External expert report

Analysing the gap between the existing and desired succession / transfer status and investigating the parameters and obstacles delaying its bridging into the textiles, clothing and footwear SME

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Contents

1. What is family business?

Family business can be considered a separate form of business with its unique features. Governments, academics, and various family business organizations have a different understanding of family businesses and as a result, there is no universal definition. In order to solve this issue, the European Commission provided a set of features that characterize family business:

- The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child, or children's direct heirs.
- The majority of decision-making rights are indirect or direct.
- At least one representative of the family or kin is formally involved in the governance of the firm.
- Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 % of the decision-making rights mandated by their share capital.[1]

1.1. Characteristics of the family business

Besides these formal elements, family businesses have their own set of unique features, which defines and distinguishes them from other types of businesses. First of all, most family businesses start not only for generating the return of investments or generating profits but also **have a goal of employing family members**. For some families, having jobs for their people is more important than the bottom line – as long as the business remains survivable. It is easy to forget that "increased productivity" can be a code phrase for "fewer employees." Employees are generally the most expensive component of an enterprise, and avoiding some of that expense would be a good thing if maximizing profit was the singular objective. The majority of family businesses are small or even micro, so the question of employees, in theory, should be even more important. In practice, however, if a business can employ as many family members as possible and remain competitive in the market, the business goal is met.

Motivation in the context of employment for family members is important. Even though profitability is not the most important element, family success and living conditions heavily depend on the business. Employees of family businesses understand, that the number of family members employed in the company might not be the most optimal and it can cause problems related to the efficiency of the business. Because of it, people involved in the activities are highly motivated to work hard and minimize potential inefficiencies, sustain, and develop business. In addition, more motivation can come from the understanding that employees work for themselves and family members instead of someone else. Kinship and the pursuit of a common goal can improve the performance of the family members who are employed.

[1] European Commission, "Family business." < https://ec.europa.eu/growth/smes/promoting-entrepreneurship/we-work-for/family-business_en>

Because efficiency and profitability are not the main components of the family business, these companies have to think out of the box how to survive and stay competitive not only in the local but also in the global markets. In this context, **long-term planning** is a very important element, which is especially important for family businesses. According to statistics, company's long-term value means more to family business leaders than short-term financial returns. This prioritization is reflected in their day-to-day decisions, including among first-generation business leaders. Rather than placing their sole focus on new endeavors that could build the business in the short term, even these younger family businesses tend to make decisions that focus on increasing long-term value.

Continuity as a feature of family business also comes along with long-term planning. The majority of successful family businesses do not put profit maximization first, but instead, they have an intense pride for the business and its history. As a result, they also have a really deep sense of family, unity, and mutual support. This obviously has financial value, also creates more confidence for existing and potentially new customers of particular family businesses. Family companies, especially those still based where they were founded, are unlikely to put at risk what they have built over generations by becoming over-stretched or diversifying from their roots.

Family businesses are also usually characterized by being **agile**. In most cases, this translates into quicker and more flexible decision-making. Due to the typically flat hierarchy in family businesses, management can decide quickly and react immediately to market changes. Most family businesses have a relatively simple hierarchy and management structure, which also allows them to deal with problems promptly and react more rapidly to changing market conditions. As they can have the advantage of being formal and informal, family businesses flexibly use each of these traits when suitable.

Together with all the elements mentioned above, a set of **shared norms**, **values**, and **standards** usually describe family businesses. For a family business, more than any other, values are the connective tissue – the source of business success, commitment, and longevity. They help to assure cohesion, resolve conflicts, and strengthen operations – through the natural act of passing down a legacy. In addition, values often go deeper than simply benefiting the family. Many of today's most successful family-owned businesses are extending the power of their values to benefiting others – the community in which they operate, as well as the projects and philanthropies that fit their personal mission. Also, some family businesses are more concerned about corporate social responsibility (CSR), compared to nonfamily firms. Empirical evidence shows that while family firms are no more likely to engage in positive social initiatives than are traditional firms, they do avoid actions that would cause them to be labelled as socially irresponsible and hence avoid negative publicity that would undermine their reputations.[2] Families who purposefully navigate these generational dynamics create opportunities and build necessary skills for collaboration between generations. This allows for open conversation, planning, understanding, and coordination regarding issues such as continuity and governance while maintaining or building family harmony and trust. **Trust** is also a key element describing family business as it is a way of reducing uncertainty in interpersonal and organizational settings and is necessary for

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[2] Benavides-Velasco C. A.,Quintana-Garcıa C. Guzma V.F. "Trends in family business research*". Small Bus Econ* (2013) 40:41–57

cohesive and productive professional relationships. Family businesses involve people who are linked by family ties and have a strong emotional connection with each other to achieve desired goals.

1.2. Vulnerabilities of family business

Besides these elements of family businesses, vulnerabilities and disadvantages of them should also be mentioned. On the opposite to the trust, **family conflicts** are one of the biggest disadvantage family business can experience, Conflicts are bound to happen at any business, but taken into account the importance of family environment, long-term planning, and possible business succession, it can create a negative working environment and long-term negative impacts.

Nepotism also can be considered an issue. Some family businesses are reluctant to let outsiders into the top tier, and the result is that people are given jobs for which they lack the skills, education, or experience. This, obviously, has a far-reaching effect on the success of the company. In particular, it's very difficult to retain good talent at lower levels if their performance, and their ability to succeed in the long run, is consistently being affected by incompetence at higher levels. More family firms are recognizing this issue and are taking care to strategically place outsiders in certain positions when necessary.

Also, **governance issues** such as internal hierarchies and rules, as well as the ability to follow and adhere to external corporate laws, tend to be taken less seriously at family businesses, because of the level of trust inherent at family firms. Family businesses are reluctant to develop formal rules and regulatory schemes for the involvement of family members, they lack a clear strategy to attract employees from outside, procedures to resolve intra-family conflicts, strategies for the development of personnel, including the transition to the next generation. As a result of these features, a long-running study of management practices at 12,000 companies in 34 countries by academics at London Business School found that family companies scored the lowest on operational excellence.[3]

Another business barrier to family businesses is the existence of **communication problems between family members and different business expectations between the two generations**. The larger the gap, the more impediments there will be to the development and continuation of the family business. In addition, the second generation appears to lack proper training and has inadequate experience in industries relevant to the family enterprise. They also lack interest in running the family business. Furthermore, the working style of the first generation is different from the second. It is apparent the first generation did not receive a great deal of attention, a fact that affects the structure and review of such plans, which the second generation should adopt when they succeed in the family business.

Some family businesses are also inclined to be **risk-averse** and **unwilling to innovate**, even when they have the resources to do so, due to concerns about the possibility of a negative outcome and a reduction in the family's wealth. However, family business leaders should beware of falling prey to a phenomenon known as the "ability and willingness paradox." Compared to non-

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[3] Gapper J. "*Family businesses need to prove their model is better.*" Special Report. *Financial Times*, Dec. 13, 2017.

family firms, research has shown that family businesses, although they usually have a lower impulse to engage in innovation, tend to achieve better results. If a family business can overcome any initial reluctance to embrace innovation opportunities, it may reap the rewards of faster and more effective innovation than its competitors.

1.3. Trends that will shape family businesses

Various local and global trends will affect family businesses, especially those in the manufacturing sector. On the one hand, new trends will bring new challenges to the businesses and they will need to adapt. On the other hand, new trends will also bring new opportunities for companies to develop and grow. **Digitisation** and **Industry 4.0** will be a vital part of next generation manufacturing. European Commission underlined the importance of a strong and high performing industry for the future of Europe's economy, and the need to bring industry's weight in the EU GDP back to 20% by 2020. As a result, various initiatives will be created and new possibilities for manufacturing companies to implement Industry 4.0 elements will arise. Family businesses are no exception – they compete in a single market and in order to stay competitive, they will need to adapt and implement new technologies.

Related to digitisation, **cybersecurity** can be considered as one of the most significant threats that family businesses can face. Family businesses lack knowledge of how company digital systems interact, how security networks or cloud systems are working. In fact, 43% of cyberattacks are made against small businesses, up from 18% just a few years ago. According to the National Cyber Security Alliance, 60% of small businesses that suffer a cyberattack[4] go out of business within half a year.[5]

In this context, **social media**, **new means of marketing**, and **communication** will also bring new opportunities. Various social media platforms present opportunities to clearly and repeatedly communicate positive messages about values, products, service, and distinguishing characteristics of the family business and products it serves. On the other hand, social media platforms are public and permanent. Once a message is posted, it is available for all to see and share. This is a threat in the case of misstep or oversight. If grievances of the family or business are aired in this public forum, it can have the effect of reducing confidence in the business, the products and the people in leadership. These types of missteps are easy to make and very difficult to fix.[6]

Technology has changed the face of business operation and brought a rising trend towards globalization. With this has come the rise of a **remote workforce**. The majority of tasks can be done remotely today. The world is becoming more virtual and it is an obvious trend that a lot of family businesses still do not understand.[7]

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[4] *Recovery from an attack is costly; cybercrime costs small and medium businesses more than $200,000 a year, not including the cost of downtime, attorney's fees, compliance and reputation cost (HISCOX).*

[5] May C. "2020 family business trends." *Illumine8 Marketing & PR*, 2019.

