

# SUCCESSION AND TRANSFER OF BUSINESS IN REGIONS

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



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## LIST OF ABBREVIATIONS

|              |   |
|--------------|---|
| EBIT .....   | <i>Earnings before Interest and Taxes</i>                             |
| EBITDA ..... | <i>Earnings before Interest, Taxes, Depreciation and Amortization</i> |
| ESF .....    | European Social Fund  |
| 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>   |

| STOB regions         |  |
|----------------------|--|
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# 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 startups 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 3 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. 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.

The strength of having a wide range of institutions involved guarantees knowledge sharing between regional stakeholders, feeding into the learning process as well as into regional action plans, a key output of the project. These plans will contain concrete projects that build on the good practices identified and transfer new ideas to partner regions with recommendations made for a future regional strategy to support succession.

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 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.

Today, still, much attention has been given to starting new businesses, but for growth and jobs it is equally important to ensure the continuation of existing SMEs. 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 businesses 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. This implies that the experiences in the regions of the STOB regions partnership are different which will lead to a fruitful exchange between the partners.

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.

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.

## Aspects of Business Transfer



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 Germany 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.

Many 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)

“Hard factors” like the company valuation and the purchase price are supposed to be the most important aspects for a successful transfer of a company. But indeed the emotional and psychological aspects are the most critical ones in numerous cases.

Several parties with partly diverging interests are involved in the succession process: the transferor, the transferee, the affected employees, family members etc.

To give their life work in someone else’s hands is a very emotional and sensitive challenge for entrepreneurs. Their expectations and wishes are often in conflict with the expectations and wishes of the successors. Uncertainty, fears and resistance are the consequence. Emotional conflicts arise. They can be solved only by active communication, based on trust, openness and transparency. In many cases this requires external support, e.g. an independent advisor.



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 can be seen as the base-layer in regard to challenges concerning business transfer. Due to the broad topic and the multiple issues that arise with the transfer of a family firm, a brief overview of the most pressing issues is given:

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 the family firms is becoming more and more frequent. As the “natural successors” – children, do have more options in their career choices or are simply 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 to transfer their firm within the family and see this as their preferred choice.

Other factors that are pressing with regard to succession in family firms can be found in the readiness of the generation handing over the business. Oftentimes, 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 pure constraints of lifetime.



Intergenerational transfer is not a single event, but a process that needs to be planned in advance in order to succeed. The diversity and heterogeneity of SMEs also affects intergenerational transfers. The issue differs according to size of the company, the size of

the family and/or age of the company. The problem is not the same for a large company managed/owned by the third generation of a family and a small company with only one

owner (who may be also its founder). That is the reason companies can't use the same solutions, tools or mechanisms. Every case need individual approach. Such kind of support can be provided by professional advisors.

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:

- Teachers and 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 specialised 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 involving many interest and parties, which calls for expertise in a wide variety of fields, ex. legislation, taxation, valuation, organisation, strategy, psychology. Unfortunately, it is not possible to design a template or scorecard that can help a family to make a decision on the type of adviser they need, since the most important criterion for any type of consulting, advising, or therapy relationship is a degree of trust (the ability to establish a working alliance) between the client and the adviser.

A crucial factor is the availability and quality of advisory services. Studies shows 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.



Valuation and business transfer are closely linked. At any business transfer, the value of the company is an important issue. Valuation requires special competence and experience that the seller and owner manager do 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. It is important that valuation is correct for both the seller and the buyer. For the seller, this is often an important part of the pension and thus important for the seller's future life. For the buyer, it is something that has to be paid back and thus decisive for the buyer and the company's future finances.

Challenges include: methods, competencies and experience of the person who is to carry out valuation for a company. In addition, insight into special industry conditions can be crucial for 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 Deal (valuation of the company's assets and goodwill). 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. 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 successor at home.

Target groups identification:

- Young people (18 – 30 years old), young companies for young people younger than 30 years old, funding models to be identified.
- Women – Succession; in what way are the needs of support of these group are different from the main stream; what are the top business preferences for women entrepreneurship.
- Migrants / Foreigners - Challenges; 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.
- Others – Identification of students as legal group; Universities of Applied sciences – include lectures on 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.

Beside valuation and financing, matchmaking is one of the most complex aspects within business transfer process, creating the link between the buyer and seller, opening the path for business valuation and finding financing to take over.

Matchmaking is done using more ways and adapted as the technology advanced and new innovative ways were approached with success:

1. The classical method is to go to a person (usually a business broker is well connected to the business market and entrepreneurial events) who knows the right person (buyer or seller).
2. Dedicated events to business transfer where buyers and sellers are meeting face-to-face and talk, offering/getting more information about the company, setting an official meeting (if the company information were satisfactory), deciding go to a business broker (for advisory services).
3. Using online apps where interested buyers are shuffling for good companies to take over, finding the right ones and contacting the apps admins to put them in contact with the owners for more details.

As opportunities we could consider:

- existence of entrepreneurial networks at EU, but also at national/regional level;
- learning from programs developed by project's partners and adapt them to national/regional specific, improving existing programs or creating new ones;
- young generation returning with competences and knowledge;
- business internationalization.

Challenges faced by project partners:

- brain drainage;
- emigration of the entrepreneurs;
- lack of awareness regarding business transfer;
- lack of programs to promote and sustain business transfer;
- political and legislative unpredictability;
- lack of financing instruments and programs for buying a business;
- lack of specialized advisory services in business transfer field.



The retirement of the baby boom generation of business owners is predicted to result in a major turnover in business ownership. Developing 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.

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.



How to finance the transfer of business is a crucial question for both, buyers and sellers. In many European regions special programs for Startups exist, however programs dedicated for ToB are scarce. This is may in part be difficult since assessing the needs for businesses on

one side and the needs of buyers on the other side mainly is not trivial and due to the heterogeneity of businesses and types of industry, 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.

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 readiness of the business, as a way of keeping all maturing businesses competitive and

ensuring demand from potential buyers.

The main objectives were:

- Understand how a business innovation strategy and/or technical innovations introduced by the new owner can raise the value of the company and changes in the overall business management strategy
- The relationship of corporate strategy and culture in order to foster a successful innovation
- Initiation and support of knowledge transfer from the regions
- Investigation of 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:

The creation of a regional/local knowledge and experience exchange platform amongst cross-sectoral entrepreneurs, aiding in practical recommendations for business transfer.

Transition from problem-based (age of entrepreneur) in generation shift towards an innovation-based, structured and progressive approach, increasing attractiveness and growth potential of company. Valuation linked to business development actions (business improvement). Strengthening the role of valuation and encouraging project-based funding for it.

