

# SUCCESSION AND TRANSFER OF BUSINESS IN REGIONS

ACTION PLAN TO SUPPORT THE TRANSFER OF  
BUSINESSES IN THE REGION OF BULGARIA

NUTS2: South Central Region

NUTS 3:Plovdiv region



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# LETTER OF ENDORSMENT

Dear Mr. Velizar Petrov,

In connection with the submitted to the Ministry of Economy letter from "Regional Development Agency with Business Support Centre for SMEs - Plovdiv" I would like to inform you of the following:

Action plan developed under the STOB regions – Succession and business transfer in the regions, funded by the INTERREG Europe 2014-2020 Interregional Cooperation Programme, has been sent for coordination with the Directorate-General "European Funds for Competitiveness", which is the Managing Authority of the Operational Programme "Innovation and Competitiveness".

It should be borne in mind that, at this stage of the implementation of the programme, the announced grant procedures represent more than 90% of the programme budget, with the expected announcement of the procedures "Stimulating the introduction of innovation by existing enterprises" and "Digitization of SMEs", the budget will be announced in full.

In order to promote entrepreneurship, we will include in the Annual Plan for the National Strategy for Small and Medium-sized Enterprises 2014-2020 a specific measure to raise general awareness of ownership change.

In connection with the Action plan you provide, we will expand the information provided by the web-based SME support tool and include specific steps regarding succession/inheritance and business transfer.

In addition, I would like to inform you that the preparation of the National Strategy for Small and Medium-sized Enterprises for the period 2021-2027 will look at the specific problems and opportunities that could be extended to family businesses, including succession and transfer of business, and key activities outlined in the Action plan will be taken into account.

Sincerely,

JELYAZ ENEV

Director of Economic Promotion Policies Directorate  
Managing Authority of the Operational Programme "Innovation and Competitiveness"

Reference No 12.00.1555 19

Date: 15.01.2020

Place: Sofia

*(signature and stamp)*

## LIST OF ABBREVIATIONS

|              |  |
|--------------|--|
| EBIT         | <i>Earnings before Interest and Taxes</i>  |
| EBITDA       | <i>Earnings before Interest, Taxes, Depreciation and Amortization</i>                                  |
| ESF          | <i>European Social Fund</i>  |
| ESIF         | <i>European Structural and Investment Funds</i>  |
| MS           | <i>Member States</i>   |
| NOPAT        | <i>Net Operating Profit After Taxes</i>  |
| SME          | <i>Small and Medium Enterprises</i>  |
| ToB          | <i>Transfer of Business</i>  |
| RDA BSC SMEs | <i>Regional Development Agency with Business Support Centre for Small and Medium-sized Enterprises</i> |
| GDP          | <i>Gross Domestic Product</i>  |
| AP           | <i>Action Plan</i>   |
| EU           | <i>European Union</i>  |
| NSSME        | <i>National Strategy for Small and Medium-sized Enterprises</i>  |
| OPIC         | <i>Operational programme "Innovation and Competitiveness" 2014-2020</i>                                |
| NSI          | <i>National Statistical Institute</i>  |
| EEASME       | <i>European Executive Agency for Small and Medium Enterprises</i>                                      |
| NUTS         | <i>Nomenclature of Territorial Units for Statistics</i>  |
| ME           | <i>Ministry of Economy</i>   |
| BSMEPA       | <i>Bulgarian Small and Medium Enterprises Promotion Agency</i>   |
| RBTP         | <i>Regional business transfer platform</i>   |
| BARDA        | <i>Bulgarian Association of Regional Development Agencies and Business Centres</i>                     |
| KA           | <i>Key Action</i>  |
| RBTP         | <i>Regional Business Transfer Platform</i>   |

# PART I: about the project

## Introduction to Business Transfer

***“After the creation and growth of a business, transfer is the third crucial phase in its life cycle.”***

– Commissioners Tajani and Hahn, Foreword of Guidebook No. 3 – Facilitating Transfer of Business 2012.

## General Project Description



The STOB regions project addresses the challenges of this third phase of business transfer in 9 EU regions.

There has been a strong focus on start-ups across Europe, however, of equal importance is ensuring the survival of existing businesses. Safeguarding SMEs, arguably, has a higher impact on jobs and growth. This is reinforced by the fact that the success rate of transferred businesses is higher than that of start-ups.

The STOB regions partnership brings a range of different experiences and levels of expertise, including regional authorities and business support institutions. The interregional approach explores and examines the challenges faced by succession and seeks to find new or improved methods to support business transfers.

Over three years of sharing experiences and participating in interregional learning, the partners benefit from improved knowledge on the various approaches across the regions. Peer reviews and workshops on specific topics related to business transfer will help promote the learning process and improve the implementation of ESIF programmes. The regional action plans are a key output of the program. These plans will contain concrete projects that build on the identified good practices and transfer new ideas to partner regions with recommendations made for a future regional strategy to support succession. STOB regions also offers input to the debate on both a European and regional level, encouraging greater attention on business transfer in the future cohesion policy with two high-level dissemination events.

Fundamentally, the project addresses all types of successions and transfers of business, be family-internal from father to son or mother to daughter, external to investors or employees or to even shared solutions where only management is handled external and ownership is not being transferred.

## Known Issues and Challenges

Transfer of business (ToB) is a crucial phase in business as well as in the entrepreneur's life cycle. The importance of ToB for jobs and growth can be demonstrated with the estimated number of 450.000 businesses in Europe, providing 2 million jobs which are transferred every year (see Entrepreneurship 2020 Action Plan).

We can observe the same trends in the EU:

- increased importance of ToB (but also a declining number of potential buyers) resulting from demographic change
- increasing number of ToB will take place outside the family to third parties
- growing number of entrepreneurs will only stay in the same company for a shorter period of time (not for a life time)
- Personal decisions (change of interests, family situation, early retirement) will trigger transfers.

The European Commission (EC) has analysed the conditions for ToB in the Member States (MS) and has issued recommendations to each MS what needs to be done to facilitate ToB and safeguard jobs. Moreover, research shows a positive relationship between transfer and business growth. However, only few MS have adopted comprehensive strategies towards business transfers.

It is often forgotten that starting a new firm is not the only way to become an entrepreneur. Taking over a business is a real alternative for aspiring entrepreneurs to start a business. Safeguarding existing companies has a higher impact on jobs and growth than start-ups: the success rate of transfers is higher than of start-ups and transfers conserve in average more jobs.

A transfer involves complex issues like valuation, matchmaking and financing (see workshop topics). STOB regions addresses the complexity of the whole transfer process from the first thoughts of an owner to sell the business till the actual transfer. The project partners have had thorough discussions on the challenges regional authorities face while implementing regional policies and ESIF instruments to support business transfer.

In the learning process the partners had an in-depth look on the differences between the partners from Eastern and Western Europe. Enterprises in Eastern Europe were mostly founded after the political changes in the early nineties. For the first time these SMEs are in the coming years in the situation to look for a successor. Traditional SMEs in particular family businesses in Western Europe often were transferred at least one time in their existence.

The smallest enterprises are the most vulnerable to failed transfer. These micro enterprises are often closely related to their owner's skills. The low value and the size of the business often hamper transfers.

Considering the fact that 9 out of 10 are SMEs with fewer than 10 employees and a Commission's study from 2011 on "Business Dynamics" estimated the loss of non-efficient transfers on 150.000 companies and 600.000 jobs per year clearly shows the importance for regions to have a closer look on the topic of business transfer.

## Aspects of Business Transfer

Regarding the STOB regions project there have been 8 different topics, encompassing most of the current issues of business transfer. These topics were presented by regional stakeholders and interest groups. Additionally, each topic was discussed and reflected on by the delegates of the respective workshops. In the following section the different topics are presented and a brief introduction regarding the challenges and most pressing issues within the respective topic are shown.

Therefore, business succession is a topic of utmost importance all across Europe.



Many Eastern European countries face the situation that the first generation of entrepreneurs, who established their businesses after the political changes in the beginning of the 1990s, has now reached the age for their

retirement. They are consequently forced to hand over their businesses or to close them. But not only in these regions has the topic of business transfer gained an increasing relevance. In most of our partner regions between 30 – 70 % of the existing companies are to hand over during the next ten years. This figure is alarming, especially if the fact is taken into consideration, that the awareness for the whole topic is relatively low.