[6] Emigh T., Telford D. "Looking at Family Business Trends with 2020 Vision." January 13, 2020. The Family Business Advisor, A Family Business Consulting Group, Inc.® Publication.

[7] Botha F. "What Family Offices Need To Know For 2020 And Beyond." *Forbes*, Sep 24, 2019.

Another important trend is **sustainability** and the **green economy**. The European Commission has adopted a European Green Deal, which aims to "transform the European Union into a fair and prosperous society, with a modern, resource-efficient and competitive economy" and by 2050 Europe wants to become the world's first climate-neutral continent. In addition, an ambitious new Circular Economy (CE) Package was also approved to help European family businesses and their consumers to make the transition to a stronger and more CE where resources are used more sustainably. With this plan to make Europe's economy cleaner and more competitive, the Commission is delivering ambitious measures to cut resource use, reduce waste, and boost sustainable production and consumption.[8] Since adopting the CE Package, the Commission has observed an increased uptake by corporations to adopt resource efficiency, eco-innovation and/or CE strategies and practices, however smaller business still lags behind. Sustainability push as a trend is also noticeable among consumers. Changing consumers needs and perceptions create pressure for the family business to rethink their production, make it more environmental-friendly and less resource-intensive. This is a great opportunity for most of the family companies to use this direction in order to stay competitive and boost their businesses.

The good news is that positives often outweigh the negatives. Family companies have advantages over those with more dispersed and less loyal shareholders — a keener sense of identity and the essence of the company, the willingness to make long-term investments that will not pay off for some years, as well as more purpose.[9] In the past, family businesses responded to social and economic change by staying goal-oriented and family-focused. There were few forecasting tools and little data on which to base any projections about the future. Today, however, family businesses stand on a mountain of accumulating data to get a vantage point from which it can spot change as it approaches – giving family business leaders time to prepare for new opportunity, and to anticipate new threats before they happen.[10]

2. Family business and succession in EU

A business succession is an inseparable part of a continuous business life cycle; therefore, it is a mattering element of the economy. According to the European Commission, around 450 000 companies and over two million employees are annually transferred to new owners. Each year the potential for business succession is growing, as the European society is rapidly aging. A more considerable proportion of business owners are retiring, thus, leaving more opportunities for business succession. It is expected that in 2030 intergenerational transfers of wealth in Europe will make around 3 trillion euros of which sizable amount will be passed in some form of control over the business.[11]

Business succession are also an important part of family businesses. In fact, family businesses are the foundation of the European economy – they make up more than 60% of all

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[8] European Commission, "EU Circular Economy Action Plan." < https://ec.europa.eu/environment/circular-economy/>

[9] Gapper J. "Family businesses need to prove their model is better." Special Report. *Financial Times*, Dec. 13, 2017.

[10] Aloha, "Five Trends that are Changing How Family-Owned Companies Should Think About Their Future." *Family Business Center*, The Ahola Corporation, 2016. P.

[11] Wealth-X, „A Generation Shift: Family Wealth Transfer Report 2019." < https://www.wealthx.com/report/wealth-transfer-report-2019/#downloadform>

companies in Europe. Global trends demonstrate that in most countries around the world family business form around 60 – 90% of non-governmental GDP and 50 – 80% of all private-sector jobs.[12] In European countries, they cover between 65 and 80% of all companies and 40 – 50% of all jobs.[13] Moreover, 85% of all business start-ups are started with family money what depending on regulation, could also be considered as family business start-ups.

Most of the family businesses in Europe are SMEs. According to the latest European Family Business Barometer (EFBB)[14], the majority of family businesses have quite positive economic prospects – 59% report rising turnover in the prior year, while the turnover of other 28% remained steady. Moreover, 62% of respondents are confident or very confident about their business outlook for the next 12 months. Business transfers are also a pondered option of business continuation among family companies in Europe. According to the EFBB survey, 35% of respondents plan to pass ownership of the business to the next generation, and 33% plan to pass on management responsibilities as well. 62% expect to name a family member as the next president or CEO, while 27% say they plan to transfer oversight responsibilities to the next generation.

Business succession and family business are undeniably significant parts of any economy in the world, including the European Union, as they form a substantial part of economic activities. However, despite the importance of those two concepts, the existing data and research findings on them are fairly obsolete. The main barriers for more comprehensive investigations on these topics are the specificity of family business traditions and characteristics in each country, the abstract regulation and recognition of the family business, the private nature of family businesses, and other causes that are more broadly covered in the following sections. Thus, the examination of national statistics and features regarding family businesses and succession in partner countries is crucial to understand the peculiarities of the current situation.

2.1. Lithuania

Lithuania as other countries in Central and Eastern Europe have not yet developed a business succession environment mainly due to historical reasons. Similar to other Central and Eastern European countries, private enterprises started to establish in the 90s and the first generation of business leaders are becoming older and gradually withdraws. As a result of it, the topic of business succession is becoming increasingly important, however, it is still far from being a priority.

Lithuanian Department of Statistics or other official institutions do not track any records on business transfers or especially business transfers within the families. However, a few existing pieces of research investigate some characteristics of family businesses and family business transfers. In addition, there are also some practical assessments regarding business succession.

[12] European Family Business, “Family Business Statistics.” <http://www.europeanfamilybusinesses.eu/uploads/Modules/Publications/family-business-statistics.pdf>

[13] European Family Business, “Families in business for the long term.” <http://www.europeanfamilybusinesses.eu/uploads/EFB_Brochure.pdf>

[14] KPMG, “European family business barometer.” <https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/11/european-family-business-barometer.pdf>

As a result, below presented statements are based on individual analyses and should be taken quite cautiously before making any general conclusions on the situation in the whole country.

According to general trends, most family businesses in Lithuania are SMEs. There are about 200 000 SMEs in Lithuania. In 2018, they generated 69.4% of value added and 75.9% of employment.[15] SME founders largely rely on family and friends as a source of financial capital and source of information for advice concerning the business.[16] Close relation between the family business and SMEs also occurs on a policy level, as the majority of measures for business include both groups as beneficiaries.

Family business in Lithuania has comparatively young traditions – the majority of businesses are still in the first generation (95%).[17] Lithuanian businesses count around 30 years of activity and as a result, there has been no long-standing history during which they could have gained notable succession experience.[18] Having models and measures of succession outcomes at hand when businesses in Lithuania become engaged in the process of succession and once they complete the transfer from the first generation to the next, would provide a basis for evaluation of the primary succession experience and facilitate the management of further transitions on the road of transgenerational continuity.[19] However, a lack of experience in business transfer may occur to be a positive feature – as successive generations have a lesser impact on the accumulation of succession experience, it implies that as most of the firms in Lithuania are in their first generation, the upcoming successions can be crucial to businesses.[20] If done and facilitated correctly, family business transfers could become a thriving foundation for the future development of family businesses in Lithuania.

Generally, younger generations in Lithuania, who grew up in families that have established their own businesses, are reluctant to take over and lead the business. Some of them might want to try themselves in new the spheres, other are afraid to work with their parents. Some people also emphasize that they have always seen how much and how hard their parents worked to establish their own company, so they do not want such a life for themselves. Also, people who are talented, modern, and understand the newest management principles face the resistance of parents who established and developed a business themselves when trying to modernize and adapt it to the current trends.[21] The first-generation business managers in Lithuania are usually strong leaders, accustomed to the situation when everything depends on them. Psychologically it is not easy to get over the obstacle when two generations differ dramatically and it leads to the conflicts. On the opposite, some young talented and professional people want to establish their businesses. Not a continuation of what has been started already, but the creation of something new is very popular

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[15]Ministry of Economy and Innovation, "2019 SBA Fact Sheet." <
http://eimin.lrv.lt/uploads/eimin/documents/files/Lithuania%20-%20SBA%20Fact%20Sheet%202019.pdf>

[16] Olga Stangej, Vida Skudienė, "Family Business Transgenerational Continuity in Transition Economies: Towards a Conceptual Model." *Organizations and Markets in Emerging Economies*, Vol. 4, 2013.