Demand side considerations in ToB - is it buyer or Investor? In terms of valuation, a buyer values the current entity, an investor values more holistic approach and considers future demand trends.

Develop business innovation management before a generation shift occurs: transition from survival to develop/create innovation strategies.

Challenges:

Human capital flight: how to retain the young and educated in the regions as an opportunity for business transfer and instil new knowledge into the company.

Distance and accessibility to higher tier education as a driver for increased knowledge retention. Region's without access to such institutions, should create knowledge-based linkages and transfer from outside of the region.

Difficulty in successfully transferring tacit knowledge from the existing generation to the next generation. Succession approached by a crossfade method ensures the absorption of tacit knowledge from the transferor to the transferee which is key success factor in the innovation renewal.

## Region-Specific Issues and Challenges

Family businesses have really developed in Slovenia after 1990, with the end of the socialist system, although crafts and some other minor activities were allowed to act as private businesses, mainly as family businesses, before 1990. New family businesses do not have a tradition in managing the family-business relations and the succession process while a majority of them are approaching this process within the next 5-10 years. The founders spent most of their life in the former socialist system while their potential successors (their children) have been raised in the market economy; therefore it might be expected different value systems and attitudes towards family and business among these two generations. These differences might have a strong impact on the succession and the future development of family businesses. There is an aim to identify differences in values, attitudes and behaviors and in the perception of the success of family enterprising in order to provide some recommendations to families and small business advisors on how to manage the succession in view of these differences within the families.

In Slovenia, the real wave of SMEs started after 1990. The most comprehensive study found that 58.6% of SMEs are family businesses, while a large share of these businesses facing the generation changes in the next years. The Slovene Observatory of Entrepreneurship 2014 found that 92.913 out of 93.233 firms active during the year 2004 were SMEs (99.7%), and that they employ 63.3% of Slovenian work force. Therefore, as the first approximation, there are close to **54.000 family companies in Slovenia**. However, to study the transgenerational values, attitudes and behaviors, the analysis is mostly limited to family businesses where both the founding and succeeding generations are old enough to have developed their own views. Thus, businesses were surveyed where the successor has already been involved in the family business or he/she is a student at the level of higher education, already with some short-term practice in the family firms. Separately the founders (83.9% acting managers and further 13.6% on one of position) were interviewed and the (potential) successors in each firm. The firm itself had to have identified the person which is an already designated or potential successor.

In Slovenia, there are not many studies available on the values, attitudes and behaviors of different generations within family businesses. However, that paper compares the attitudes of founders and successors from different family firms with quite a small number of successors already managing the firm. Another study counted **only 20%** of family firms already run by the second generation. Both studies indicated only some significant differences between generations. On the other hand, experience with family businesses shows that in a number of cases dominant founders try to transfer their values and expectations onto the next generation quite forcefully. The differences between founding and succeeding generations are in:

- Family-and work-related values;
- Attitudes about the relationships between and within generations;
- Attitudes about the succession process and its planning;
- Satisfaction with different performance measures;
- Worries about different aspects of family business;
- Views on the future financing of family businesses;
- Personal characteristics of founders and successors.

The aim of the study is to identify differences amongst the family members that might hinder the succession process in order to make family members and advisors aware of the danger of these differences and the need to foster communications among family members and other stakeholders on these aspects to prevent possible conflicts and frustrations.

The findings indicate that the succeeding generation wants to retain more freedom to decide whether it will become part of the family business: this involves issues such as being early involved in the business and choosing the profession along the needs of the business; there is evidently some inherent pressure from the founding generation. Succeeding generation is also more open to the possibility of choosing a non-family manager and it is also keener to derive personal benefits from the firm and not to sacrifice for the interests of the business. However, at this stage it still thinks that parents could stay in the business after the transfer, always having a formal role (which is difficult to exercise when firms do not have formal governing bodies); this attitude could be an expression of the respect for the role of founders, recognition of their authority and the need for their support since the successors might have some doubts about their own capability to take on the responsibility for the firm. The successors do not consider it important to have criteria to decide about employing family members; partly, the fact is that due to the demographic situation in Slovenia, here a number of family businesses do not have an extended choice of successors—they have to be satisfied with one proper candidate.

The study participants indicated whether families were able to apply the concept they consider as appropriate. Founders were quite convinced that they applied the concepts in their businesses fully or at least partly, while younger generation expressed more doubts about the application of concepts/rules.

Successors consider the decision as more subjective than parents in most cases. In Slovenian family businesses the major decisions are still taken by the founders and later communicated to successors as a kind of *fait accompli*. These aspects of the succession should be managed differently in a number of family businesses, also assisted by family business advisors. Unfortunately founders mostly seek the assistance of lawyers that hardly understand the complexity of family businesses.

Family businesses are primarily micro and small businesses with fewer than 50 employees (95%) combined annual revenues of EUR 4 million or less (87%) are more than 20 years old (74%) and operate in various industries. The most important of these are retail and wholesale (19%), construction (19%) and manufacturing of industrial goods (17%), and are well represented in other industries.

Family businesses are typically run by the first (58%) or second generation (37%), with only 5% running the third or the younger generation. Since privately owned companies have only been possible on a large scale since the introduction of the market economy in the early 1990s, that is, third or younger generations of owners much less common. Interestingly, this is in line with the average in Western Europe and North America, where typically less than 10% of family businesses survive the third generation. From the 1950s to the end of communism, it was a legitimate entrepreneurial craft. Many craft manufacturers are into more grown into modern mid-size industrial enterprises<sup>8</sup> as a result of their thirty years of operation.

In order to assess the present situation of the state of the art of family business succession processes in the region of Gorenjska which is a North-western part of the Slovenia a doubled approach was used. First, a holistic approach was used on the basis of observations thorough a numerous consulting projects on the topic of business succession where a rational emphasis is on family business because according to some estimation family businesses account for more than 80% of all SMEs. Secondly, a qualitative research was done within the STOB Regions project with a sample of family businesses which participated in the pilot project of family businesses transfer self-aid group which took part in the period of autumn 2018 – spring 2019.

A list of questions was designed in order to evaluate the transfer of business ecosystem in Gorenjska region. The aim of the research was to get a broad view of a more and more relevant milestone of the long-term sustainability of SMEs both in the region and in the country. A qualitative approach was applied in order to be able to compile concrete views from participating businesses and because of the small sample of the participating businesses. The total number of participants in the research was 16 and the responses and views were provided in the form of a family compromise or common stand. In order to quantify the data from small sample, answers were clustered in a three-level scale, with Yes/No tails and “No sure” as a medium value. The results are composed in the table 1.