Statistical data show that e.g. in Bulgaria almost half of the senior-entrepreneurs are not prepared for the succession. In other regions with less experience this figure is even higher. All involved institutions (ministries, chambers, banks etc.) are asked to raise awareness for this economical relevant field and to create an environment for a successful succession process. Owners have to be sensitized to start preparations early (at least 5 years before the transfer is supposed to be completed). At the same time potential successors need to be made aware of this opportunity to continue an existing business with proved structures, skilled staff, customers etc. instead of starting from zero.

Some regions started to raise awareness with activities like

- informational events
- seminars and workshops
- the establishment of networks
- the publication of good practices
- the establishment of contact points
- staff for consultation (e.g. in universities and chambers)

In order to ensure that raising awareness is targeted to the right audience it is essential to gain an understanding of specific issues.

First and foremost, giving a lifetime work into someone else's hands are a very emotional and sensitive challenge for entrepreneurs. Their expectations and wishes are often in conflict with those of the successors. Uncertainties, fears, and resistance are the consequence. Emotional conflicts arise. They can only be solved by active communication based on trust, openness, and transparency. In many cases, this requires external support, e.g., an independent advisor.

Second, "Hard factors" like the company valuation and the purchase price are often seen to be the most critical issues in successfully transferring a company.

Third, since several parties with partly diverging interests are involved in the succession process: the transferor, the transferee, the affected employees, family members, etc. raising awareness needs to ensure facilitating and addressing the specific needs of each group.

Challenges faced by project partners:

- lack of programmes to promote and sustain business transfer



Family businesses are the most common form of business in Europe. Particularly in rural areas, family businesses are a strong factor influencing the prosperity and innovation of a region. In addition to the usual business challenges, which affect all types of companies, family businesses

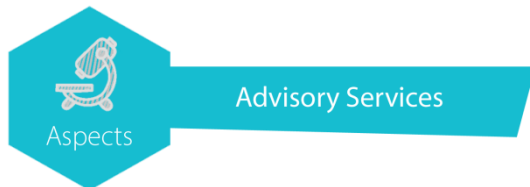
are forced to seek solutions to the generational change caused by succession.

Family businesses have the most predominant issues regarding the challenges of business transfer. The broad topic and the multiple obstacles that arise with the transfer of a family firm, such as the interwoven aspects of ownership and management and the somewhat arbitrary decision-making processes by owner-managers, it is not a linear process.

1. Family internal succession. Most successions are within the family, thus being transferred from father/mother to their children. This aspect tackles a variety of challenges, be it the basic qualification (e.g. formal training within the business or higher education), the general readiness of the succeeding generation, intra-family conflicts or feuds, acceptance by employees or oftentimes, that children just do not want to take over the parental business.
2. Firm internal succession. Many family firms are also being transferred from owner to employees of the firm. This is especially true for the many micro and small family firms, due to the somewhat bearable price, which can be afforded by a single person (or a small group).
3. External Succession. Selling family firms is becoming more and more frequent. As the "natural successors" – children, do have more options in their career choices or are not interested in the family firm, selling a business to an external may become the last option for a family firm. Although, research shows that family firms owners seek and wish to transfer their firm within the family.



Another critical factor concerning succession in family firms can be found in the readiness of the generation handing over the business. Frequently, owners are not ready to hand over their business and then find themselves in situations where age has become such a pressing issue that a more thoughtful procedure is barely possible due to constraints of a lifetime.



A business transfer is not a single event, but a process that needs to be well planned in order to succeed. The diversity and heterogeneity of SMEs also affect transfers. The issue differs according to the size of the company, the size of the family and/or the age of the company. The

implicit problems are not the same for a large company (managed or owned by the third generation of a family) and for a small company with only one owner (who may also be its founder). That is the reason why companies can't use the same solutions, tools or mechanisms. Every case needs an individual approach. Professional advisors can provide such kind of support.

Four different types of professional adviser typically serve family businesses: teachers, consultants, coaches, and therapists. Each of these brings a different, yet often related, approach to change based on various tools and disciplines of origin. The approaches can be from:

- Lecturers transmitting knowledge;
- Consultants (private and public) offering expert advice;
- Coaches (private and public) supporting new interpersonal and work skills; and
- Therapists working on new behaviour and deep insights.

Family businesses can benefit from professional advisory support to create the ways their relationships effects on their business and to use family relationships as a competitive advantage on the market.

Many failures could have been avoided if transfers were planned well ahead specialized advice was sought. Professional advisors can help to lead an objective research and facilitation process whereby the family is more able to explore its values, goals, strengths, and weaknesses.

Furthermore, advisers can help to disentangle knotty emotional issues and look for win-win situations. Especially for founders it is psychologically difficult to hand over their business and witness changes introduced by the new owner. Mentoring the transfer process by neutral and informed third parties can help to overcome such difficulties.

Succession involves many interests and parties, which calls for expertise in a wide variety of fields, e.g., legislation, taxation, valuation, organization, strategy, psychology.

A crucial factor is the availability and quality of advisory services. Studies show that advisors are ill-equipped to provide advice over the entire transfer process and that the market fails to offer adequate professional services and support. Good solution is to create a number of “one-stop” business support services that deal specifically with business transfers, or the integration of this into existing business support provision either at a local, national or regional level.

Challenges faced by project partners:

- lack of specialized advisory services in the business transfer field.



Valuation requires special competence and experience that the seller or owner-manager may not have. When a company needs to be valued, it is usually experts who do this. Valuation is the basis for a company's price. For the seller and the buyer, the valuation must be correct. As often

the seller accounts the price as an essential part of his pension and for the buyer the price is decisive for his own and the company's future finances.

The Person who evaluates a company needs methods and insight into special industry conditions to assess the right price.

Common valuation methods are:

1. Discounted cash flow (mathematical method that calculates value based on the company's free cash flow, debt, tax, investments etc.). Requires skills and competences in using the model.
2. Asset-Based Approaches (e.g. Asset Deal) requires knowledge of asset value and goodwill calculation.
3. Multiples (selected key figures -EBITDA, EBIT, NOPAT-multiplied by a factor) Requires considerable insight and experience with use and especially from specific industry. Price / earnings are a common method.



All target groups and potential buyers have different backgrounds and qualifications. In the STOB regions project, the partners discussed experiences with different strategies on how to address the groups, e.g. on how to attract more women as buyers. The project partners also

discussed if buyers from other countries are an option if the SME doesn't find a local successor.

During the workshops different challenges regarding target groups were identified:

- Young people (18 – 30 years old) - young companies for young people, funding models need to be adequate.

- Women – what are the differences compared to men as a target group in respect to needs of support; what are the top business preferences for women entrepreneurship
- Migrants / Foreigners - Foreign Direct Investments linked to BT; Consultants with intercultural competences and language skills needed; mentoring services for migrants (ESF funded- business plans, bank concept, legal and cultural aspects).
- Internals / Employees – how to retain best employees; Any help or support to employees, who want to buy companies.
- Identification of students as legal group; Universities of Applied sciences – include lectures on business transfer.

Challenges faced by project partners:

- brain drainage;
- emigration of the entrepreneurs;
- lack of awareness regarding business transfer



Finding the right company to take over it might look a bit difficult and also finding the right partner to sell the business. No matter if you want to sell or buy, no matter if you are using a business broker, a business event or an online app, for a successful transfer of the company

there must be defined the right criteria/requirements.

Besides valuation and financing, matchmaking is one of the most complex aspects within the business transfer process - creating a link between the buyer and seller, opening the path for business valuation.

Searching parties can use several methods to find the perfect match:

1. The classical approach is to go to an intermediary (usually a business broker who is well connected to the business market and entrepreneurial events) who knows the right person (buyer or seller).
2. They could also go to events for business transfer where buyers and sellers are meeting face-to-face and talk, offering or getting more information about the company, setting an official meeting (if the company information were satisfactory), deciding to go to a business broker (for advisory services).
3. Another option is to use online apps where interested buyers are searching for suitable companies to take over, finding the right ones, and contacting the owners for more details.

As opportunities the workshops identified:

- Using or developing entrepreneurial networks at the EU, but also at the national and regional level;
- Learning from programs developed by project's partners and adapt them to national/regional specific requirements, improving existing or creating new programs;
- Creating return incentives for the young generation (with competences and knowledge);
- Internationalizing the business.