[17] Silvija Baškytė, "Šeimos verslo valdymo gerinimo kryptys." 2009.

[18] Stangej, Skudienė,

[19] Ibid,

[20] Ibid,

[21] Linas Augis, "Verslo perdavimas įpėdiniui – sunku, bet įmanoma." < https://www.delfi.lt/multimedija/ipedinystes-akademija/verslo-perdavimas-ipediniui-sunku-bet-imanoma.d?id=83637585>

among young people in Lithuania. These aspects can be explained by the fact, that in Lithuania there is no business succession culture and tradition. For instance, in the southern European countries, there are old and time-tested traditions which lead to the totally different question: in Lithuania, for example, the question is "Whether children will want to take over the family business?" while in southern Europe the question is "When children will take over the family business?"

Another important aspect in Lithuania is the lack of business succession planning. The question of business succession is a discussed issue among family businesses – according to a survey of Lithuanian family businesses, 90% of family business owners are confident that their business will be continued and managed by family members. However, according to various practical assessments, only 1 of 10 business owners have fully started the succession planning process, for example, thinks about the transfer of the business management to successor, the preparation of successor, the transfer of business ownership, as well as the choice of a legal structure that would ensure a sustainable transfer of business to several generations of successor and achieve other desired goals. Meanwhile, only 3 out of 10 entrepreneurs have already started thinking about succession planning, but have not taken it structurally and have taken only a few steps.[22] The most common reasons for not being ready for succession are lack of time, deliberate procrastination, because the topic itself is complex, and for best results, all immediate family members should be involved, which can also bring to the surface certain old family disagreements. The disproportion between assumptions and actual actions might notify about the imperfect and not engaging support environment for business transfer in the country.

Regarding business succession to third parties, both entrepreneurs and potential successors of the company in Lithuania do not have enough information about this process:

- lack of information on business transfer possibilities, necessary preparatory works and transparent market for the transactions;
- regulatory burden.

2.2. Poland

According to the Family Business Institute of Poland, 92% of total businesses in the country can be defined as family businesses.[23] It is one of the highest proportions among the Member States. However, the same source concludes that only 36% of businesses consider themselves to be family businesses. Lack of identity might create some disadvantages for the business as companies that accept family identity also have a chance to better prepare for generational change.

As same as in Lithuania, Polish family businesses are quite young. They were mostly established in the 90s, so they are mostly headed by their founders or their children. Only 6% of family

[22] Linas Augis, "Vien testament nepakanka: kaip sėkmingai perduoti verslą kitai kartai." <https://www.delfi.lt/multimedija/ipedinystes-akademija/vien-testamento-nepakanka-kaip-sekmingai-perduoti-versla-kitai-kartai.d?id=82353781>

[23] European Family Business, "Family Business in Poland." <http://www.europeanfamilybusinesses.eu/publications/74/29/Family-Businesses-in-Poland>

businesses are over 31 years old, while 42% are under 10 years old.[24] Despite this, family businesses take an active and large part in building the country's economic potential. According to experts, businesses that align with the definition of a family enterprise are responsible for approximately 18% of Polish GDP.

More than 90% of family businesses are run by their owner or co-owner. Currently, 40% of companies are managed by the second generation, 32.6% of the founders of the company are presidents, and 17% of the highest levels of authority are held by parents and their children. The oldest companies are managed by the fourth generation. However, the youngest generation is not showing positive attitudes towards family business continuation – only 8% of successors want to take over the family business from their parents.[25]

The business succession process in Poland is quite a recent phenomenon as the majority of private companies were established in the 90s. Thirty years already passed and the first generation of private business owners are becoming older, which leads to the question of the business transfer to become more and more important. These are the main factors leading to business succession in Poland.

Factors of an emotional nature	• The desire of the senior to create a multi-generational company; • A sense of professional fulfilment of a senior; • The desire for the company to be managed by family members
Factors of an organizational nature	• The presence of a potential successor and his readiness to take over the company; • The state of health of the senior and his relationship with the potential successor, allowing him to pass on all knowledge and skills; • Convincing that suppliers and customers will accept the successor
Factors of a financial nature	• Expected financial benefits of the successor from continuing business activity; • Expected financial benefits resulting from a change in the legal form of business activity, tax optimization. • Expected financial benefits for the senior in connection with the possible sale of the company

[24] Family Business, "Firma rodzinna to marka, czyli przedsiebiorstwa rodzinne w Polsce. < http://familybusiness.ibrpolska.pl/firma-rodzinna-to-marka-przedsiebiorstwa-rodzinne-polsce/>
[25] Instytut Biznesu Rodzinnego, < https://www.ibrpolska.pl/>

Research carried out by the Institute for Sustainable Technologies - National Research Institute in Radom in 2017-2018 showed that the vast majority of owners of family businesses in Mazovia do not intend to carry out succession at all. The reasons for such an attitude may be a vision of potential conflicts and the issue of preparing and training a successor. As for the generation of seniors (family business founders), they postpone the idea of handing over the company to their successors (even if they are their children) because they feel a strong discomfort about giving something they have worked for so long, what has become part of them and defines their identity. Giving the company is tantamount to giving up direct control, and parents, in order not to lose that control, do not give their children adequate authority or decision-making powers in their positions. This prevents children from preparing themselves properly for running the company and makes the pessimistic scenario of a family business collapse after a change of managerial generation a reality for many companies.

Another important factor is the financial aspect. Many owners admit that in the face of business succession, there is a need to obtain additional funds for company activity. In the case where a company disposes old technological equipment, or not innovative methods of production, the successors are forced to invest money in order to gain profits from business activity. If the successors do not have enough financial capital, they are not interested in taking over the family business.

In addition, the successful business succession is hampered by cultural and psychological factors, strongly related to the family itself:

- Goodwill (family disputes, intergenerational conflicts);
- Family values (lack of time, weak family ties, lack of love, lack of respect, lack of understanding from other family members, lack of common goals);
- Other aspects (uncertainty, fears, too high requirements, lack of development opportunities).

2.3. Greece

Greece does not distinguish among partners in terms of the exploration of family business characteristics in the country. Although family businesses set the backbone of the Greek economy, these firms have not been under an extended research so far, as other forms of companies attract more attention of the academics. It is a fact that there is not a single definition of family business, and they are usually combined with SMEs.

Family businesses in Greece compose 50-80% of all business entities.[26] The country also has one of the greatest numbers of small and micro-businesses within the European Union, and most of them are family businesses. It is evaluated that most Greek family businesses are operating in the sectors of agriculture and tourism. A more detailed breakdown asserts that 58% of the family

[26] Spyros Vassiliadis, Achilleas Vassiliadis, “The Greek Family Businesses and the Succession Problem.” *Procedia Economics and Finance*, 9, 2014, 242 – 247.

businesses are active in retail trade and services, 9,7% in construction, 8,2% in wholesale trade, and 72% are not listed companies.[27]

One of the first attempts to map the current succession/transfer status in Greece is the survey "Transfer and Succession in SMEs" which was conducted by the Hellenic Organization of Small & Medium sized Enterprises (EOMMEX).

Enterprises' sample consisted by:

- 440 Greek SMEs which are in transition of ownership phase
- 534 SMEs which had been transferred during the period from 2006 to 2009

According to the survey, almost 83% of the successors in Greek family businesses are family members, while 79% of the total transfers are parent-to-children transfers. In Greece, 7 out of 10 family business owners plan to transfer the family firm to the next generation, while only 9% is thinking of selling the company to a third party, or, if listed, to sell the company to a third party. Also, 46% of successors take over their parents' businesses with the vision to grow and support them to survive in the marketplace.

Around 90% of family business owners either agree or strongly agree that preparing and training the next generation is crucial for both the survival and the success of the business. The vast majority considers preparation and training of the next generation being the clear responsibility of the senior generation. Almost 8 out of 10 family businesses place high importance in family communication issues and activities to be undertaken before any steps into changes in management and ownership are taken. In addition, majority owners-managers also consider non-family executives as valuable for their businesses, bringing in many benefits; however, it is not clear if and to what extent family business owners consider them as prospect extra-family successors. Based on the information presented above, we can probably assume that non-family transfers are not popular in the Greek case however.[28]

Targeted training on the issue of family business succession can be found in certain curricula of tertiary education institutions in Economics and Management, in both graduate and postgraduate levels. Consulting organisation, Business Schools and Colleges of the private sector do offer similar training and curricula. However, no reliable data are showing the involvement of family business members in relevant activities or initiatives. In the form of seminars and workshops, there is also certain activity that can be documented; however, there are no data that would to gain an integrated overview of their impact, the level of participation etc.[29]

According to 2018 Family business survey[30], the growth of Greek family business is quite stable – since 2016 the number of family business has increased by 10% (from 56% to 66%). Moreover, 91% of Greek family businesses expect to grow over the next two years, which is higher than the

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[27] SUCCESSion "REPORT ON STATE-OF- THE ART IN FAMILY BUSINESS TRANSFER." < https://succession-project.eu/docs/Web_Report_on_state-of-the-art_in_family_business_succession_FINAL.pdf>

[28] Ibid,

[29] Ibid,

[30] PWC, <https://www.pwc.chttps//www.pwc.com/gr/en/publications/greek-thought-leadership/family-business-survey-greece-2018.pdfom/gr/en/publications/greek-thought-leadership/family-business-survey-greece-2018.pd>

global average (84%). However, only half of the companies has a costed, formalised and documented plan for the next 3-5 years.