Generally, majority of participants (12 out of 16) believe that region has enough qualified successors where they probably have family members in mind as the best candidates. A little more reserved opinion but still positive (9 out of 16) is articulated on the education system which they regard as good enough for the business succession. On the other hand, majority (10 out of 16) agree that there is no profound knowledge about the topic of business transfers. On the top of this, majority of participants is not sure (9 out of 16) whether the infrastructure for business transfer is good enough or not. Half of participants believe that people are aware of the importance and possibilities of succession while the other half is not sure or their stand is negative. Participants share an almost unanimous opinion (13 out of 16) that the tax situation is not beneficial for transfers while only three are not sure. Half of the participants think that successors should have financial capacity for the transfer while this may be the consequence of the fact that business transfers in Slovenia mostly happen within the family in a form of an unpaid transfer. The opinions on the existence of enough and competent help from advisors are generally very indifferent: on third for “yes”, one third for “no” and one third “not sure”. One may speculate that the reason behind this is that majority of participants do not have much experience with outside advisors. A very similar distribution of answers for most probably similar reason is for the question whether owners and successors have easy access to support. The opinions on whether the supporting institutions work together to make it easier for the person in need (to get all relevant information from one institution, e.g., one-stop-shop) were very reserved (3 out of 16 agree) while other are equally distributed as disagreed or the do not know. A vast majority (10 out of 16) was not able to evaluate whether owner-managers are emotionally and organizational prepared to hand over their business? The reason for this is probably in the fact that majority of them had never really thought about this owners’ dilemma. Also, regarding the infrastructure for matchmaking the answers were not very straightforward to be able to drag out any concrete conclusions.

| <b>Question</b>  | <b>Yes</b> | <b>Not sure</b> | <b>No</b> | <b>Comments</b>  |
|--|------------|-----------------|-----------|--|
| Does the region has enough qualified successors?                   | 12         | 2               | 2         | All the participating families had successors from the family however, some of them know examples where there may be nobody available. |
| Is the education good enough?                                      | 9          | 4               | 3         | Some complained that even business schools do not provide knowledge on business transfer.  |
| Is there profound knowledge about the topic of business transfers? | 0          | 4               | 10        | Actually nobody really thought about this question.  |
| Is the infrastructure good enough?                                 | 3          | 9               | 4         | Majority of participants has never really used the outside infrastructure so there is really hard to have opinions.                    |

|  |   |    |    |   |
|--|---|----|----|---|
| Are people aware of the importance and possibilities of succession?  | 8 | 6  | 2  | Majority think that there is more and more awareness, maybe also because the founding generation is getting older.  |
| Is the tax situation beneficial for transfers?   | 0 | 3  | 13 | In the national tax scheme there are no incentives however, there are some opportunities where taxation is low (i.e. tax on legacy).  |
| Do potential successors have the financial capacity for the transfer?  | 8 | 6  | 2  | Majority of participating families plan to do transfer on the payment free basis, so financial capacity is not really an issue.   |
| Is there enough and competent help from advisors?  | 5 | 5  | 6  | A few participants have had experience with advisors and some did not. The experience and satisfaction with advisor is very different.  |
| Do the owners and successors have easy access to support?  | 6 | 5  | 5  | If they look for it the access is rather easy but majority never do.  |
| Do the supporting institutions work together to make it easier for the person in need (to get all relevant information from one institution, e.g., one-stop-shop)? | 3 | 7  | 6  | General opinion on the supporting institution is not very good. There are too many, not coordinated and too bureaucratic. Not many people working for these institutions have real business experience. |
| Are the owner-managers emotionally and organizationally prepared to hand over their business?  | 3 | 10 | 3  | Majority of them have never thought to be emotionally attached but they admit that this might be the case and agree this is not a sound base for a business transfer.                                   |
| Is there infrastructure for matchmaking?   | 4 | 3  | 9  | There are quite a few events for SME business people to meet and network is someone is looking for this. Formal match-making is not familiar.   |

Table 1: Regional characteristics on business transfer as seen by the family business in Gorenjska Region (Source: Vadnjal J. (2019): Business Succession in the Near Future - The Case of Gorenjska Region, Slovenia)

# Information Regarding Policy Instruments

## Policy Context

**The Action Plan aims to impact:**

- Investment for Growth and Jobs programme
- Operational Programme for the Implementation of the EU Cohesion Policy 2014-2020
- Regional Development Plan for Gorenjska Region 2014-2020

Slovenia doesn't have regions in her internal organization and hence regional policies on which we could influence - we have only national policies – on which we will influence with results of the project STOB Regions and our action plan.

But we do have our Regional Development plan for Gorenjska Region and we, as Regional Development Agency, are responsible to draw it up (with the consent of all regional development actors) and implement it. And even though we don't have regions per se, we have regional influence.

As it is written in the application form, the STOB Regions project will have an impact on the Operational Programme (OP) for the implementation of the EU Cohesion Policy 2014-2020. The current OP is a centralized programme for territorial development of Slovenia, covering all 11 thematic objectives: Research and innovation, Information and communication technologies, SMEs competitiveness, Low-carbon economy, Climate change and risk prevention, Environment and resource efficiency, Transport and energy networks, Employment and labor market, Social inclusion, Education and training and Better public administration. The OP strategy has been built on the analysis of needs, disparities and growth potential and lessons learned in the previous programming period. The analysis of Slovenia's progress towards 2020 national targets reveals certain challenges, especially in terms of boosting growth of employment rates, reducing the number of people at risk of poverty or social exclusion, strengthening efforts in the area of research and development, and promoting energy efficiency.

The STOB Regions project addresses challenges of the third phase of business development – business succession and by which it addresses priority 3 of OP: *Development and implementation of new business models for SME-s especially in the connection with internationalization, specific goal; increasing the international competitiveness of the SME-s, Measure: development, implementation and improvement of business models and encouragement of the excellency in SMEs.*

We added (during the implementation of the project) another document which we will influence with the knowledge and experiences gained during the STOB Regions project – Regional Development Plan for Gorenjska Region. We will address and influence the development area 1 in the Regional Development Plan: Technological development, Entrepreneurship and innovation.