Development an ownership succession plan is especially challenging in rural areas, where many small businesses are at risk of closing down due to the structural challenges within the next years. Furthermore, since the children of rural small business owners are either not

available or not interested in taking over the family business, a lack of possible successors further intensifies the issues. However, young people can also be motivated to stay in their home region when they see an economic perspective through becoming an entrepreneur. A key challenge to succession is often national legislation over inheritance, which can have a crucial impact on the consolidation, or on the fragmentation of businesses due to multiple siblings (e.g. of land and farm assets.).

The demographic change in rural areas with a shrinking population and in particular the migration of young people is an important barrier to find the successors needed. However, young people can also be motivated to stay in their home region when they see an economic perspective through becoming an entrepreneur. A key challenge to succession is often national legislation over inheritance, which can have a key impact on the consolidation, or on the fragmentation of a business due to multiple siblings (e.g. of land and farm assets).

Furthermore, the rural embeddedness of firms and the close ties these firms form with the respective region may make it hard for the owner to sell their land due the attachment to a location many generations have called their home.

Beside the children of the owners, another group that might be interested in sustaining the business and its legacy are a firms' employees. Provided that the owners are willing to complete full ownership transfer, the interested entrepreneurs or employees oftentimes face difficulties to take large loans in rural areas since banks may not see a prosperous future in a people-draining rural area.

Challenges faced by project partners:

- political and legislative unpredictability



How to finance the transfer of business is a crucial question for both - buyers and sellers. Special programs for Start-ups exist in many European regions. However, specific programmes dedicated to ToB are rare. This might be due to the individual and

heterogeneous needs of different businesses (and types of industry) and involved persons. Therefore, standardized financial support may be challenging to develop.

However, it is crucial for the sustainment of businesses that governmental support for financing transfers (be it by better loan conditions, e.g. for farmers or businesses in rural areas) is implemented.

Nevertheless, many countries have established financing instruments, which are suitable for founding a business, and also applicable to business transfer needs.

Challenges faced by project partners:

- lack of financing instruments and programmes for buying a business
- lack of financing instruments and programmes for buying-selling process

In many, especially eastern European countries the challenges facing ToB are only recently being addressed since most businesses are not on the market for more than 30 years and thus have not needed a transfer or succession. This also effects the preparation of financial institutes and their instruments. However, other countries have established, that financing instruments, which are suitable for founding a business are also applicable to business transfer needs.



The aspect explores the concept of how a change in ownership provides a pivotal point in time to introduce new knowledge into a company and strengthen innovation in businesses, as a way of keeping all maturing businesses competitive and ensuring demand from potential buyers.

The main objectives for knowledge transfer are:

- Understanding how a business innovation strategy and/or technical innovations introduced by the new owner can increase the value of the company and how changes the overall business management strategy.
- Unveil the correlation between corporate strategy and culture in order to foster a successful innovation.
- Initiating and supporting knowledge transfer from regional advisory partners.
- Investigating possible synergies with other projects in relation to knowledge transfer.

Amongst the thematic lectures, partner contributions and subsequent discussions the following opportunities and challenges were identified:

Opportunities:

- Creating a regional/local knowledge and experience exchange platform amongst cross-sectoral entrepreneurs (aiding in practical recommendations for business transfer).
- Transition from a problem-based (age of entrepreneur) approach (shifting the generation) towards an innovation-based, structured and progressive approach (increasing attractiveness and growth potential of the company). Linking valuation to business development actions (business improvement). Strengthening the role of valuation and encouraging project-based funding for it.
- Considering the different focuses of buyers and investors in ToB (In terms of valuation, a buyer values the current entity; an investor values a more holistic approach and considers future demand trends).
- Developing business innovation management before a generation shift occurs (a transition from only survival to developing/creating innovation strategies).

## Challenges:

- Great geographic distance and lack of accessibility to higher education are a factor of knowledge retention. Region's without access to such institutions, should create knowledge-based linkages and know-how transfer from outside of the region.
- It is difficult to successfully transfer tacit knowledge from the existing generation to the next generation. When the senior and the succeeding generation share time in the company, this ensures the absorption of tacit knowledge from the transferor to the transferee which is key success factor in the innovation renewal.

## PART II: THE REGIONAL ACTION PLAN

|                              |   |
|------------------------------|---|
| STOB regions (PGI02268)      |   |
| Partner organization         | Regional Development Agency with Business Support Centre for Small and Medium-sized Enterprises |
| Country                      | Bulgaria  |
| NUTS3 region<br>NUTS2 region | Plovdiv Region<br>South Central Region  |
| Contact person               | Velizar Petrov  |
| Email                        | <a href="mailto:rdaplovdiv@gmail.com">rdaplovdiv@gmail.com</a>                                  |
| Phone                        | +359 878 461438   |

### Region-specific issues and challenges

We usually say that small and medium-sized enterprises (SMEs) are the backbone of the economy and usually make up over 90% of the total number of companies (for Bulgaria in the period 2008-2017 they increase by 0.1 percentage point to 99.8%)<sup>1</sup>. That is why we pay special attention to them when planning our economic development.

On the other hand, SMEs are an extremely heterogeneous category<sup>2</sup>, which means that special efforts are needed to properly cover the different sub-groups and especially small family and traditional enterprises. The European Commission encourages the support of small family and traditional businesses as they are a key element in creating new activities and generating income in resource-poor areas. They bring added value to the process of regional development, especially in less developed regions, as they have deep roots in the local economy, where they invest and contribute to maintaining employment.

In Bulgaria<sup>3</sup> in 2015 active family enterprises are 25% of all active enterprises in the country. The results of the study show that the value added of family business in Bulgaria to GDP is 10.5%. Employment in the family business is 16.23% of the total employment in the country. The share of the turnover of the family companies in the total turnover of all the companies in the country is 12.42%. The problem is that there no regular survey of the family business sub-group of SMEs in Bulgaria.

Most of the half of Bulgarian SME entrepreneurs are aged 46 and over. Almost 70% of Bulgarian family businesses are still managed by their founder. In about 12% of family businesses, inheritance has already taken place; 8.6% of companies plan to transfer management to an heir in the near future (up to 1-2 years), and about 11% plan to do so in the medium term (3-5 years). Over 61% of companies will not transfer management to an heir in the next 10 years, and nearly 12% of companies plan to transfer management control in 6-10 years.

<sup>1</sup>"Bulgaria 2030" - Part 1 Analysis of the socio-economic development of the country after its accession to the EU, May 2019

<sup>2</sup>ECO / 433 - EESC-2017-01106-00-01-AS-TRA (EN) Opinion of the European Economic and Social Committee, ECO / 433, Family and traditional enterprises in the development of the regions, Section for Economic and Monetary Union and Economic and Social Cohesion, September 20, 2017

<sup>3</sup>Survey of the National Statistical Institute of the Republic of Bulgaria, project "Family Business Statistics" by agreement with the European Executive Agency for Small and Medium Enterprises (EASME)

The majority of Bulgarian family-owned companies do not plan important activities and aspects related to the transfer of ownership and management control to the next generation. Less than 17% of family businesses have prepared a plan to transfer management control to an heir. A list of potential heirs made up less than a third (29.7%) of family businesses. The highest is the share of companies providing training to potential heirs - 42.4%. A business plan after transferring management control to an heir has been developed by less than 15% of family businesses. A quarter of the family-owned companies have decided how the property will be distributed after transferring management control of the business to the heir.

Succession/Inheritance planning in Bulgarian family businesses:

- 17% - unwritten plan for transferring the management control over the business to the heir (heirs);
- 30% - list of potential business heirs;
- 42% - training of potential heirs for their future role in business;
- 14% - business plan after transfer of management control to the heir (s);
- 25% - decision how the property will be distributed after the transfer of management control over the business to the heir (s).

Enterprises in Bulgaria, as in Eastern Europe, were mostly founded after the political changes in the early nineties. ***For the first time these businesses are in the coming years in the situation to look for a successor. That is why we should focus on the information about transfer/succession of family business in Bulgaria.***

In Bulgaria the project addresses the National Strategy for Small and Medium-sized Enterprises 2014-2020 - Small Business Act, but there no budget, specify for the Strategy. The National Strategy for Small and Medium-sized Enterprises 2014-2020 is a political document in accordance with EU policy in this area and this policy is implemented through Operational programme "Innovation and Competitiveness" 2014-2020 (OPIC), ***but we are not focussed on it.***

According to the Strategy, having in mind that "Small and Medium-sized Enterprises" are an extremely heterogeneous category, we would like ***to recommend to determinate a subgroup "Family enterprises"***. The terms "family business", "family enterprises" and "family firm" are used synonymously.