In most European countries the catalyst of change in family businesses are the changes in relationships between family members, however, what is feared in Greece is mainly related to market conditions and potential of economic downturn. Because of the recent financial crisis and its long-lasting consequences, family businesses find it much harder to have a clear picture of the direction of their market and their own business for the next 5-10 years. Greece has a long tradition and history of family businesses, however, there are some issues which makes business succession process unclear and difficult.

Lack of information	Family businesses in Greece lack a general information about business succession. This process could take a variety of steps and the status of the actions and the relative documents required during the transfer process are not absolutely clear.
Requirement to issue a new license	The requirement for issuing a new license upon the transfer of a business complicates the transfer process. Both tax costs and possible planning provisions that prevent new businesses from being set up hinder the transfer process.
Lack of motivation	Greece economy and family businesses were strongly affected by the financial crisis. Until this day, macroeconomic situation in country is relatively unstable and as a result, companies who could possibly think about business succession seek financial incentives that would ease and facilitate the whole process.
High Taxation during the transfer process	It is characteristic that high taxation is reported as a problem, mainly for businesses that have not completed the transfer process.
Personnel Adaptation	The "existing" staff faces difficulties working in the same way as the successor, and the successor may not be satisfied with the performance of the staff and prefer to gradually change it.
Difficulty in transfer due to failure to find successors:	This is a general problem when it comes to business succession. Family businesses most of the time are small companies with not a lot of human recourses. Because of it, sometimes it can be a problem to find a right person with a package of required skills and family

	members don't always have these required competences and it is difficult to attract people from outside.
Low training level of the successors	In many cases the successor "necessarily" assumes responsibility for the operation of the business due to lack of prospective employment in another field.
Industry shrinking	The sector in which the transferred business is already active is shrinking. As a result, it is difficult to persuade younger generations to take over a business as there are a lot of more attractive and popular sectors with more potential to grow.

2.4. Spain

Family businesses are the backbone of the Spanish economy, both for their quantitative relevance, representing 90% of the productive fabric, and for their importance in other spheres of society such as the national economy and employment, representing 60% of the Gross value added and 70% of private employment. In 2015 there were more than 1 000 000 family owned enterprises in Spain that contributed 88.8% of all enterprises in the country.[31]

The most family business intense sectors are commerce, construction, catering, agriculture, manufacturing, transport and IT. In particular family businesses tend to dominate, with above-average importance, in the primary and industrial (except for activities related to utilities), construction, trade and catering sectors.

A study Competitiveness Factors and Financial Analysis in Family Businesses[32] reveals that economic rate of return of family companies in 2015 (5.73%) was still 1.74 percentage points below that of non-family companies (7.47%). The 2008-2009 economic crisis had a bigger impact on the financial performance of family business compared with non-family enterprises (the mortality rate of family owned companies reached 18,4%, while non-family owned companies faced a 6,6% rate).[33]

Survey in Spain was conducted in order to find out what are the main challenges for family businesses. From the answers obtained, it is clear that the biggest concerns of family business are the economic situation (78.1%), the survival of the business (77.9%) and the increase in size (73.3%). The questions on the family dimension, such as succession and the organisation of the corporate governance, are in a more secondary position. This is consistent both with the difficulties experienced in recent years and with the still low rates of professionalisation, especially

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[31]Fernando Merino, Joaquin Monreal-Perez, Gregorio Sanchez-Marin, "Family SMEs' Internationalization: Disentangling the Influence of Familines on Spanish Firms' Export Activity." *Journal of Small Business Management,* 53(4), 2015.

[32]Juan Corona, Isabel del Sol, "Factores de competitividad y analysis financiero en la empresa familiar." <https://catedraempresafamiliar.uca.es/wp-content/uploads/2018/03/Factores_de_competitividad-5Mb.pdf?u>

[33] Merino, Monreal-Perez, Sanchez-Marin,

in the management of the family dimension. It is estimated that only a quarter of Spanish family businesses make it to the second generation which is below the global average of 30%, 9% are passed to the third generation and only 1% to the fourth generation.[34] The low percentage of business successions is partly cause due to lack of planning – only a third of family businesses in Spain have a formal strategic planning document, which is an indicator of the professionalization of management. As it is a secondary question to majority of businesses, there is a lack of attention to the elements involved in business succession and the lack of knowledge.

In Spain when it comes the time for succession, in most of the time the owner of the family business rely on members of the family (72%), followed by a network of confidence advisers (38%) and specifically hired experts for the search and selection of the executives when some issues have to be discussed and consulted. Out of the businesses which have ever thought about business succession, major criteria for choosing a successor is being a member of the owner family. However, as indicated from the experience of other countries, competences and the ability to run the business can be a big challenge. In addition, there are also some issues related to the potential successors reluctance to take over the company.

In the survey of Spanish family businesses, more than the 60% expect to pass the business to the next family generation, although less than the half anticipating a change on the property say have consulted with external advisors or consultants on the succession planning. Almost a 60% of the interviewed point out have not anticipated the change of ownership in their enterprises and, therefore, they do not give to the succession planning the deserve importance or they postpone the issue “for later". In a study developed with a sample of family businesses of the Extremadura region, results indicated that although more than half of respondents (58%) show the importance of having a specific training plan for families, only 17%, have effectively developed and implemented it. Moreover, around an 80% of the businesses surveyed expressed the importance of having a common training plan without distinction between family and non-family workers. It is also important to highlight that an 84% of family businesses are unaware of existing management mechanisms and tools that improve the longevity of the succession processes

In Spain, some academic research has focused exclusively on the training involved in the process of forming the successor which showed that there is a lack of systems for the formation and development of managerial skills, mainly due to founders do not have enough time to train future leaders or are unwilling to delegate responsibilities.

2.5. Elements that make business succession difficult

Taking into account general features of family businesses and experiences from the project partner countries, some general points about the difficulties regarding business succession can be made, which could be applied to the variety of countries irrespective of the features of a business culture.

General issue	Explanation
Conflicting goals and values	Business succession or transfer is usually implemented between parents and their kids.

[34] SUCCESSion,

	Differences between different generations can cause some difficulties regarding business succession as people can have different personal and business goals or values. Understanding this, it might be difficult to find a right person who could take over and run the business.
Conflicts between personalities	In both cases, when business is transferred to one person or a group of people, some might be left dissatisfied with the situation. A lot of questions can arise in this case: Who gets to work in the family business? Who gets what jobs? Can spouses and in-laws work in the business? Will employment be based on what the families want (bloodline) or what the business needs (competencies)? How are these employment decisions made? It is vital to address these questions and to find a right person to manage the company. At the same time, it is also important to avoid conflicts between family members, company employees and stakeholders. All these issues can destroy not only family and business harmony, but in some cases even the business itself.
Work ethic and competences	The work ethic tends to differ significantly as the family business moves through its generations. The newer generations tend to be less prepared to invest the kind of time their parents invested in the business. This can cause considerable stress and disaccord between the generations and can also unnecessarily delay the transition of both management and ownership. Further business success after the transfer also depends heavily on the competences and abilities of new owner who manages the company. Family members not always can have a required set of competences.
Expectations	Family members have different expectations from the family and from the business. Expectations with respect to employment, management, ownership, compensation, work

	assignments, training, use of business assets, etc. will vary among family members. These expectations need to be addressed and managed in order for the family and the business to operate smoothly. Left unattended or unmanaged, they will negatively impact family and business harmony, and challenge the long-term survival of the business.
Reluctance to plan	For some of the owners, it can be emotionally difficult to think about business succession as it can be related to the retirement and even a death. This process can get even harder when the person current position is owning and managing a company which they have built from the ground up. In addition, business planning, succession planning, and financial planning are often viewed as an ineffective use of time instead of a necessary business process, which are important at the current time.
Timing	Developing a timeline could be the largest problem a business owner may have when they approach succession planning. Preparing a business's succession plan forces the owner to think about their own mortality and even business competency as they progress in life. It may be an uncomfortable conversation to have, but it will be key in determining the livelihood of a business when resignation, death, retirement or disability occurs
Financial obligations	Another important challenge connected with business transfers is the matter of financial obligations in terms of indemnifying other heirs and/or business transfer related taxes. As family businesses mainly rely on family funds and bank loans (rather than external investment/finance), the financial funds needed to pay out other heirs and taxes have to be covered by the firm's assets. This reduces the company's liquidity and, therefore, increases the risk of insolvency in economically difficult times after the succession.