In none of the above-mentioned documents family businesses (despite their number and importance on Slovenian economy) aren't target group and don't have any special support provided. Existing support measures (in both documents) do not address family businesses,

their needs or support business succession. Therefore, existing SME support measures have to be upgraded and developed so they will help family businesses (including those which are dealing with succession) and promote cooperation between support organization and SME's.

## Policy Instruments

### Operational Programme for the Implementation of the EU Cohesion Policy 2014-2020

The Programme period is ending and the request for official change of policy instrument doesn't make sense at the moment (usually the change takes some time). Most of the funds for implementing actions of the OP have already been planned or used.

At the moment in the OP lacks of concrete focus on family businesses (in the third stage of development). But there are some changes in the attitude toward this problem. There were several awareness raising campaigns, smaller/pilot project initiatives, and first attempts on some structural help for family businesses dealing with succession – with this influence already reached, we will influence drafting of new OP, which will include measure for business succession.

Some organizations on national level, like SPIRIT Slovenia Business Development Agency, have the right to autonomously distribute funds according to current problems and measures intended to help SME's. With the Action Plan and measures identified we will influence them, to spend some funds on supporting family businesses and business succession.

With the identified and implemented actions in Action Plan, we will achieve:

- New smaller projects in the field of succession of family businesses in current programming period. This will include: projects of awareness raising and educating (including individual support) for family businesses dealing with succession,
- we will influence policy makers that business succession and support to family businesses will be one of the priorities of entrepreneurial measures in next OP.

Action plan addresses **Objective 3: Enhancing the competitiveness of SME's**. With activities in **aspect 1: Awareness raising - Map of succession and Emergency planning manual** we will address **investment priority 1 of OP: promoting entrepreneurship in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms**, with **specific objective 2: Increase the added value of SMEs**.

Both actions Map of succession and Emergency planning manual address the biggest problem with business transfer in Slovenia – lack of awareness (on the level of policy makers and entrepreneurs) how important, complicated and time-consuming succession really is. Till now business transfer had no to minimal attention of policy makers in Slovenia (mostly because there was no need to). But as we saw in the research made by Ernst&Young, our SME's are mostly family led (more than 80% of all Slovenian companies), are mostly still led by first generation of business owners (more than 55%) or managers, who are typically more than 55 years old. Business succession (lack of awareness, knowledge) is becoming acute problem (family businesses employ more than 60% of Slovenian workforce).

Actions foreseen in action plan under aspect 1 will tackle various problems with business succession mentioned above – with both documents we will raise awareness of importance of early planning, considering all aspects of people included in the process of succession, importance of strategic planning of the process and external experts which can help. Entrepreneurs will be sensitized and better informed for a successful business transfer. In this way not only in Gorenjska but also in Slovenia we will raise the competitiveness of

SMES's, increase the added value of SME's and keep the jobs in the regions by avoiding SME's closures due to the unsuccessful business transfer.

The work of STOB Regions and the resulting actions represent innovative approach to family entrepreneurship and cause policy change in addressed policy instrument.

With the **aspect 3: Support services – Workshops for preparation for succession** we will address **Objective 3 of OP: Enhancing the competitiveness of SME's, investment priority 2: Developing and implementing new business models for SMEs, in particular with regard to internationalization, specific objective 1: Enhance international competitiveness of SMEs**

With the above-mentioned action (and pilot workshops implemented during phase I of the project) we will address lack of knowledge about succession among entrepreneurs. With this action (spreading all over the country not just our region) we will help entrepreneurs, first generation and successors to start, evolve and successfully finish process of business transfer. With these workshops we can raise statistical percentage of successful business transfers (in EU only 1/3 of successions are successful) in this way secure the future and continuity of well-established companies (instead of starting new, less successful companies which need to build their brand, markets ...), secure jobs in region and country and enhance international competitiveness of SME's. Work of STOB Region represent new approach in enhancing competitiveness of SME's in our region and country.

## Regional Development Plan of Gorenjska Region 2014-2020

We are a Regional Development Agency for Gorenjska region; therefore, we carry out development tasks in the public interest:

- We are preparing, coordinating, monitoring and evaluating the Regional Development Program (RDP).
- We are preparing projects for the development of the region.
- We are developing and implementing regional projects.
- We participate in the implementation of public tendering procedures, public procurement, and public-private partnerships.
- We are technically and administratively supporting the work of the region.
- In the context of regional development, we also inform and generally advise, we design project ideas for partners in the region. At the same time, we enable the transfer of knowledge and good practices of regional development and offer assistance in the implementation of regional financial schemes of coherent regional development.
- We can influence national policies as we have direct reach to national level stakeholders.

The Regional Development Plan is the most important strategic document at the regional level. It defines the strengths of the region, sets its development priorities and financially evaluates programs and projects.

There are **5 development areas** for its implementation in existing programming period: (1) technological development, entrepreneurship and innovation, (2) human resources development, (3) tourism, (4) environment, space and infrastructure, (5) rural areas and **17 investment measures**: (1) promotion of entrepreneurship; (2) improving the transfer of knowledge from institutions to the economy; (3) enhancing innovation, developing new technologies, and increasing competitiveness; (4) knowledge and employment; (5) active life and better quality life; (6) management of tourism destination Gorenjska; (7) creation of

integral tourism products; (8) preservation of natural, cultural and technical heritage; (9) investments in tourism infrastructure; (10) investments in the public infrastructure; (11) investments in the environment; (12) spatial development; (13) use of renewable resources; (14) local nutrition self-care; (15) environmental protection; (16) preservation of forests and wood; (17) rural heritage preservation.

With the actions identified and implemented from Action Plan we will achieve:

- implementation of new projects,
- smaller regional projects on the field of business succession,
- new regional initiatives for supporting family businesses.
- By regional activities influence national policies (recommendations from the region to national level).

Family businesses and business succession weren't one of the priorities in the current Regional Development Plan. With the Action Plan and its activities, we will influence priorities and address family businesses as one of the important target groups for future RDP.

Action Plan will address and influence with the **aspect 2 Matchmaking – Network of succession consultants** and **aspect 4 Financing - Financial product for business transfer** current RDP ***development area 1: Technological development, Entrepreneurship and Innovation, goal 1: Provide an effective supportive environment for the development of dynamic entrepreneurship and knowledge transfer institutions into the economy, objective 1: growth of added value of companies.***

With both actions we will address same goal – effective support environment. As succession is such a “new” thing in Slovenia, we don't have specialized external experts/constants for business transfer. Which causes further confusion among entrepreneurs and can cause business transfer to fail. With the network of trusted and certified consultant entrepreneurs will have more confidence hiring external help (which is needed in the process of succession) – with more effective support system we will secure survival of companies during business transfer, secure the jobs and enhance the growth of added value.