It is generally accepted that a family's involvement in the business makes the family business unique; but the literature continues to have difficulty defining the family business. We argue for a distinction between theoretical and operational definitions. A theoretical definition must identify the essence that distinguishes the family business from other businesses. It is the standard against which operational definitions must be measured. We propose a theoretical definition based on behaviour as the essence of a family business. Our conceptual analysis shows that most of the operational definitions based on the components of family Involvement overlap with our theoretical definition. Our empirical results suggest, however, that the components of family involvement typically used in operational definitions are weak predictors of intentions and, therefore, are not always reliable for distinguishing family businesses from non-family ones.

There are three qualifying combinations of ownership and management:

- (A) Family owned and family managed;
- (B) Family owned but not family managed; and
- (C) Family managed but not family owned.

We accept the ***definition*** by Jess H. Chua James J. Chrisman Pramodita Sharma (1999):

„The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.“



Additionally:

A family business is a commercial organization in which decision-making is influenced by multiple generations of a family, related by blood or marriage or adoption, which has both the ability to influence the vision of the business and the willingness to use this ability to pursue distinctive goals<sup>4,5</sup>. They are closely identified with the firm through leadership or ownership. Owner-manager entrepreneurial firms are not considered to be family businesses because they lack the multi-generational dimension and family influence that create the unique dynamics and relationships of family businesses.

For a **privately held firm**, a firm is classified as a family firm in case **a family controls more than 50%** of the voting rights. For a **publicly listed firm**, a firm is classified as a family firm in case the **family holds at least 32%** of the voting rights.

A family business is a company that is influenced by one or more families in a substantial way.<sup>6</sup>

There are some indicators/criteria whether the company is family business:

- several family members hold capital shares and/or work in the firm as contributory staff members;
- capital majority is held by family members making strategic decisions;
- the family depends on the economic development of the firm or the firm has an important influence on the mind-set and lifestyle of the family members

**A three-circle model** is often used to show the three principal roles in a family-owned or -controlled organization: **Family**, **Ownership** and **Management**. This model shows how the roles may overlap.

According to Klein (2000) a firm can be considered as a family firm, when the sum of the family's share in equity, in government and management board is equal to or larger than 1. At most, a family can fully control all three elements.

Family influence then amounts to 3 (SFI = 3).

In analytical terms this can be written as follows:

$$\text{If } S_{Fam} > 0 \\ \text{SFI: } \left( \frac{S_{Fam}}{S_{Total}} \right) + \left( \frac{MoSB_{Fam}}{MoSB_{Total}} \right) + \left( \frac{MoMB_{Fam}}{MoMB_{Total}} \right) \geq 1$$

S = stock;

SFI = Substantial Family Influence;

MoMB = Members of management board;

MoSB = Members of supervisory board;

Fam = family.

Beside of the definition we will focus on **the dissemination of information** about **all aspects of transfer/succession of family business in Bulgaria**, based on the good practices, examples from the STOB regions project partner countries.

**This action we will do together with Ministry of Economy during the Annual Plan for the National Strategy for Small and Medium-sized Enterprises 2014-2020, a specific measure to raise general awareness of ownership change.**

<sup>4</sup>De Massis, Alfredo; Josip Kotlar; Jess H. Chua; James J. Chrisman (2014). "Ability and Willingness as Sufficiency Conditions for Family-Oriented Particularistic Behavior: Implications for Theory and Empirical Studies". Journal of Small Business Management.

<sup>5</sup>Alfredo De Massis; Pramodita Sharma; Jess H. Chua; James J. Chrisman (2012). Family Business Studies: An Annotated Bibliography. Cheltenham Glos, UK: Edward Elgar

<sup>6</sup>Urs Frey, Frank Halter, Sabine Klein, Thomas Zellweger, "FAMILY BUSINESS IN SWITZERLAND: SIGNIFICANCE AND SIGNIFICANCE AND STRUCTURE", © FBC-HSG and KMU-HSG, 2004

## SWOT-Analysis for Plovdiv Region

|                  |  |  |                   |
|------------------|--|--|-------------------|
| <b>Strengths</b> | <ul style="list-style-type: none"> <li>• Existence of National Strategy for Promotion of Small and Medium Enterprises 2014-2020, including also the concept of “transfer of business”</li> <li>• Availability of organizations / networks of business support organizations, respectively SMEs</li> <li>• Existence of a critical mass of businesses / family businesses that are about to follow succession transfer business</li> </ul> <p>Availability of developed training materials under the ERASMUS + project for business transfer and succession</p> | <ul style="list-style-type: none"> <li>• No detailed measures and activities have been developed related to succession and business transfer in the National Strategy for the Promotion of Small and Medium-Sized Enterprises 2014-2020</li> <li>• Lack of specific support from business organizations with regard to business transfer and succession</li> <li>• Lack of funding for organizations that support business transfer and to the succession process itself</li> <li>• Lack of definition and systematic study of family business</li> <li>• Lack of specific tools for family business and business succession</li> <li>• Lack of specific knowledge, skills and competencies related to succession and transfer of business in specialists/ consultants supporting business</li> <li>• Lack of programmes promoting sustainable transfer of business and lack of awareness of the possibilities of succession and transfer of business, incl. and as an alternative to starting a business</li> </ul> | <b>Weaknesses</b> |
|------------------|--|--|-------------------|

|                      |   |   |                |
|----------------------|---|---|----------------|
| <b>Opportunities</b> | <ul style="list-style-type: none"> <li>• To develop more detailed measures and activities related to business succession and transfer in the National Strategy for the Promotion of Small and Medium-Sized Enterprises 2014-2020</li> <li>• To Include the topic of business succession and transfer as a possible scheme (or part of a scheme) for funding from operational and / or regional programmes, as well as mentoring and certification schemes for experts / organizations supporting the process of business transfer and succession</li> <li>• Existence of a critical mass of businesses / family businesses that are about to follow succession transfer business</li> <li>• To expand the portfolio organizations/ networks of business support organizations, respectively SMEs, with support services for business transfer and succession</li> <li>• The tendency to increase the importance of business transfer succession, including at European level too</li> <li>• Transfer of good practices from partners and / or included in INTERREG EUROPE's Policy Training Platform</li> <li>• Creating local / regional networks of owners (transfers / successors or transferees)</li> <li>• Creation of regional Internet-based platforms for business transfer and succession</li> </ul> | <ul style="list-style-type: none"> <li>• The National Strategy for the Promotion of Small and Medium-Sized Enterprises 2014-2020 does not have its own funding, ie - lack of funding for measures and activities related to succession and business transfer</li> <li>• Bulgarian policy makers misunderstand the importance of the successful inheritance and business transfer for the sustainability of the economy, as well as the transfer and succession as a successful and less risky alternative to starting a business</li> <li>• Lack of funding, as well as lack of awareness in entrepreneurs of the importance and necessity of transferring and succession of business to become a part of their strategic planning</li> <li>• Existence of force majeure, incl. and pandemic one</li> <li>• Brain drainage of young people, emigration of young entrepreneurs, potential successors</li> <li>• Disinterested young heirs/successors to inherit / transfer business<br/>Political and legislative uncertainty</li> </ul> | <b>Threats</b> |
|----------------------|---|---|----------------|

## Key findings for Plovdiv from the interregional cooperation

During our work in the STOB regions project, particularly through the peer review, the SWOT analysis of our region, the exchanges with the other partners and the discussions with our Regional Stakeholder Group (RSG) we could identify these main issues and challenges for Plovdiv to be faced in the action plan:

- No specific definition and survey of family business
- No specific support instruments for Family Business and Transfer of Business
- No support organizations for Transfer of Business

# Information Regarding Policy Instruments

## Policy Context

|  |                                     |  |
|--|-------------------------------------|--|
| <b>The Action Plan aims to impact:</b> | <input checked="" type="checkbox"/> | National Strategy for Small and Medium-sized Enterprises 2014-2020 |
|  | <input type="checkbox"/>            | Cooperation Programme financed by Structural Funds                 |
|  | <input type="checkbox"/>            | Operational programme financed by Structural Funds                 |

## Policy Instruments

In Bulgaria the project addresses [the National Strategy for Small and Medium-sized Enterprises 2014-2020](#). This policy instrument is not operational/cooperation programme financed by Structural Funds. There is no budget, specified for the Strategy, but there are Annual Plans.