3. Problems that emerge during the transition process

3.1. Complexity of business succession

Family businesses have a unique set of features. Due to the long-term orientation of family businesses and their strategic objective to pass on the firm from one generation to the next within the family, the issue of business transfer is of greater concern to family rather than non-family businesses. Not only does this process involve more emotional elements, but the potential for intergenerational conflict is also greater. Business succession is not one-time event, but rather a process which goes on for five or ten years. This process includes all the actions, events and developments that affect the transfer of managerial control and ownership from one person to other family member, employee or third party. It also includes not one as it might look, but two different processes. First, the management of the family business is transferred, which will have as a consequence that the younger generation assumes the leadership function in the place of the transferor. Secondly, it is important that the ownership also be transferred: otherwise there is an incomplete transfer of business. It also should be noted that in practice, the management and the ownership are generally not transferred simultaneously. Usually the transfer of the management comes first, and that of the ownership only afterwards. Many of years can lie between these two transfer moments.

Family businesses and their succession can by analysed using the Three Circles model. This framework clarifies, in simple terms, the three interdependent and overlapping groups that comprise the family business system: family, business and ownership. As a result of this overlap, there are seven interest groups present, each with its legitimate perspectives, goals and dynamics. Successful business transfer and the longevity of the company depends on the functioning and mutual support of each of these groups.

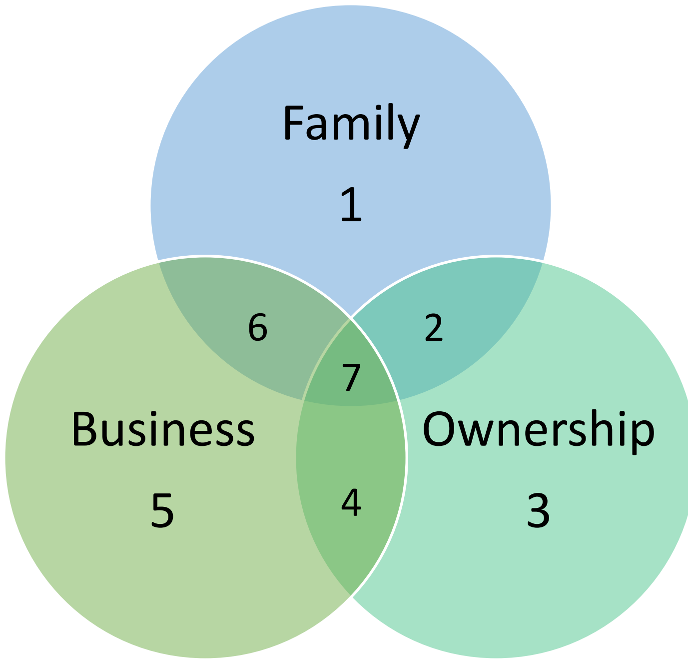

Figure 1. The Three Circle Model. Source[35]

1. **Family** – it is the group of people made of family members who do not have any property or participating in company;
2. **Family and Ownership** – members of family who have shares in the family business, but don't work in this company;
3. **Ownership** – people who have shares in the family business, but they are not members of this family and don't work in this company;
4. **Ownership and Business** – non family members holding shares but work within this company;
5. **Business** – employees, who work within the company, but do not have any share of company and are not family members;
6. **Business and family** – family members who work in a company, but do not have any stocks of it;
7. **Family, Ownership and Business** – family members, who work in a company and have some stocks of it.[36]

The advantage of placing each person within the circles is to better understand their behaviour, which is often linked to the advantages and disadvantages of their position. For example, the person heading the company is usually found in zone 7. This person generally has a good understanding of the family as well as the strengths and weaknesses of each family member. The person also knows the company inside and out. The person is in a perfect position to help the family fully benefit from the company and vice versa. But this is also the person who is responsible for arbitrating conflicts between the family, the company, and the owners. Exercising the power

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[35] Cambridge Family Enterprise Group, "How Three Circles Changed the Way We Understand Family Business." <https://cfeg.com/insights_research/how-three-circles-changed-the-way-we-understand-family-business/>

[36] Ibid,

that goes with this position should not be confused with the roles of head of the family, head of the company, and owner. In addition, the person should not try to solve family conflicts by using the company, or use the family to solve company conflicts.

The issues are different for the people in zone 1. Event thought these people are not involved in the management and ownership of the business, succession can be the moment which will change their position. With the new owner, new family members can be involved in business management or ownership positions. Understanding this they might try to influence the decision which will be made by the business owner or potentially influence successor. People who are in the zone 2 are family members who might own shares in the company but do not work in it. There is a strong possibility that they are more interested in the dividends they can receive in the short term than they are in the long-term performance of the company. This also can be said even more about the people who are in the zone 3 or 4. People, who do not have any family ties, primarily might be driven by the possibility to get economic benefits from the company. Business succession for them also is a critical moment because with the new owner, business structure might change, economic performance might slow down and so on. Because of it, they might also want to influence business transfer. People in the zone 5, who are not family members and do not have shares in the company also are influenced by the succession. New business owner might want to introduce new management principles in the company, introduce new products, innovations, reduce the number of employees or bring new people, change the vision of the company and it can have a significant influence on employees who will have to adapt to these new changes. Quite similar can be said about the people in the zone 6, who work in the company and have family ties. With the new business owner, their position in the company might also change. By becoming aware of the interest of the people in different zones, owners-managers will be in the better position the make the right decisions

3.2. Preparation for business succession

Considerable evidence exists to substantiate the belief that the presence of conscious organizational planning and preparation for succession is among the most important factors in ensuring effective executive succession. Many businesses fail in the transfer phase not because they are not viable, but because the transfer has not been sufficiently prepared. Experience of various EU countries indicates that business succession planning is not fully exploited and business owners-managers are reluctant to prepare this plan. There are three main types of problems delaying this process:

- **Psychology and emotions**. Many owner-managers, who have created and built up their own businesses over a number of years, are very reluctant to let go and to prepare the transfer of their business. The transfer of know-how and skills takes place very late, if at all. There are many invisible, “soft” or emotional problems that play a major role in successions, especially where family enterprises are concerned: owner-manager being too busy running and controlling the enterprise, owner-managers fears of losing a central role in the family, owner-managers different excuses which are more or less connected to feelings of rivalry and jealousy toward potential successors, and owner-manager very often associates retirement with his or her own mortality;

- **The complexity of the process**. Business succession is a very long (from 5 to 10 years) and a complex process. Because this process mostly happens once in a lifetime, owners-managers have no or just a limited amount of experience and knowledge of how to handle this situation. In addition, owners-managers very often do not know who to contact for the help or where to find information;
- **Legislation**. Business succession could also be a problematic process due to the national legislation, in particular company law, taxation, and administrative formalities. Examples of problems of this kind include high inheritance and gift taxes, business transfer taxation and paperwork related to third parties, or problems preventing the change of the legal form of a business when preparations are being made for transfers;
- **Transfer of knowledge**. The fourth set of problems is based on understanding that entrepreneurship consists of many complex activities in which a lot of tacit knowledge is present that cannot be easily transferred from one generation to another. There are many deeply ingrained routines and experiential knowledge that makes the company successful and can be acquired only by learning by doing in which younger family members work together with elders adopting their experiential knowledge and skills. Family culture is an important constituent of tacit knowledge.[37]

3.3. Issues related to successor

A business successor is another important factor for successful business transfer. Challenges and problems involved in transfers or takeovers do not end with the formal business transfer, but also extend into the period after the transfer. Due to the political and historical situation in most European countries, many of today's company owners were born in the so-called baby boomer decades of the 1950s and 1960s. Nowadays they are or soon will be, in the retirement age. Based on this fact, Europe will have a huge demand for successors of family businesses within the next years. As the job of a company owner has become more demanding and challenging, it requires a variety of competencies and skills which are grown over the years and through practice. A smooth leadership transfer will never take place unless there is an interested and well-prepared successor. Developing individuals into effective successors depends on their education, attitude preparation, involvement in the family business, gaining work experience outside the family business, and other things. The family businesses have different approaches to the process of leadership transfer and to the preparation of business successors, depending on whether they focus on family values or on business interests. In cases where the family harmony is a priority, the transfer of leadership is based solely on the principle of seniority, not on the competences and achievements, whereas in case the interest of the business is raised as a priority, the company and its management have aspirations for recruiting the best candidates for the manager positions – no matter whether they are members of the family or not. Important criteria for choosing a successor are leadership qualities, the skills for making decisions in situations of uncertainty and insufficient information provision, assuming responsibility and calculating risk, making decisions under stress, the ability to set priorities, communication and negotiation skills, etc.