Lack of finances (on the successor side) is a common obstacle to business transfer. As family and business are closely connected, usually when is time for transfer of ownership, successors can't afford to buy company from parents. In Slovenia it is very popular that parents transfer their shares to children for free, which leaves them with no assets and money for old age. Banks offer only commercial credits and don't understand the specifics and sensitivity of succession. With special financial product, we will raise the effectiveness of support environment, will help family businesses to make succession smoother, easier and with better successful rate. In this way we will reach objective 1: growth of added value of companies.

Both actions are innovative approach in our region and country and represent significant policy change in addressing the goal.

# Implementation of the Action Plan

According to the above-mentioned aspects of ToB, that were identified in collaboration with the STOB region project partner, we chose four of them as particularly relevant for Slovenia: awareness-raising, matchmaking, advisory service, financing. We structured our actions according to those aspects.

## Detailed Actions

- **Awareness raising** has 2 actions: Map of succession and Emergency planning,
- **Matchmaking** has 1 action: Network of succession consultants,
- **Support service** has 1 activity: Workshops for preparation of succession plan,
- **Financing** has 1 activity: creation of financial product for business transfer.

## Aspect 1: Awareness Raising

### Action 1.1 – Map of succession

#### Background

Raising awareness about business transfers in Slovenia is very important. Although in the last year some improvement was done in this field, we still have long way to go. It is known that business succession is a complicated process where many questions are open and easy answers are rare. The biggest problem for entrepreneurs is that they don't know where and how to start this process. They don't know whom to ask, where to go, what they need to consider in the process of transferring their business. This shows that it is important to give them basic information in one place (flyer) - to show them the basic process and the path they need to follow and who can help them.

#### Action

We will prepare a flyer based on the good practice from a partner in the STOB Regions project – the Berlin School of Economics and Law. We will translate the flyer to the Slovenian language; we will bring the information on it into the Slovenian context and legislation.

We will prepare a printed and online version, which will be free of charge. We will distribute the printed flyers to Slovenian business contact point (one-stop-shop services for entrepreneurs in Slovenia) and units of Chamber of Commerce in the Gorenjska region.

We will update the information in the following years if needed.

#### Players involved

- Berlin School of Economics and Law, as the producer and owner of the original flyer, which permitted us to translate it.
- BSC Kranj as the producer of the flyer in the Slovenian language.

- Graphic designer and proofreader of the Slovenian version of the flyer.
- Entrepreneurs supporting organization in Gorenjska region as the distributor of the printed version of the flyer
- Organizations in the whole country as the distributor of the online version.

### Time frame

Slovenian version of flyer will be distributed in the years 2020 - 2023. Steps:

- translation of the map to Slovenian language October 2019
- putting the Map in Slovenian context and legislation context December 2019
- designing of the Map February 2020
- printing of the Map April 2020

### Costs

Translation, proofreading and designing of Slovenian version of flyer will cost us around 1.500 Euros.

Printing of 5.000 copies will cost us around 500 Euros.

### Funding Source

BSC Kranj.

### Our role

Translating, designing, producing and dissemination of the flyer.

Flyer will be supporting tool when helping, counseling and talking with family businesses about business succession. It will be created as informational flyer – all basic information on one document. Before final version and printing we will test comprehensible information on the flyer with companies.

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

| Objectives of the policy instrument   | How can a change be achieved?   |
|---|---|
| <p>Promoting entrepreneurship in particular by facilitating the economic exploitation of new ideas.</p> <p>Increase the added value of SMEs.</p>  | <p>Through the map of succession, we will raise awareness of importance of strategic planning of succession.</p> <p>We will help entrepreneurs to plan succession, raise awareness about early start and the stages of the process.</p> <p>We will raise the number of successful business transfers and by this help already established companies to continue working, developing, reach even better economic indicators, including added value, secure jobs and competitiveness.</p> |
| <p><b>Conclusion:</b><br/>In the second phase of project we will finish, print and disseminate map to large number of entrepreneurs (through the network of entrepreneurial support organizations and national agency).</p> |   |

## Action 1.2 – Emergency planning

### Background

Slovenian economy consists mainly of micro and small businesses – more than 90% of all companies and most of them are family businesses. Usually, managerial responsibility and knowledge in this companies lie in only one person. In the case of serious illness, accident, or death of the manager, these companies get in trouble. By Slovenian legislation, companies registered as sole entrepreneurs (most micro-companies in Slovenia) stop existing if the owner of the company loses tasking ability (due to an accident or illness) or dies and didn't appoint a procurator in the company. In this case, the company becomes a matter of an inheritance judgment, which can take several months to resolve. All legal affairs, employees and businesses are on hold till the company gets legal heir of the company.

The problem is that not many business owners know that. It is important to raise awareness on this field to help entrepreneurs to plan for worst-case scenarios, by showing them what they need to think of. The aim of the presented action of "emergency planning" is to reduce the number of business closures. Target groups: micro and small companies in which most information about business and knowledge are gathered in one person (usually director).

We will prepare open pdf file, which will be available to entrepreneurs free of charge and will be published on BSC homepage and other homepages of supporting organization for entrepreneurs.

### Action

During the project, the lead partner IHK-Projektgesellschaft mbH presented their best practice Emergency manual for companies. Based on their manual, we will prepare a Slovenian version: considering Slovenian companies, legislation, support system, legal aid, and possible scenarios.

We will create the manual as an open pdf file, which can be downloaded or printed free of charge for all users. The design will be adapted to the target group, which are mostly micro-companies. We will test the manual on some entrepreneurs and then create the final version.

We will create an open pdf file so that the entrepreneurs can choose to fill out only information and fields that are useful and important to them, and delete all others.

### Players involved

In preparation of manual we will need business coaches, legal help, graphic designer/programmer and some companies to test the manual.

### Time frame

A draft version of the manual will be ready until December 2019. The testing period will be for three months. Till June 2020, we will prepare and disseminate the final version of the Emergency planning manual.

### Costs

To create a draft version, we will need around 4.000 Euros (for the external experts, graphic designer, and programmer). All together we will need 5.000 Euros for the final version (correction after testing).

There will be no printing costs because the manual will be only online documents, which are printable after filling in the information.

## Funding Source

BSC Kranj.

## Our role

Creating, designing, producing and dissemination of the manuals.

This action will contribute toward awareness raising among entrepreneurs (especially family businesses and micro companies) and prevent companies from closing in case of illness or accident of company lead person.