Thematic Objective 3 (TO3)

Priority areas of the strategy are: Encouraging entrepreneurial activity; providing appropriate regulatory and administrative framework for SMEs by applying the "Think Small First"; Improving conditions for SMEs to access foreign markets;

For Entrepreneurship

Create and maintain an environment in which entrepreneurs can thrive and entrepreneurship is rewarded: care for future entrepreneurs, in particular by encouraging entrepreneurial interest and talent, particularly among students, young people and women by easing the conditions for starting a business; easing access to finance through existing and new programs by priority start and more;

**Transfer of business:** Measures aimed at the smooth conduct of the transfer of business: public campaigns, mentoring schemes of the process, creating a fund to Bulgarian Development Bank to finance the process of transfer business. The implementation of the indicative measures under this investment priority aims at achieving a positive effect on the development of a sustainable market competitiveness of the Bulgarian SMEs.

We will focus on the dissemination of information about all aspects of transfer/succession of family business in Bulgaria, based on the good practices, examples from the STOB regions project partner countries.

This action we will do together with Ministry of Economy during the Annual Plans for the National Strategy for Small and Medium-sized Enterprises 2014-2020, a specific measure to raise general awareness of ownership change.

In 2020 we will work on of the Action Plan on conception level as the budget for 2020 is approved and foreseen for budgetary programmes and the current force majeure situation.

We will work on implementation of ACTION 1 Local Network for Owner-Managers (successors) organizing local network of owners; ACTION 2 Regional Business Transfer Platform and ACTION 3 - Financial Instruments / Mentoring Schemes in 2021.

Annual Plan 2020 includes:

## BUDGET 2020 IN PROGRAMMED FORMAT OF THE MINISTRY OF ECONOMY

### III. POLICY OF SUSTAINABLE ECONOMIC DEVELOPMENT AND COMPETITIVENESS

Sustainable economic development policy aims to increase the competitiveness of the economy in order to achieve stable and long-term economic growth.

The Ministry of Economy will work to increase growth potential based on encouraging investment in high-tech industries and knowledge-intensive services, promoting entrepreneurship, innovation and increased productivity of labour

This policy is aimed at achieving both national targets in the National Reform Programme, the Europe 2020 Strategy and the National Strategy for the Promotion of SMEs 2014-2020.

The programs under this policy are aimed at supporting the development of small and medium-sized enterprises and promoting start-ups.

There are many different programmes in the document, including some related ones:

#### BUDGETARY PROGRAMME - 2000.01.02 "ENCOURAGING ENTREPRENEURSHIP AND INNOVATION"

Objectives of the budgetary programme

Programme 2000.01.02 "Promotion of Entrepreneurship and Innovation" of the Ministry of Economy includes activities in accordance with the goals set out in the Innovative Strategy for Smart Specialization 2014 - 2020 (ISIS), in the National Strategy for Promotion of SMEs in Bulgaria 2014 - 2020, the National Reform Programme and the National Development Programme - Bulgaria 2020.

#### BUDGETARY PROGRAMME - 2000.01.06 "MANAGEMENT OF EU CO-FINANCED PROGRAMMES AND PROJECTS"

Objectives of the budgetary programme

Effective and efficient implementation of Operational Programme „Innovations and Competitiveness” (OPIC) and OPIMSP in order to increase the innovation activity, productivity and export potential of enterprises, improve their energy intensity, facilitate access to finance for SMEs and improve the business environment.

Unfortunately, there is no budget for succession and business transfer measures. We will work to plan needed budget in 2021.

## PART III. Implementation of the Action Plan

### Detailed Action

We will take part in implementation of the measures “Transfer of business”. Measures aimed at the smooth conduct of the transfer of business: public campaigns, mentoring schemes of the process, creating a fund to Bulgarian Development Bank to finance the process of transfer business. The implementation of the indicative measures under this investment priority aims at achieving a positive effect on the development of a sustainable market competitiveness of the Bulgarian SMEs.

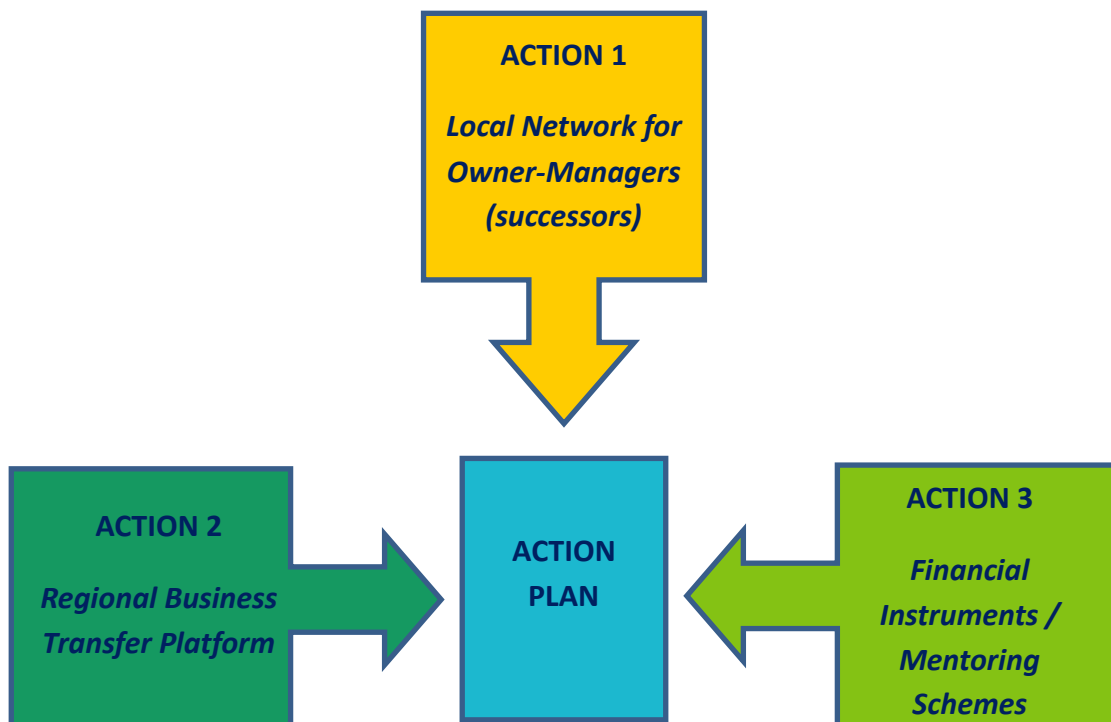
We will focus on the dissemination of information about all aspects of transfer/succession of family business in Bulgaria, based on the good practices, examples from the STOB regions project partner countries.

This action plan we will do together with Ministry of Economy during the Annual Plan for the National Strategy for Small and Medium-sized Enterprises 2014-2020, a specific measure to raise general awareness of ownership change.

According to the Final Report of Overview of Family Business Relevant Issues, conducted on behalf of the European Commission, Enterprise and Industry Directorate-General and STOB regional project activities (incl. exchange of good practices) and the SWOT analysis of Plovdiv region, [we identified the following problems:](#)

- No specific definition and survey of family business
- No specific support instruments for Family Business and Transfer of Business
- No support organizations for Transfer of Business

In 2020 we will work on the three actions of the Action Plan on conception level as the budget for 2020 is approved and foreseen for budgetary programmes and the current force majeure situation. We will work on implementation of ACTION 1 Local Network for Owner-Managers (successors) organizing local network of owners; ACTION 2 Regional Business Transfer Platform and ACTION 3 - Financial Instruments / Mentoring Schemes in 2021.



## Action 1. Local Network for Owner- Managers (successors)

It is a very **extensive project** that is supposed to include a wide range of aspects of business transfer. All above mentioned key findings (Part II) for Plovdiv will be taken into consideration in this action. The implementation is planned in two main phases:

- 1<sup>st</sup> phase: Implementation on conception level of ACTION 1 Local Network for Owner-Managers (successors) as the budget for 2020 is approved and foreseen for budgetary programmes and the current force majeure situation.
- 2<sup>nd</sup> phase: Implementation of ACTION 1 Local Network for Owner-Managers (successors) organizing local network of owners in 2021.