[37] Mojca Duh, "Family Business: The Extensiveness of Succession Problems and Possible Solutions."

Overall, the importance of business successors is clear, however, some family businesses might find it difficult to find the right person, because of these reasons:

- **Lack of competences**. Younger generations have a variety of skills and traits which are more common among them. They are more active regarding innovation, development of new products, the search of new partners or markets, they know more foreign languages and have a modern understanding of how business should be run. However, they might lack a lot of practical knowledge, which can be acquired only through practice: how to manage risks; how to act in stressful, unforeseen circumstances; how to negotiate and communicate with partners or employees;
- **Successor doesn't want to take over the business.** The creation of something new, instead of taking over is seen as a more attractive option. According to the survey in 2004, 53% of respondents would prefer to create their own company and only 29% said, that they would like to take over existing business.[38] We can make an assumption, that due to the spread of start-ups culture, especially among younger people, now these numbers could be even higher. Also, some of the family businesses might operate in the fields, which have low growth potential or are declining. With this in mind, young people might not want to risk and instead choose other spheres. Cultural aspects also can influence potential successors: certain types of businesses lose a positive image in society; some of them are established in smaller cities or towns which are declining;
- **Too many internal successors.** It is slightly less common, but a problem nonetheless. Sometimes there can be more than one equally suitable potential successor. They can have a different set of competencies and personal features which makes decision even more difficult. The decision for the owner-manager can be very emotional, while on the other hand, there also can be some hostility between potential candidates understanding this situation. All in all, it makes succession difficult and in the long run it can negatively influence the business;
- **Disagreements between family members.** There are multiple family members involved in the business and more than one believes they are a candidate**.** Alternatively, other family (or non-family) members may not be aware of the succession plan or are not happy with the choice. This will create either a power struggle or a power vacuum, both detrimental to the business. In both cases, the smoother the transition, the less stress it puts on the company and its employees;
- **The decision to sell the business to a third party.** The decision to sell the company to a third party can be considered a multidimensional. Family business experts are of the opinion that the main characteristic of family business differentiating them from the non-family business is that they are run and managed without the intention to sell it. Business transfer to the next generation of the family members is a priority, however, in some cases, there is no competent or appropriate person who could take it over. Even though family businesses have specific values related to family and continuity, dilemma between these two options can arise and it is very difficult for owner-manager to make a decision.[39]

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[38] Europos Komisija, "Paprastesnė verslo perdavimo tvarka." 2013.
[39] Ibid,

3.4. Preparation of the firm to be transferred

Business succession is a process that involves not only business owner-manager, potential successor, but also the whole business structure (various level managers, non-managerial employees. These people will have a continued impact during the planning of succession after this plan will be prepared, implemented, and completed. The goals, expectations, and concerns of these groups should be considered especially if business continuation is important to the owner. Involvement in the process will help to maintain the relationships necessary to continue a successful business. Management succession will tend to be of greater concern to managers. However, any sincere ideas, concerns, and suggestions should not be ignored in the ownership succession process. Sometimes, management and ownership succession have to be worked out simultaneously. For example, when the next generation of the family is not fully prepared for the job and will need to be trained by top management, those managers will become even more important. At this time, it is important to keep them loyal to the company and encourage them to train the family successor. Besides the transfer of management, ownership transition is also an important element, however, it is usually a very unstable time. During this period, employees are tempted to join more stable companies. This is especially true if they do not have hopes that they will be rewarded for sticking with the company or if they know, that together with the new owner-manager, new changes to the business structure, values, or wages are incoming. If employees are involved in the processes of business succession as much as possible, the temptation to leave will be reduced and business structure most likely will be saved.[40]

In case the company has shareholders, who are not family members, input, advice, and concerns of these people also need to be considered. In the time of business succession, it is especially important to ensure that these people are aware of how the changes may impact them. Communication could be done in a variety of forms but should be approached carefully, as the possibility of shareholders disputes can become a serious problem. Stakeholders usually want to maximize the value of his/her stocks. However, they also should keep in mind that conflict of interests can build mistrust and spoil good succession planning. Competent legal counsel can help manage these communications and relationships. The issue of fiduciary responsibility is a serious one as the majority shareholder prepares to cash out. Of course, the main shareholders want to maximize the value of their stocks. However, the main shareholders should keep in mind that conflict of interest can build mistrust and spoil an otherwise collegial environment and a good succession plan. Family members, managers, and owners may have goals and concerns that conflict. The conflict can be more complex when these groups overlap. A family member who is also an employee and owner may struggle to sort out his or her own feelings and expectations. Open communication and a commitment to the process of planning is the key to maintain these relationships throughout the process. If all participants know the direction and timeline of the process, they can participate in what they perceive as a level playing field.[41]

[40] Ibid,
[41] Ibid,

4. Legal regulations regarding business succession

According to the Expert Group on the Transfer of SMEs[42], a **business transfer** is considered as a *transfer of ownership of an enterprise to another person or enterprise that assures the continuous existence and commercial activity of the enterprise.* This can take place within the family, through management buy-outs (sales to non-family management/employees) and sales to outside persons or existing companies, including take-overs and mergers.

A **family business transfer** must be considered as a *transfer of ownership, where that ownership is not a liquid asset but something which is built up and developed by the family over generations, including values, traditions and know how.*[43]

However, the concept of **succession** is clearly defined in the European Union law. In the Regulation (EU) No 650/2012 of the European Parliament and of the Council of 4 July 2012 *on jurisdiction, applicable law, recognition and enforcement of decisions and acceptance and enforcement of authentic instruments in matters of succession and on the creation of a European Certificate of Succession* (Regulation 650/2012) it is stated that the succession means "succession to the estate of a deceased person and covers all forms of transfer of assets, rights and obligations by reason of death, whether by way of a voluntary transfer under a disposition of property upon death or a transfer through intestate succession".

4.1. Legal regulations in the European Union

The regulation of business transfer can be characterized as a quite intricate part of the EU labor law. The most recent foundational document on the regulation of business transfer in the EU is the Council Directive 2001/23/EC of 12 March 2001 on the approximation of the laws of the Member States relating to the safeguarding *of employees' rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses* (Directive 2001/23/EC). Based on the Directive 2001/23/EC it can be noted that the concept of business transfer incorporates several different questions which can be divided into two groups: firstly, issues associated to the identification of the business transfer and secondly, issues related to the consequences of such identification - the application of guarantees to employees, their scope.[44] Even though the Directive 2001/23/EC is addressed to the rights and protection of workers under the circumstances of business transfer, the legislation provides practical descriptions of business transfer which are widely used in court applications among the Member States.

This Directive 2001/23/EC applies *to any transfer of an undertaking, business, or part of an undertaking or business to another employer as a result of a legal transfer or merger.* The Court of Justice of the European Union has taken the view that a legal transfer must be understood

[42] European Commission, "Final Report on the Expert Group on the Transfer of Small and Medium-Sized Entreprises." 2002. <http://ec.europa.eu/DocsRoom/documents/2158/attachments/1/translations/en/renditions/pdf>
[43] Eur-Lex, "Document 52012DC0795." < https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52012DC0795>
[44] Eglė Tamošiūnaitė-Samaitirnė, "Verslo perdavimo samprata pagal direktyvą 2001/23/EB." 2018. < http://talpykla.elaba.lt/elaba-fedora/objects/elaba:29810877/datastreams/MAIN/content>

broadly, without linking it to the transfer of ownership or to the specific requirements for the legal formalization of the transfer.[45]

On EU policy level, business transfer falls under the Internal Market, Industry, Entrepreneurship and SMEs area in which the EU has shared competencies and in the case of business transfer, the EU efforts are rather a recommendatory type than policy shaping.

The area of business transfers has been specifically addressed in:

- Small Business Act (SBA);
- Review of the SBA for Europe of 2011;
- Commission Communication of 2006 Implementing the Lisbon Community Program for Growth and Jobs: Transfer of Businesses - Continuity through a new beginning.