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

| Objectives of the policy instrument   | How can a change be achieved?  |
|---|--|
| <p>Promoting entrepreneurship in particular by facilitating the economic exploitation of new ideas.</p> <p>Increase the added value of SMEs.</p>  | <p>Through the emergency planning manual, we will raise awareness of importance of strategic in SME's, including succession.</p> <p>We will sensitize owners and stress out of importance of sharing information, sharing management of the company, raising their successor even if it not time for business transfer yet.</p> <p>We will help companies to survive in case of illness, accident of death of owner, stress out the importance of early start for business succession and by this help already established companies to continue working, developing, reach even better economic indicators, including added value, secure jobs and competitiveness.</p> |
| <p><b>Conclusion:</b></p> <p>In the second phase of project we will test, finish and disseminate manuals to large number of entrepreneurs (through the network of entrepreneurial support organizations and national agency).</p> |  |

## Aspect 2: Matchmaking

### Action 2.1 – Network of succession consultants

#### Background

There are several motives for creating a network of family business professionals (consultants):

- There is a need for a framework consultation system, which has been proved several times in several countries.
- Always in counselling, from case to case differently, there has to be multidisciplinary approach.
- Professionals from different disciplines (i.e. business, law, investment, finance, psychology) should understand peculiarities of family business and the reason why businesses usually have substantial succession issues.

- Since these businesses are nurtured in a very conservative SME environment, it is hard for them to understand the importance of advice and pay for it at the market conditions. On the other hand, professionals who want to dedicate themselves to their profession have to live.
- These services have to be equally available in all regions throughout Slovenia to ensure the equality of opportunities to all target groups of entrepreneurs to start their own businesses.
- The services have to be differentiated for different target groups to serve their needs in terms of the list of services included, the extent of assistance (hours of consulting and other services) to be subsidized as well as the level of subsidies (from some free basic services to only a portion of fees to be covered by government).
- The system has to be stable through a longer period to ensure better visibility and promotion – this assumption demands continuous financing and trustworthy institutions as providers.

The comprehensive system of subsidized consulting should provide for the following general objectives:

- To improve the quality of the succession process and thereby to ensure a good preparation of successors to take over.
- To increase the quality of family businesses, to enhance the implementation of their growth plans in the areas of technology, product/service innovation, new market entry, assuming more sophisticated financial instruments, etc.

### **Organizational model of the network**

The role of the network is:

- It shall keep their original mission within the process of family business and business transfer promotion.
- The other shareholders may act as secondary agents: they promote the system among their members, customers and other stakeholders.
- The trained and certified staff could take the role of local service providers within a limited amount of activities, on the equal foot with other consultants.
- They provide some “soft” services e.g. information and training that compound the level of assistance.

### **Consulting services**

The network covers a focused and specialized area of SME consulting, not all the forms of SME support services. One has to be careful not to include services that could easily be delivered as market activity and SMEs would be capable to cover the market rate e.g. accounting, tax and financial consultants, marketing services etc. The system while focusing on consulting services is designed flexibly to be able to extend in the future to other services: (1) basic information services for SMEs (not provided by commercial agents), (2) standardized training modules for business owners who need to understand the process of transfer, (3) the link between “soft” services and financial support for businesses, (4) founders and their businesses already use some services covered by some support in incubators, science and technology parks etc.

In this way, the network would really become a comprehensive system, but its development should be based on careful evaluation of results, businesses needs and the EU policy to support enterprise sector. Currently, the system is involved in the business transfer phase and some specific development projects.

### **Conditions for an effective network**

The network while offering conceptually a well-conceived support to family businesses demands some conditions to be fulfilled to enable the support network to provide services according to basic rules of the system. These conditions relate to the financial and human resources and organization of the system.

1. The network of family business consultants should cover the whole territory; where this support is not yet available. However, the quality of consulting services should be monitored and a system of quality assurance should be developed.
2. A computerized on-line information system should be developed to create the knowledge data-base and in order to avoid the burden of administrative paperwork.
3. Training should ensure that all stakeholders among system providers know their role and continually improve their capabilities both in consulting techniques.
4. The selection process for family business consultants should ensure appropriate quality of basic consulting services at the start and consultants have to update their knowledge of the regulatory system and legislation as well as improve their consulting skills.
5. The network has to be properly financed to ensure the quality improvements over time. Lack of financial resources would weaken the whole system considerably.
6. The network should be properly promoted among the potential clients.

### **Evaluation of the efficiency of network**

In order to evaluate the network, several qualitative and quantitative techniques were applied following the recommendations in policy evaluation (OECD, 1997). First, evaluators should conduct a series of structural interviews with target participants within family businesses and professionals providing consulting to target participants. Also, policy-makers should be included in the assessment in order to evaluate whether they recognize any progress in the field. Secondly, the secondary data (some minutes, deliverables from the services if applicable) should be studied. Finally, the data gathered in the first two steps should be used in developing self-reported anonymous questionnaires, which would be mailed to all family businesses that participated in the consulting process and would express their agreement to take part in the study. The main purpose is to gauge the overall satisfaction of the family business with the system and the 'quality' of its services.

### **Players involved**

Certification procedure for family business consultants

For the system an elaborate selection and evaluation system has been devised to bring to a qualified list of certified family business and transfer of business. The entry criteria for the pool of certified consultants are listed as following: (1) university education, (2) fluency in at least one language of EU countries, (3) extensive work and consulting experience, (4) professional test.

Professional test is one of elements of the selection process although sometimes far too much is expected from the test and more trust should be put on continuous training organized through the network of family business consultants. Nevertheless, the professional test consists from several components.

### **Time frame**

After the decision is made – December 2019, the platform with the all back up activity can be set up within the time framework of 12 months. This includes the development of the platform, the documentation, administration and the legal part, IT platform, the physical headquarters (hub) and staff recruitment. Marketing of services provided by the platform should not be forgot as well, a lot can be done on social media, public events and PR with the media which act in favor of business especially SMEs. A development agency would be

best solution to run the project of setting the platform up. The network will be fully operational till December 2020.

### Costs

The investment cost for the setup is evaluated as: 100.000 Euro for labor, 20.000 Euro for IT platform, 20.000 Euro, for the legal backup establishment, 10.000 Euro for the headquarters establishment and 50.000 Euros for marketing. Thus, the total investment costs are projected to sums up at 200.000 Euros. The operating costs to run the platform per year are forecasted as: 50.000 Euro for staff cost, 10.000 for travel expenses, 12.000 for rental, 10.000 for utilities, and 8.000 for miscellaneous, thus 90.000 Euro per year should be allocated for running the platform.

