support are discussed.

Read more about the practice here.

In Spain, where there is a long tradition of family companies, the Family Business Institute has been sponsoring university courses and research on family businesses.

STOB regions
Interreg Europe

Good practice: Network of Universities offering family Business Courses, Andalucía (Spain)

The Network of Family Business Chairs develops and promotes research, training, dissemination, and the provision of services related to family business. The studies managed by the Network in collaboration with the universities, provide a clear picture of the weaknesses and strengths of family businesses, allowing business owners and policy makers to create a better environment for the growth and reinforcement of family businesses. Trainings focus on family business members, especially future business successors, executives working in family firms and potential entrepreneurs.

Read more about the practice here.

What could regions do next?

This policy brief has covered challenges related to business transfers and has illustrated how to alleviate some of these by some good practices implemented across Europe.

Here are the main takeaways from this policy brief:

- Since 1994, the European Commission has identified areas that need to be improved in member states to ensure that more businesses could be successfully transferred. Still, according to the 2013 evaluations, not all Member States had improved their existing framework in all the areas highlighted by the Commission. In case some of such regulatory improvements have not been done on the national level, then **regions are those political units that could draw the central governments' attention to further address these issues**.
- Barriers are not only regulatory. Nor are they economical. Rather the problems are caused by insufficient preparation for succession on the company level and lack of services that could assist business owners and potential buyers in this process. This policy brief has presented some good practices in this regard.
  - Awareness raising – as business transfer is often a once in a lifetime event for business owners, many do not actively think of the business hand over. However, this is one of the main reasons why many viable businesses end up failing when the owner retires.
  - Advisory services – transferring a business is a complicated process that involves various matters, e.g. succession legislation, taxation, preparing the company for sale, price evaluation. Often, therefore, companies need legal and managerial advice to ensure a smooth transfer. Such **advisory services should be set up in regional business support organisations**.
  - Matchmaking services – it is equally important to ensure that **potential transferors and successors can find each other with ease**. A neutral setting should be provided so that trust can be built between the two parties. The public sector is the best suited for this role, and can act as a neutral provider of a business trading platform or as a neutral mediator during the transaction.
  - Facilitating generational transfers – regions with many family businesses have set up specific services for them. This is because family businesses have some characteristics that differentiate them from other companies and the transfer process also involves complex relations where family matters and business matters intertwine. **Peer learning and discussion groups are a promising tool to ensure better succession within family businesses**.
- Lastly, regions could also look for ways to **establish financial measures** to support the purchasing of existing companies. As buying an existing business often requires more capital than starting up a new business, then assisted loans, guarantees, and forms of equity capital for a limited period could make it easier to take over a businesses[38] and, therefore, ensure that more viable businesses survive in the region.

[38] European Commission (2012)

Sources of further information

- European policies
  - European Commission on the Transfer of businesses
  - Competitiveness of Enterprises and SMEs (COSME)
  - European Regional Development Fund (ERDF)
- Good practices
  - Additional good practices of awareness raising, advice and mentoring, matchmaking, and financing can be found in the European Commission Guidebook on Facilitating Transfer of business.
  - And in the "Helping the transfer of businesses - A 'good practice guide' of measures for supporting the transfer of businesses to new ownership" from 2002.
- Interreg Europe resources
  - STOB regions Successionwiki
  - A Policy Learning Platform article on the Successionwiki
  - Success road press-releases and newsletters
- Previous Policy Learning Platform policy briefs
  - Operational approaches to efficient business support delivery
  - How to boost entrepreneurship in rural areas?
  - Public-private startup accelerators in regional business support ecosystems

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SME competitiveness

Interreg Europe Policy Learning Platform on SME Competitiveness

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