In SBA Member States are encouraged to give the same support for transfer of business as setting up a new business. Recognition of the special role of SMEs and in particular family-based enterprises, their typically local base, socially responsible attitudes and capacity to combine tradition with innovation, underpins the importance of simplifying the transfer of businesses and the skills associated with them.[46]

In the Review of the SBA for Europe of 2011 and Commission's Communication of 2006, any specific actions from the Commission on the improvement of business transfers in the EU are not stated, except its attempts to disseminate good practices and investigate the peculiarities of business transfer. Consequently, the Commission has acknowledged the importance of business transfer together with family business in Communication on Entrepreneurship 2020 Action plan based on which it later developed the guidelines on the most effective programmes and best practices to make business transfers easier.[47]

The most responsibility to shape favourable policies for business transfer is being shifted towards the Member States what seems to be quite adequate, having in mind the limits of the Commission's competences.

The question of succession regulation is also strongly defined by the national laws. However, the EU is taking an active role in regulating cross-border successions by the Regulation 650/2012. The regulation facilitates the acknowledgment of the succession among Member States (excluding Ireland and Denmark) by creating a European certificate of succession. This certificate enables heirs, legatees, executors of wills and administrators of the estate to prove their status and exercise their rights in other EU countries.[48] Nevertheless, national laws are still ruling the

[45] Julian Titze, "Service Provision Changes – Lessons for the Continent?" 2015. <https://www.researchgate.net/publication/314489048_Service_Provision_Changes_-_Lessons_for_the_Continent>

[46] Eur-Lex, "Document 52008DC0394." < https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52008DC0394>

[47] Eur-Lex, "Document 52012DC0795." <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52012DC0795&from=LT>

[48] European Commission, "Successions and wills: EU rules on international succession." < https://ec.europa.eu/info/policies/justice-and-fundamental-rights/civil-justice/family-law/successions-and-wills_en>

main aspects of the succession - who inherits and what share of the estate goes to children and spouse. Also, national laws on property and family, together with taxes on succession assets are essential part business succession regulation.

4.2. Regulation of business succession in Lithuania

The existing Lithuanian legislation does not cover **the definition of business transfer**, so the concept was being investigated by the Lithuanian judicial panel. Based on law practice, it was stated that" The term "transfer" used by the legislator is general, in civil law means the transfer of the right of ownership to another person, as well as one of the ways to exercise the owner's right of disposal both for remuneration and free of charge. The right of transfer can be exercised through various types of transactions: purchase-sale agreements, gifts, exchanges, etc."[49]

Lithuanian Civil code regulates the transfer of an enterprise which is one of a few defined types of business transfer. However, the transfer of an enterprise cannot be an absolute identification of a business transfer as the latter is considered to have a wider approach, including non-material property, business relations or other intangible assets.

Article 6.407. Transfer of the Enterprise

1. The seller shall transfer the enterprise to the buyer under the deed of transfer-acceptance. The deed shall contain information relating to the enterprise and its assets, the condition of its assets, obligations of the parties to the creditors of the enterprise and the performance thereof.
2. Unless the contract provides otherwise, the seller shall be bound to prepare the enterprise for sale and draw up the deed of transfer-acceptance at his own expense.
3. The enterprise shall be deemed transferred to the buyer from the moment the deed of transfer-acceptance is signed by both parties.
4. The risk of accidental perishing of or damage to the assets of the enterprise shall pass to the buyer from the moment of signing of the deed of transfer-acceptance of the enterprise.
5. Where the contract provides that the seller shall retain the right of ownership to the enterprise until the buyer pays the full amount of the price or until he/it fulfils other conditions, the buyer shall be entitled to use the assets of the enterprise and the incidental rights to the extent and in the manner that is required for the purpose for which the enterprise was acquired.

Source: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.245495

The regulation of business transfer in Lithuania is directly set by the provisions transposed from the Directive 2001/23/EC. The peculiarities of business transfer aftereffects are laid down in Labour Code.

[49] "Teisės gidas", < http://www.teisesgidas.lt/modules/paieska/lat.php?id=25689>

Article 51. Continuity of Employment Relations in the Event of Reorganisation, Restructuring or Transfer of the Employer's Business or Part Thereof

1. Changes in the composition of the employer's participants, a change in the employer's subordination, participant or name, or the employer's restructuring, merger, division, distribution or take-over by another enterprise, institution or organisation shall not change the terms of employment for the employer's employees and may not serve as a legitimate reason for the termination of employment relations.

2. If, on the basis of a transaction, legal act or several transactions or legal acts, a business or part thereof is transferred from one employer (hereinafter 'the business transferor') to another entity (hereinafter 'the business transferee'), the employment relations with the employees of said business or part thereof shall automatically be transferred to the latter. The business transferee shall acquire the rights and obligations of the business transferor, as an employer, that exist at the moment of transfer. If these rights and obligations are established in collective agreements, the rights and obligations must be applied for two years after transfer of the business or part thereof, except for cases when said collective agreements expire or when these conditions are established for the employees by a newly concluded collective agreement that is applicable to the business transferee.

3. The employment relations transferred from the business transferor to the business transferee shall continue on the same terms at the business transferee's enterprise, institution or organisation, irrespective of the legal basis for transfer of the business or part thereof. It shall be prohibited to change the terms of employment or terminate an employment contract due to the transfer of a business or part thereof. When employment relations are transferred to the business transferee, said may only terminate them on general grounds unrelated to the transfer of the business or part thereof.

4. The business transferor must give advance written notice to an employee about the impending transfer of the business or part thereof at least 10 working days before the transfer, indicating the legal basis and date of the transfer of the business or part thereof, as well as the economic and social consequences of such a transfer for the employee and the measures taken. If, within five working days of receipt of the notice, the employee does not agree in writing to the continuity of employment relations, the business transferor shall terminate the employment contract with the employee on the initiative of the employer without any fault on the part of the employee in accordance with the procedure established in Article 57 of this Code.

Article 208. Information and Consultations in the Case of Transfer of a Business or Part Thereof

1. Before taking a decision on the reorganisation of an enterprise, the transfer of a business or part thereof, or other decisions that could fundamentally impact the organisation of work at the enterprise and the legal status of the employees, the employer must inform and hold consultations with the work councils about the reasons for the decision and the legal, economic and social consequences for the employees, as well as the measures planned to avoid or mitigate potential consequences.

2. At least five working days before the beginning of the planned consultation, the employer must provide the work councils with written information on:

1) the date of transfer or the proposed date of transfer;

2) the legal basis for the transfer;

3) the legal, economic and social consequences of the transfer for the employees;

4) measures planned for the employees.

3. When an enterprise does not have a work council or an employee trustee implementing the functions thereof, the employer must provide the information referred to in paragraph 2 of this Article, within the time limits established therein, to the employer-level trade union as well as to the employees, either directly or at a general meeting of the employees of the employer. The trade union shall be entitled to express its opinion to the employer concerning the employer's upcoming decisions.

4. On the basis of the information provided, consultations shall be held with the work councils with the aim of agreeing on what methods and measures can be used to avoid or mitigate the negative legal, economic and social consequences of the transfer of the business or part thereof for the employees. Consultations must be aimed at coming to an arrangement between the employer and employee representatives. The employer-level trade union must be informed by the work council about the course of consultations and shall be entitled to express its opinion to the work council and the employer.

Source: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/da9eea30a61211e8aa33fe8f0fea665f?jfwid=-k3id7tf7e

The Republic of Lithuania Law on Companies is among other legislation that regulates business transfer. The law sets necessary provisions for public or private limited liability companies regulating the *disposal of shares*.[50]

The regulation on **family business transfers** is rather succinct in Lithuanian law. First of all, the status of a "family business" is not defined legally. The closest legal description of a family business is set in the Civil Code under articles that regulate the legal regime of matrimonial property (Articles 3.88, 3.89, 3.91, 3.92, 3.93, 3.96). The Civil Code defines family business as an individual enterprise that has been established during the marriage. Further explanation follows *although the company is registered in the name of one of the spouses, according to Article 3.88 (1) (4) of the CC, "property acquired by the spouses after the marriage is their joint property", therefore it is a family business.* The Lithuanian Supreme Court (decision of 4th June 2007) stated that if an enterprise was established during the marriage period, it is by its nature a family business (i.e., the joint property of the spouses is used for the business establishment and development, as well as the physical and intellectual work of the spouses, and business revenues are used for the needs of the family) unless regulated otherwise (e.g., in a marriage contract). This, in turn, also results in joint obligations of both spouses for the company and the mutual right to participate in management and control.