The described **action will be conducted by** RDA BSC SMEs as a partner in the STOB regions project.

### Description of the action including activities and sub-activities

In Bulgaria more than a third of currently active business owners will reach retirement age in the next ten years and very often there is no-one in the family environment to whom they can transfer their business, neither there is not much culture to transfer businesses outside the family circle.

RDA BSC SMEs plans to create a Local Network for Owner-Managers (successors) in Plovdiv District NUTS3 and with opportunity to enlarge the network in South Central Region of Bulgaria NUTS2, where the companies can be supported in the process of succession and business transfer.

The pilot local network is for owners of family business reaching to the point of transferring the company to next generation or business transfer and companies; looking for opportunities for business transfer to new managers or stakeholders.

There is a need of raising awareness of transfer of business and succession in the family, planning of the process of change of generations of business transfer, advisory support to the representatives of the new generation or buyers.

Succession planning is challenging for most owner managers due to the fact; which succession only happens once in a life time. The programme therefore focuses on clarification and awareness of the seller (current owner) and "buyer" (heir, future owner).It is most important to understand that succession and transfer of business should be a part of strategy of each family business.

The following **target groups** of the RDA BSC SMEs have been identified. It is planned to develop tailor-made offers for them. Companies will be selected from a public company database on criteria like age, size, line of business etc. This pilot local network will include minimum 10, maximum 20 companies and business support organization(s).

Up to 5 personal meetings over a period of 12 months; during the process the owner/manager will clarify the strategy for transfer and how to plan and prepare for succession, working for:

- Awareness raising
- Business diagnostics including valuation services when needed (sometimes a business needs renewal so evidently that no valuation is really needed, the needs are obvious),
- Renewal & growth business plan,
- Help businesses find funding / financing for implementing the renewal business plan

- Establishment of formal linkages to the national level
- Establishment of linkages to EU level data bases for finding equity / and or buyers.
- Assessment of qualification needs and participation in qualification options by the Growth & Renewal services staff.

This project will be very successful due to the clear **focus and principles**:

- Business succession
- Owner managers
- Micro and small companies
- Line of business (handcraft, service, light production)
- Involvement of advisor
- Dedicated consultant with the projects as only task

Additionally, the local network will:

- Support young entrepreneurs to ensure generation renewal in the economic sectors
- Train, disseminate and provision of advisory services specialized in business transfer.

In a short period, many companies will be contacted to take part in the project in: information meetings and workshops for companies, owners, managers; having mind the current force majeure situation, we envisage to use, as alternative, webinars, virtual internet rooms, face to face internet connection (online and offline).

As part of the entrepreneurship support services, our organization will offer advisory services to entrepreneurs interested to buy an existing business or to employees of companies in bankruptcy to buy-out the company creating a cooperative business. We envisage to use, as alternative, webinars, virtual internet rooms, face to face internet connection (online and offline) too.

**Source of inspiration from the project:**

- In the project's **baseline study** on the situation and framework for business transfer in Plovdiv and in the **SWOT analysis** for our region, it was found that there are:
  - Lack of specific support from business organizations with regard to business transfer and succession;
  - Lack of specific tools for family business and business succession
  - Lack of specific knowledge, skills and competencies related to succession and transfer of business in specialists/ consultants supporting business
  - It was found that many actors try to improve the situation but that there is a lack of coordination between them. All institutions start initiatives on their own.
- Transfer of **good practices**: This proposal has been developed on the basis of the useful experience from Denmark and Spain as a result of the work of RDA BSC SMEs and Business Development Centre Vaeksthus Southern Denmark and Official Chamber of Commerce, Industry and Shipping of Seville - Creation of such a local network for owners and managers - potential successors.
  - **DENMARK: Strategisk Generations- & Ejerskifte** – Local network for next generation owner managers (successors). During our partner meeting in Southern Denmark, this Good Practice has been presented. In Southern Denmark, it is called Generationsskiftenetværk (Local Transfer Network). The person in charge presented this approach and its outcomes very convincingly. The concept consists of the above-described components. We plan to transfer the approach with all its components to Plovdiv.



In Southern Denmark, the group works together for two years. Due to the limited time for implementation, we will start pilot groups with a shorter period (2<sup>nd</sup> phase).

There are typically 3 key points that are managed:

- A good and fair valuation
- That you personally are ready to let go and hand over your life's work to the right buyer
- That your employees continue to have a good workplace
  - **SPAIN: Andalusia Emprende** is a network of more than 262 entrepreneurship centres supporting business transfer in Andalusia region. The objective of this network is to foment the entrepreneurial culture and business activity in the region. Specifically, in area of business transfer they support the buying-out of companies; they offer advisory support for business transfer and support generation renewal in the agricultural sector. We plan to transfer the approach of networking support.

The following **institutions/key players** will be involved:

- BSMEPA
- Ministry of Economy
- RDA BSC SMEs
- SMEs and business organizations from the region

The stakeholders at national level are the Ministry of Economy and Bulgarian SME Promotion Agency. At regional level they are: SME of Plovdiv region, Plovdiv Chamber of Commerce and Industry, Plovdiv Industrial Association, other business associations. The described **action will be conducted by** RDA BSC SMEs as a partner in the STOB regions project.

**Timeframe:** 2020 – 2021

| Period / Duration            | Milestones / Activities   |
|------------------------------|---|
| 1 <sup>st</sup> phase        | Implementation on conception level of ACTION 1 Local Network for Owner-Managers (successors)                |
| January 2020 – February 2020 | Preparation of the activities   |
| January 2020 – March 2020    | Initiating meetings of responsible institutions: Ministry of Economy; BSMEPA and RDA BSC SMEs               |
| January 2020 – June 2020     | Defying of a specific framework, conditions for application and implementation of the target measure        |
| January 2020 – June 2020     | Discussions about preparation of a pilot issue of the targeted measure                                      |
| June 2020 – December 2020    | Concept of Local Network for Owner-Managers (successors)  |
| June 2020 – December 2020    | Data base collection of SMEs from the region / owners / managers  |
| 2 <sup>nd</sup> phase        | Implementation of ACTION 1 Local Network for Owner-Managers (successors) organizing local network of owners |
| June 2021 – December 2021    | Meetings with SMEs from the region / owners / managers  |
| January 2021 – December 2021 | Creation of a network   |
| June 2021 – December 2021    | Individual trainings / consultations / coaching of SMEs from the region / owners / managers                 |
| January 2020 – December 2021 | Reporting of the activities   |

**Expected Costs:** 50 000.00 Euro

This budget is indicative and will be redefined after the adoption of the annual program for 2021 of the National Strategy for Support of Small and Medium Enterprises 2014-2020. The activities in 2020 will be carried out without funding, and will be implemented only with the grant-free activity of the RDA BSC SMEs.

**Expected Funding:** ERDF

**Expected Impact:**

Increasing the quality of awareness and activities of Bulgarian SMEs in the field of succession/inheritance and business transfer in order to improve their competitiveness

**Indicators of implementation:**

- Number of owners / managers of companies included in the network – 10-20 companies
- Number of reports with recommendations on personal meetings for a period of 12 months and an improvement in clarifying the strategy and transfer planning and preparation for succession and minutes of meetings with SMEs – 1 pc
- Number of transfers – up to 5 transfer cases is completed.

**How is this action considered to achieve a policy change/improvement?**

ACTION 1 Local Network for Owner-Managers (successors) will contribute to create and maintain an environment in which entrepreneurs can thrive and entrepreneurship is rewarded: care for future entrepreneurs, in particular by encouraging entrepreneurial interest and talent;

ACTION 1 Local Network for Owner-Managers (successors) will contribute to transfer of business measures aimed at the smooth conduct of the transfer of business and achieve a positive effect on the development of a sustainable market competitiveness of the Bulgarian SMEs.

We plan the changes to be a part of Annual Plan for 2021 of the National Strategy for Small and Medium-sized Enterprises 2014-2020.

## Action 2.Regional Business Transfer Platform (RBTP)

It is a very **extensive project** that is supposed to include a wide range of aspects of business transfer. All above mentioned key findings (Part II) for Plovdiv will be taken into consideration in this action. The implementation is planned in two main phases:

- 1<sup>st</sup> phase: Implementation on conception level of ACTION 2 Regional Business Transfer Platform as the budget for 2020 is approved and foreseen for budgetary programmes and the current force majeure situation.
- 2<sup>nd</sup> phase: Implementation of ACTION 2 Regional Business Transfer Platform in 2021.