Funds: European Regional Development Fund

### Funding Source

Although fees can be charged for the services provided by platform both for the both sides (demand and supply of the consulting services) this market catalyzer cannot be expected to be financially sustainable. It is believed that as a measure, the platform can be co-financed from the EU sources, both for the development of the scheme and for its setup. Yearly operational cost should be subsidized from the national budged as well as from EU sources.

### Our role

We cannot create this kind of network on national level by ourselves. So, our main role in this activity is to influence on national level support organizations to start working in this direction, to stress out the importance of this kid of network, to support (by best practices from abroad, by knowledge and experiences gained in the STOB Regions project) and monitor the process.

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

| Objectives of the policy instrument   | How can a change be achieved?   |
|---|---|
| <p>Provide an effective supportive environment for the development of dynamic entrepreneurship.</p> <p>Knowledge transfer institutions into the economy.</p> <p>Growth of added value of companies.</p>   | <p>Help entrepreneurs in starting and successfully finishing business transfer.</p> <p>Develop and upgrade support environment for family businesses.</p> <p>Raise trust in external experts which are supporting entrepreneurs in the process of business transfer.</p> <p>Raise the rate of successful business transfers, secure the jobs and continuity of companies.</p> |
| <p><b>Conclusion:</b><br/>           At our initiative and basing on best practices from other partners in STOB Regions project, SPIRIT Slovenia Business Development Agency has already formed the network of family businesses consultants. They all need to pass some criteria to become part of this network. In the beginning of the year, succession voucher was released – family businesses can get partly reimbursement of the costs for external help (for succession consultancy) in succession.</p> |   |

## Action 3: Support service

### Action 3.1 – Workshops for preparation of succession plan

#### Background

The ultimate objective of the pilot project was to develop a methodology for assisting family business for a smoother entry into transition process. The paradigm that several family businesses never enter into a systematic process of transition because they simply do not know, how and where to start, being overwhelmed with daily business obligations, gained proved to be true. At the same time, they are often burdened with some family baggage of interpersonal relationships, which is usually easier to keep them silent rather than entering into painful process of resolving them. The goal of this methodological approach was to bring families to the decision of entering into transition process on the basis of the written and agreed transition plan. The planned methodology was tested in a pilot project. This involves direct work with 12 family businesses and the goal is, that in 20 weeks of the duration of the pilot project. By the end, at least some of the families should have had written transition plans, ready to go and their clear and honest commitment to carry on with the transition activities.

#### Action

An experienced family business consultant with more than 20 years of consultant experience on the top of the own family business experience and extensive academic work led a self-aid group of then family business teams. Two members from the same family were expected: older and younger generation representatives. Gender variability was encompassed by having at least one third of women participants in the group. The reason for this is that (1) women are still underrepresented as SME (and generally business) leaders and (2) women are often neglected as possible successors in traditional “masculine” industries.

The consultant, who led the group, used the therapeutic andragogic method of free associations: (1) a moderation of the group leader will be followed by (2) group discussion, (3) preparation of the homework done on the topic and influenced by group thoughts and (4) short presentation on the next meeting. For the homework, the consultant enabled two hours of face to face consultancies for each family business team. Homework was expected to have a very important role in the process, because the clear objective is to make the family sit down and think about the issues, which would be raised at the next session. The homework was also expected to be a link between family members, which would not come to the session and those who would.

The following topics will be covered as a process in 20 weeks with a session on approximately every two weeks: strengths and weaknesses, opportunities and threats of family businesses; sources and management of conflicts; organizational peculiarities and “Should I stay or should I go?” dilemma; intra and intergenerational differences and conflicts; family business constitution and long-term vision; family business and business family finance; legal aspects of family businesses; and succession plan for next generation.

#### Outcomes of the pilot project

Outcomes of the pilot project based on the observations of the consultant and the support team. They are mostly based on the quality of the prepared deliverables from the workshop sessions and feedback from participants. The main findings from the pilot project can be summarized as follows:

- There is a definite need for family business (and other SMEs) consultation services in the field of transferring businesses onto the next generation or possible other shareholders outside the family.
- There is a need for a development of a standardized systematic approach for the consultation on this matter.
- The robust framework of dual methodology is a combination of (1) group work backed by the methodology of free associations and (2) consultation on the business level (both, group and individual) proved to be a good practice.
- Even the family businesses which express high level of commitment at the beginning of the process may find that they are simply not ready yet once the process goes deeper in the resolution of the possible barriers to planning.
- The rate of 50% of those which enter the process and end up with a written succession plan should already be seen as successful.
- Recommendations for the improvement of the methodology and its systematic implementation
- The group part of the consultation process should be reduced to a half.
- A more intense push from the consultant and the supporting team would be appreciated by the clients.
- Individual and group work should overlap more.
- More effort should be dedicated in the beginning of the consultation project to understand more in-depth the position and needs of every individual family business.
- Women are more enthusiastic than men, in reality there was more women attendants of the workshop. This is compliant with several pieces of literature saying that women are neglected parties in the consulting process and may serve as important catalysts.
- Regular groups (for instance twice a year: spring and autumn shall be organized in a couple of regional centers all around the country (for instance 5 centers).
- The participation at the workshops should be substantially but not entirely subsidized. Participants who do not finish the program should reimburse its value.

### **Players involved**

The following players are involved in the action: (1) family business facing succession challenges, (2) professionals providing specialized expertise in the field, (3) local and/or regional business support and development centers which provide infrastructure and assist with the marketing, (4) national and EU level policy-makers to encourage and financial support the action, (5) media for positive and encouraging coverage of the idea.

### **Time frame**

The activity can be regarded as established since the pilot project was successfully tested with the target audience. After the decision is made, the platform with the all back up activities can be set up within the time framework of six months. A development agency would be best solution to systematically run and coordinate all the sub-activities.

Concept of workshops – September 2019

Every year we plan to repetition of the cycle (5-7 workshops).

### **Costs**

The investment cost for the setup with the assumption that the content of the workshops is already defined is evaluated as: 10.000 Euro for labor, 10.000 Euro for IT platform, and 50.000 Euros for marketing. Thus, the total investment costs are projected to sums up at

70.000 Euros. The operating costs to run the activities twice per year in every region per year are forecasted as: 10.000 Euro for subcontractors, 5.000 Euro for staff cost, 2.000 Euro for rental, and 3.000 for miscellaneous, thus 20.000 Euro per year should be allocated for running the platform.