The described **action will be conducted by** RDA BSC SMEs as a partner in the STOB regions project.

### Description of the action including activities and sub-activities

This action addresses the issue of business transfer, which is often not a priority in industrial policies and a somewhat neglected aspect of entrepreneurship. This is a toolkit, not only the business-based, but family-based as well, typical of the family businesses problems during planning and executing succession and transfers. On one hand, the RBTP will provide access to useful documents as well as a training platform. On the other hand, it will provide services on succession and transfer of business for family businesses in which business management is "ripe" for the use of such services. The RBTP will work as matchmaking and dissemination toolkit as well. The RBTP addresses overall business transfers support coordination, insufficient basic level advisory & support services for BoT, including sub-optimal arrangements for micro-businesses transfers, as well as addressing impeding BoT cases. The RBTP service is planned to serve all companies located in the region.

The RBTP will work to:

- Raise the general awareness of ownership change and its benefits and link to concrete services;
- Increase the emphasis and accessibility to expert services in the BoT process (valuation, financing, legal, tax, etc...);
- Provide a matchmaking framework allowing "buyers" and "sellers" to meet;
- Promote BoT as an alternative to starting to a business.

The following **target groups** of the RDA BSC SMEs have been identified:

- Entrepreneurs as potential sellers
  - Family businesses
  - Craft businesses
- (Potential) successors of several target groups, e.g.
  - Employees as a special subgroup of successors
  - Foreign buyers
  - Returnees
  - Women
  - Family businesses
- Former entrepreneurs as mentors
- Consultants
- Craft Businesses

With the working platform, the entrepreneurs will receive internet-based guidance and support needed in the process of business transfers. With the awareness raising efforts, up to 50 businesses have sought advice from the service, online /offline consultancy, up to 5 transfer cases were completed. As the platform continued its operations more results are expected from existing cases and new contacts.

## Source of inspiration from the project:

- In the project's **baseline study** on the situation and framework for business transfer in Plovdiv and in the **SWOT analysis** for our region, it was found that there are:
  - Lack of specific tools for family business and business succession
  - Lack of specific knowledge, skills and competencies related to succession and transfer of business in specialists/ consultants supporting business
  - Lack of specific support from business organizations with regard to business transfer and succession
  - Lack of programmes promoting sustainable transfer of business and lack of awareness of the possibilities of succession and transfer of business, incl. and as an alternative to starting a business
- Transfer of **good practices**: This proposal has been developed on the basis of the useful experience from Finland and Poland as a result of the work of RDA BSC SMEs and Kainuun Etu ltd, Finland and Malopolska Region, Poland.
  - **FINLAND: Southwest Finland Regional Business Transfer Platform**

A regional platform providing comprehensive support and advisory services for business transfers, taking into account also micro businesses. The Action plan will incorporate the Finish good practice and will address this problem through the establishment and operation of the Regional business transfer platform (RBTP).

- **POLAND: The Family Business Succession Guidebook**

"The Family Business Succession Guidebook" – a comprehensive solution supporting companies on the verge of their generational change.

The Regional business transfer platform will use the developed under different projects "The Family Business Succession Guidebook" – a comprehensive solution supporting companies on the verge of their generational change – Malopolska region Poland and the Companion for business Advisors Business Succession and Transfer and the training platform for succession of family business.

Potential for learning or transfer: From the STOB regions perspective, this RBTP will detail a cost effective, consolidated and networked approach to the provision of guidance and support services for business transfer, for all companies located within a region, with particular emphasis on micro- and small sized enterprises

The platform will provide both buyers and sellers guidance and support along the full process path of a typical Business transfer. The platform will consolidate free of charge basic advice and access to a large partner network of specialised expert services.

Business transfer process is complicated because of interests of different target group, range of related fields and many steps that need to be done. The Guidebook is a complex tool which supports different target group in various areas. The Guidebook supports the stakeholders of succession in planning the process. Entrepreneurs can estimate their readiness to succession by providing specific data about their company. Other regions can easily adapt the structure of the tool, questions and answers pattern, framework of different fields of succession process, idea of diagnosing and planning applications

The following **institutions/key players** will be involved:

- BSMEPA
- Ministry of Economy
- RDA BSC SMEs
- SMEs and business organizations from the region

The stakeholders at national level are the Ministry of Economy and Bulgarian SME Promotion Agency. At regional level they are: SME of Plovdiv region, Plovdiv Chamber of Commerce and Industry, Plovdiv Industrial Association, other business associations. The described **action will be conducted by** RDA BSC SMEs as a partner in the STOB regions project.

**Timeframe:** 2020 – 2021

| Period / Duration            | Milestones / Activities   |
|------------------------------|---|
| 1 <sup>st</sup> phase        | Implementation on conception level of ACTION 2 Regional Business Transfer Platform            |
| January 2020 – February 2020 | Preparation of the activities   |
| January 2020 – March 2020    | Initiating meetings of responsible institutions: Ministry of Economy; BSMEPA and RDA BSC SMEs |
| January 2020 – June 2020     | Defying of a specific issues of the platform: services, training materials, and etc.          |
| June 2020 – December 2020    | Concept of RBTP   |
| 2 <sup>nd</sup> phase        | Implementation of ACTION 2 Regional Business Transfer Platform                                |
| June 2021 – December 2021    | Collection of the information and data  |
| June 2021 – December 2021    | Developing and integrating with website of RDA BSC SMEs                                       |
| June 2021 – December 2021    | RBTP providing services and information   |
| January 2020 – December 2021 | Reporting of the activities   |

**Expected Costs** 28800.00 Euro

This budget is indicative and will be redefined after the adoption of the annual program for 2021 of the National Strategy for Support of Small and Medium Enterprises 2014-2020. The activities in 2020 will be carried out without funding, and will be implemented only with the grant-free activity of the RDA BSC SMEs.

**Expected Funding:** ERDF

**Expected Impact:**

Raising awareness and activities of Bulgarian SMEs in the field of inheritance and business transfer through an internet-based tool - Regional Business Transfer Platform

### Indicators of implementation:

- Owners/managers of companies using the potential of a regional platform for the transfer of business – up to 50 businesses will have sought advice online/offline counselling; to 5 cases for transfer have been completed.
- Number of RBTP – 1 pc
- Number of visits to the Platform – up to 100 per year
- Number of reports with recommendations on the Regional Business Transfer Platform - 1 pc

### How is this action considered to achieve a policy change/improvement?

- ACTION 2 Regional Business Transfer Platform will contribute to create and maintain an environment in which entrepreneurs can thrive and entrepreneurship is rewarded: care for future entrepreneurs, in particular by encouraging entrepreneurial interest and talent;
- ACTION 2 Regional Business Transfer Platform will contribute to transfer of business measures aimed at the smooth conduct of the transfer of business and achieve a positive effect on the development of a sustainable market competitiveness of the Bulgarian SMEs.
- We plan the changes to be a part of Annual Plan for 2021 of the National Strategy for Small and Medium-sized Enterprises 2014-2020.

## Action 3. Financial Instruments / Mentoring and Certification Schemes

It is a very **extensive programme/scheme** that is supposed to include a wide range of aspects of business transfer. All above mentioned key findings (Part II) for Plovdiv will be taken into consideration in this action. The implementation is planned in two main phases:

- 1<sup>st</sup> phase: Implementation on conception level of ACTION 3 Financial Instrument / Mentoring and Certification Schemes as the budget for 2020 is approved and foreseen for budgetary programmes and the current force majeure situation.
- 2<sup>nd</sup> phase: Implementation of ACTION 3 Financial Instrument / Mentoring and Certification Schemes in 2021.

The described **action will be conducted by** RDA BSC SMEs as a partner in the STOB regions project.

### Description of the action including activities and sub-activities

This proposal has been developed on the basis of the useful experience from Poland - Małopolska Region as a result of the work of RDA BSC SMEs and Małopolska Region and the study of EC: Final Report, Overview of Family Business Relevant Issues,

The objective of the proposal is to provide financial support through a voucher scheme to SMEs and organization based in Bulgaria that want to be prepared for the succession process/ transfer of business through advisory services as a financial instrument. Vouchers can be used to purchase specialized consultancy services (incl. succession and transfer), which are not related to the company's normal operating costs (ex. routine tax advisory services, regular legal services or advertising). The advice should cover, among others, procedures and processes related to strategic planning and implementation of succession, with particular emphasis on areas that are crucial to ensure further activity and stability of the company's operation.