Fund: European Regional Development Fund

### Funding Source

Although some fees can be charged to participants it cannot be realistically expected from the workshops to be sustainable. It is believed that as a measure, the platform can be co-financed from the EU sources, both for the development of the scheme and for its setup. Yearly operational cost should be subsidized from the national budget as well as from EU sources.

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

| Objectives of the policy instrument   | How can a change be achieved?   |
|---|---|
| <p>Enhancing the competitiveness of SME's.</p> <p>Developing and implementing new business models for SMEs, in particular with regard to internationalization.</p> <p>Enhance international competitiveness of SMEs.</p>  | <p>Helping companies (with group and individual counseling) to be better prepared and more successful in the business transfer process.</p> <p>Ensure higher rate of successful business transfer, securing jobs, continuity of companies, provide higher internationalization of companies, secure competitiveness of companies.</p> |
| <p><b>Conclusion:</b><br/>           Basing on our pilot workshops and with close cooperation with SPIRIT Slovenia Business Development Agency this year 7 support agencies from whole country were invited to prepare the plan of workshops for business transfer. SPIRIT will co-finance these workshops.</p> |   |

## Action 4: Financing

### Action 4.1 – Financial product for business transfer

#### Background

The reason that succession plan does not activate is in Slovenia very often linked to the fact that founders may not have adequate income to sustain the living standard, which they are used to, after the retirement.

- On the other hand, it is very common and apart of Slovene culture that shares in the company and other wealth is passed to the children on a free basis, as gifts, without any payments.
- However, the successors may not have adequate savings to pay to their parents nor they have their own wealth to offer it as collateral to obtain a loan from the commercial bank.
- Commercial banks do not understand the peculiarities of family businesses and would regard a loan that would back up the financial part of succession loan as a personal loan which can only be a consumer loan or a housing loan.

- Consumer loans from banks are often unsecured but the amounts are small and maturity period too short for the succession purpose. The only realistic collateral is real estate otherwise a bank must (regulatory issue) allocate higher proportion of equity capital to cover the risk weighted assets' proportion.
- The shares in a company are normally accepted by banks only as additional collateral. All these (with the arguments from the previous point) would be make "succession" loans very expensive to the clients (successors) if the banks would aim to charge their target interest mark-up.
- Thus, there is a room to adapt commonly used financial aid instruments (interest rate subsidiary, guarantee) with a possibility of award stimulation similar as Europe supports young farmers to take over the family farm.

### Action

- The instrument could be managed by one of authorities which are already eligible for managing public sources for SME support including possible co-financing from the EU funds which would eligibly follow the EU policies and efforts to stimulate family business (and other businesses) transfer and succession.
- The same mechanics could be applied in cases when succession is not going to happen within the family for different reason, thus a small scale management buy-out or even management buy-in would be seen as a possible option.
- On the side of the banks, this ownership transfer backed up by the bank which already is the succession company's bank should be much easier to evaluate because they would be able to assess the future performance of the company. It can be expected that the main source of finance for the (new) owner(s) would be withdrawn profits (dividends) from the transferred company. It is realistic to suspect, that this would be the main personal income for the new owners.
- In developing cases as described, banks may find opportunities to develop new products like succession/transfer mezzanine finance and start to act as a small scale investment banks for the transfer companies.

### Players involved

The following players are involved in the action: (1) family business facing succession challenges divided into two subgroups, i.e. founders and successors, (2) professionals providing specialized expertise in the field, (3) local and/or regional business support and development centers which provide infrastructure and assist with the marketing, (4) banks with its local branches to provide banking expertise and infrastructure to finance the succession process, (5) government's agency providing platform for co-financing the financing scheme, (6) national and EU level policy-makers to encourage and financial support the action, (7) media for positive and encouraging coverage of the idea.

### Time frame

After the decision is made, the platform with the all back up activity can be set up within the time framework of 12 months. This includes the development of the platform, the documentation, administration and the legal part, IT platform, the physical headquarters (hub) and staff recruitment. Marketing of services provided by the platform should not be forgot as well, a lot can be done on social media, public events and PR with the media which act in favor of business especially SMEs. A development agency would be best solution to run the project of setting the platform up.

Initial meetings with entrepreneurship support organizations – January 2020

Initial meetings with policy makers – March 2020

Gathering support for establishing financial mechanism – September 2020

Pilot project – 2021

Establishing financial mechanism - 2022

## Costs

The investment cost for the setup is evaluated as: 140.000 Euro for labor, 20.000 Euro for IT platform, 20.000 Eur, for the legal backup establishment, and 50.000 Euros for marketing. Thus, the total investment costs are projected to sums up at 230.000 Euros. The operating costs to run the platform per year are forecasted as: 100.000 Euro for staff cost, 10.000 for travel expenses, 12.000 for rental, 10.000 for utilities, and 8.000 for miscellaneous, thus 140.000 Euro per year should be allocated for running the platform. However, this estimation heavily depends on the volume of participants involved in the scheme.  
Fund: European Regional Development Fund

## Funding Source

A typical model of EU funding of structural schemes should be applied with the requested co-financing from the national budget thus, a national managing authority for EU funds should be involved in detail planning of the scheme. The operational cost should be planned within the institution (Agency) which will manage the scheme on the national level.

## Our role

Is to be the driving force and motivator of the process, the liaison of the various support and financial institutions in the country and organization which initiates, encourages and controls the process of creation of this kind instrument. As Regional Development Agency we have direct contact with other entrepreneurial support organizations (including on national level), there is already a silent agreement among them (us) that we need this kind of financial instrument and there is a very loud voice on the side of family businesses that this is needed.

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

| Objectives of the policy instrument  | How can a change be achieved?  |
|--|--|
| <p>Provide an effective supportive environment for the development of dynamic entrepreneurship.</p> <p>Knowledge transfer institutions into the economy.</p> <p>Growth of added value of companies.</p>  | <p>Help entrepreneurs in starting and successfully finishing business transfer (because both owner and successors will be more financial stable).</p> <p>Develop and upgrade support environment for family businesses.</p> <p>Explain and educate banks on specialties of family entrepreneurship, value of family companies and the need for resources.</p> <p>Raise the rate of successful business transfers, secure the jobs and continuity of companies.</p> |
| <p><b>Conclusion:</b><br/>Starting initiative and connect different organization on national level which are supporting and promoting entrepreneurship in the country. Explain the need and promote the positive outcomes of this kind product basing on good practices from partners in STOB Regions project and similar product for farmers in Slovenia.</p> |  |

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