The following **target groups** of the RDA BSC SMEs have been identified:

- SMEs and organization based in Bulgaria that want to be prepared for the succession process/ transfer of business

Most of the half of Bulgarian SME entrepreneurs are aged 46 and over. Almost 70% of Bulgarian family businesses are still managed by their founder. In about 12% of family businesses, inheritance has already taken place; 8.6% of companies plan to transfer management to an heir in the near future (up to 1-2 years), and about 11% plan to do so in the medium term (3-5 years). Over 61% of companies will not transfer management to an heir in the next 10 years, and nearly 12% of companies plan to transfer management control in 6-10 years. The majority of Bulgarian family-owned companies do not plan important activities and aspects related to the transfer of ownership and management control to the next generation. Less than 17% of family businesses have prepared a plan to transfer management control to an heir. A list of potential heirs made up less than a third (29.7%) of family businesses. The highest is the share of companies providing training to potential heirs - 42.4%. A business plan after transferring management control to an heir has been developed by less than 15% of family businesses. A quarter of the family-owned companies have decided how the property will be distributed after transferring management control of the business to the heir.

Succession planning is challenging for most owner managers due to the fact, which succession only happens once in a life time. The programme therefore focuses on clarification and awareness of the seller.

Practice shows that support should provide to SMEs operating on the market longer than 24 months and the value of the voucher (grant) should be equal ca. 5000 EUR (up to 90% of co-financing of eligible costs).

### Source of inspiration from the project:

- In the project's [baseline study](#) on the situation and framework for business transfer in Plovdiv and in the [SWOT analysis](#) for our region, it was found that there are:
  - Lack of specific tools for family business and business succession
  - Lack of programmes promoting sustainable transfer of business and lack of awareness of the possibilities of succession and transfer of business, incl. and as an alternative to starting a business
- Transfer of [good practices](#): This financial instrument will improve and broaden companies' competitiveness, creating new business opportunities for SMEs. The transfer of the Polish good practice should be relatively easy to be adopted in Bulgaria, already used in other measures for support of SMEs. The mechanism already complies with EU funding rules / de minimis aid, etc. which should facilitate its smooth transfer.
  - [POLAND: Vouchers for advisory services](#)

Vouchers for advisory services – mechanism of supporting SMEs in succession phase, delivered through vouchers for advisory services. In Malopolska Region voucher for advisory services is an instrument co-financed by EU funds through the Regional Operational Programme for the Malopolska Region 2014-2020 (ROP MR 14-20).

- [EC: Final Report, Overview of Family Business Relevant Issues.](#)

This study is conducted on behalf of the European Commission, Enterprise and Industry Directorate-General

The following [institutions/key players](#) will be involved:

- BSMEPA
- Ministry of Economy
- RDA BSC SMEs
- SMEs and business organizations from the region

The stakeholders at national level are the Ministry of Economy and Bulgarian SME Promotion Agency. At regional level they are: SME of Plovdiv region, Plovdiv Chamber of Commerce and Industry, Plovdiv Industrial Association, other business associations. The described [action will be conducted by](#) RDA BSC SMEs as a partner in the STOB regions project.

[Timeframe](#): 2020 – 2021

| <a href="#">Period / Duration</a> | <a href="#">Milestones / Activities</a>  |
|-----------------------------------|--|
| 1 <sup>st</sup> phase             | <a href="#">Implementation on conception level of ACTION 3 Financial Instrument / Mentoring and Certification Schemes</a>  |
| January 2020 – February 2020      | Preparation of the activities  |
| January 2020 – March 2020         | Initiating meetings of responsible institutions: Ministry of Economy; BSMEPA and RDA BSC SMEs  |
| January 2020 – June 2020          | Defining a specific framework, conditions for application and conditions of implementation of the voucher scheme.  |
| January 2020 – June 2020          | Preparation of Recommendation for vouchers for advisory services – mechanism of supporting SMEs in succession phase, delivered through vouchers for advisory services. |
| January 2020 – June 2020          | Discussions of recommendations and possibilities for implementation during the period  |
| June 2020 – December 2020         | Concept of Financial Instrument / Mentoring and Certification Schemes - vouchers for advisory services   |



|                              |   |
|------------------------------|---|
| 2 <sup>nd</sup> phase        | Implementation of ACTION 3 Financial Instrument / Mentoring and Certification Schemes |
| January 2021 – December 2021 | Implementation of the pilot vouchers mechanism  |
| January 2020 – December 2021 | Reporting of the activities   |

**Expected Costs:** 250000.00 Euro

This budget is indicative and will be redefined after the adoption of the annual program for 2021 of the National Strategy for Support of Small and Medium Enterprises 2014-2020.

The activities in 2020 will be carried out without funding, and will be implemented only with the grant-free activity of the RDA BSC SMEs.

**Expected Funding:** ERDF

**Expected Impact:**

Raising awareness, knowledge, skills, competences and activities of Bulgarian SMEs in the field of inheritance and business transfer through vouchers for advisory services – mechanism of supporting SMEs in succession phase, delivered through vouchers for advisory services.

**Indicators of implementation:**

- Number of recommendations for vouchers for advisory services – mechanism of supporting SMEs in succession phase, delivered through vouchers for advisory services – 1
- Number of vouchers – up to 200 businesses that have received vouchers for consulting services related to business transfer and inheritance.
- Number of strategic documents of family businesses, including business transfer and inheritance activities – up to 200
- Number of transfers – up to 5 cases for transfer have been completed

**How is this action considered to achieve a policy change/improvement?**

- ACTION 3 Financial Instrument / Mentoring and Certification Schemes will contribute to create and maintain an environment in which entrepreneurs can thrive and entrepreneurship is rewarded: care for future entrepreneurs, in particular by encouraging entrepreneurial interest and talent;
- ACTION 3 Financial Instrument / Mentoring and Certification Schemes will contribute to transfer of business measures aimed at the smooth conduct of the transfer of business and achieve a positive effect on the development of a sustainable market competitiveness of the Bulgarian SMEs.
- We plan the changes to be a part of Annual Plan for 2021 of the National Strategy for Small and Medium-sized Enterprises 2014-2020.

## Monitoring of the Implementation of the Action Plan

Subsequent monitoring of the activities under the Action plan will be done periodically.

| Key action  | Indicators   | Planned values   |
|---|--|--|
| KA1<br>Local Network<br>for Owner/<br>Managers<br>(successors)                  | <ul style="list-style-type: none"> <li>Number of owners/managers of companies included in the network</li> <li>Number of reports with recommendations on personal meetings for a period of 12 months and an improvement in clarifying the strategy and transfer planning and preparation for succession and minutes of meetings with SMEs</li> <li>Number of transfers</li> </ul>                | <ul style="list-style-type: none"> <li>10-20 companies</li> <li>1 pc</li> <li>Up to 5 transfer cases is completed</li> </ul>   |
| KA 2:<br>Regional<br>Business<br>Transfer<br>Platform                           | <ul style="list-style-type: none"> <li>Owners/managers of companies using the potential of a regional platform for the transfer of business</li> <li>Number of prepared and implemented RBTP</li> <li>Number of visits to the RBTP</li> <li>Number of reports with recommendations on the Regional Business Transfer Platform</li> </ul>   | <ul style="list-style-type: none"> <li>Up to 50 businesses will have sought advice online/offline counselling, to 5 cases for transfer have been completed.</li> <li>1 pc</li> <li>up to 100 per year</li> <li>1 pc</li> </ul>                                     |
| KA 3:<br>Financial<br>Instruments/<br>Mentoring and<br>Certification<br>Schemes | <ul style="list-style-type: none"> <li>Number of recommendations for vouchers for advisory services – mechanism of supporting SMEs in succession phase, delivered through vouchers for advisory services</li> <li>Number of vouchers</li> <li>Number of strategic documents of family businesses, including business transfer and inheritance activities</li> <li>Number of transfers</li> </ul> | <ul style="list-style-type: none"> <li>1 pc</li> <li>Up to 200 businesses that have received vouchers for consulting services related to business transfer and inheritance.</li> <li>Up to 200</li> <li>Up to 5 cases for transfer have been completed.</li> </ul> |