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[50] LR Seimas, "Lietuvos akcinių bendrovių įstatymas." < https://e-seimas.lrs.lt/portal/legalActEditions/lt/TAD/TAIS.106080?faces-redirect=true>

The closest legal form of family business is the "small partnership" which was adopted for companies in 2012. This form of a business can be employed as a facilitating tool for micro-enterprises and family businesses among them, and the number of established "small partnerships" has been growing. However, at the current stage the proportion of family businesses among them cannot be determined. Not surprisingly, the awareness of the presence of family businesses as a specific business type is still vague.[51]

Overall, in terms of the transfer, family businesses do not manifest as having different regulations except the ones related to the joint marital property. The same legislation provisions apply to business entities despite their family governance-related peculiarities. Similarly, to the EU law, legal scholars are strongly referring to the practices of the Lithuanian Supreme Court cases in which various aspects of business transfer are being issued. It proves that the tradition of business transfer in Lithuania is comparatively recent, as there are no thoroughly established legal procedures on this subject.

The regulation on succession is set in Lithuanian Civil code. The inherited property is taxed by 5% (if taxable value of inherited property does not exceed EUR 150 000) or 10% (if taxable value of inherited property exceeds EUR 150 000). However, the Rules Governing the Calculation of Taxable Value of Inherited Property are quite advantageous for family business, as property inherited by children (adopted children), parents (adopted parents), guardians (carers), persons under guardianship (care), grandparents, grandchildren, brothers and sisters irrespective of the value of property is a subject of tax exemption. In case of death of a spouse — property inherited by surviving spouse irrespective of the value of property is also not taxed.

In Lithuanian Entrepreneurship Action Plan 2014–2020 it is clearly stated that there is no concise regulation on business transfer and the main obstacles for this kind of business continuation are:

- lack of information on business transfer possibilities, necessary preparatory works and transparent market for the transactions;
- regulatory burden.

In the same plan, the promotion of business transfer is attributed under the objective *to create a favourable environment for business creation and its development*. The main areas of activities include the dissemination of good practises on business transfer, and especially practices related to the application of financial measures, together with the creation of transparent market for business transfer.[52]

At the moment, consultation on business transfer are carried out by the public body Enterprise Lithuania which is implementing measure "Entrepreneurship LT". The measure aims to increase the level of entrepreneurship by providing high-quality consultancy services for small and medium-sized enterprises of the target groups (young people, women, the disabled, the elderly, emigrants, family businesses) operating under 5 years. The consultations also include business

[51] Stangej, Skudienė,

[52] LR Seimas, "Dėl Lietuvos verslumo veiksmų 2014 – 2020 metų plano patvirtinimo." <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/311ec59075b811e4b615a833d6e7da3d/wiPOrZtDum>

development topics as social business, second chance or business transfer. However, there is no information on how those services are applied.

Family business is able to use a variety of financial measures attributed to the priority of *promoting the competitiveness of small and medium-sized business.*[53] However, the measures are aimed at the development of the SMEs business and they do not have a direct support schemes for business transfer.

4.3. Regulation of business succession in Poland

On 25 November 2018, the Act on Succession Management of a Natural Person's Enterprise entered into force (Journal of Laws 2018, item 1629).[54]

This is the first single legal act in the history of Polish legislation regulating succession in family business. The act regulates the rules of temporary management of an enterprise after the death of an entrepreneur who has carried out business activity on his own behalf on the basis of an entry in the Central Register and Information on Business Activity, hereinafter referred to as "CEIDG", and the continuation of business activity carried out using this enterprise.

With this law, an entrepreneur can appoint a succession manager. It is sufficient to appoint a trustee in writing and his written consent and notification of the trustee to CEIDG by the owner of the company. The manager can become a proxy, involved in the management of the enterprise while the entrepreneur is still alive.

Thanks to the so-called "emergency mechanism", within 2 months after the death of the owner, the succession manager can also be appointed by the heirs or spouse of the entrepreneur who is a co-owner of the company. In this case, however, a visit to a notary is necessary.

A succession administrator will temporarily run the company after the death of the entrepreneur - for the benefit of his successors, e.g. heirs or spouse.

The new law also facilitates the settlement of taxes and exempts the person acquiring the business from inheritance tax. The tax exemption will cover heirs unrelated to the deceased entrepreneur who will run the business for 2 years; this solution addresses the problem of the lack of a successor in the immediate family circle. The closest relatives will continue to be exempt from tax without any additional conditions other than declaring the inheritance to the tax office.

The Succession Manager will enter the business smoothly after the owner's death and will manage it until the succession formalities are completed and the heirs decide on the future fate of the business. The new regulations will allow for the maintenance of civil-law contracts and employment contracts, which are crucial for the company's operations. Thanks to this, the situation of employees will be more stable.

The same applies to permits, licenses, concessions or permissions, which may be executed by a succession manager and ultimately transferred to the legal successor of the entrepreneur. Finally,

[53] “Patvirtintos priemonės”, <https://www.esinvesticijos.lt/lt//finansavimas/patvirtintos_priemones/listingItem_byPriority>

[54] <http://prawo.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU2018000162>

the succession manager will be able to use the tax identification number (NIP) of the deceased entrepreneur and use the company account.

The succession manager may last for a maximum of two years from the date of the owner's death. This is the time to deal with inheritance formalities and to decide whether, and if so in what legal form, the company will continue to operate. In exceptional cases the court may extend this time to 5 years. As a rule, the succession board will expire at the moment of distribution of the assets left by the deceased entrepreneur to the heirs.

Although the law has introduced significant facilitations, planning the process of comprehensive business succession in Poland still requires the use of many different regulations, among others: Act from 14 June 1960 – Administrative Process Law; Act from 23 April 1964 – Civil Law; Act from 17 November 1964 – Civil Process Law; Act from 26 June 1974 – Labour Law; Act from 14 February 1991 – Notary Law; Act from 26 July 1991 – Income Tax from the Individuals; Act from 15 February 1992 – Income Tax from Legal Entities; Act from 13 October 1995 – Evidence Rules and Identification of Taxpayers; Act from 29 August 1997 – Banking Law; Act from 13 October 1998 – Insurance System Law; Act from 9 September 2000 – Civil Activities Law; Act from 15 September 2000 – Trading Law.

4.4. Regulation of business succession in Greece

In Greek Company Law (Law 2941/2001) however there is no definition of “family business”. There is no institutional actor relating exclusively to Greek family businesses, and little research, policy, education, organization, and training for family firms in Greece, much less specifically for succession and transfer issues.

Most of family businesses are small enterprises and very often the terms SME and family business are used interchangeably. Since there is no official definition, family businesses take many legal forms, ranging from sole traders to private companies, depending on the number of employees.

As terms of “family business” and “SME” are used as a common unit, only little support is given by the government for the sector of family business and there is no such institutional actor responsible for issues of concern for these firms. It is proved that Greek family business owners seem to be dissatisfied by the non-existent recognition of their business importance for the national economy.

However, the Greek Investment Incentives Law for the period 2007-2013 (Law 3522/2006, Article 37, Government Gazette 276 A’, December 22, 2006) is placing particular emphasis on regional convergence and on the provision of important financial incentives for new investment projects, especially for small and medium sized enterprises. Such incentives, in the form of investment grants may cover up to 60% of small firms’ investment. Concerning the awareness about the heterogeneity among the family business sector and a “typology” of family businesses, there are not significant data. Although updated, Greece’s more recent Investment Incentives Law (3908/2011), still provides no specific data about family businesses (Athens Chamber of Commerce & Industry, 2017).

With regards to business transfer, Greece has a transfer tax that is defined in the Income Tax Code (L.4172/2013). The tax is applied to any income equal to the added value deriving from a transfer of property, and it is subject to the 15% capital gains tax.[55] Also, Doing Business in Greece 2019 analysis shows that the country made registering property more burdensome by requiring a property tax certificate for registering a property transfer. Nevertheless, once again it is important to highlight that property is consider to be only a part of business, and the transfer of business covers more crucial factors, such as liabilities, risks, rights, etc.

4.5. Regulation of business succession in Spain

There is no legal definition for family business in the country, and nearly two-thirds of family businesses believe that policymakers do not fully understand their needs. The existing understanding of family business in Spain is based on a European definition.

Spanish regulation of business transfer and succession can be investigated in the light of Regulation 605/2012. As the latter legislation aims to reach the harmonization of the conflict resolution, the conflict system provided in Spanish Civil Code does not repeal. It applies to successions before August 17, 2015, as well as conflicts that may arise due to the coexistence in the national territory of different legislative systems.

The fiduciary institutions, in no way foreign to Spanish law, take a unique role in planning the transfer of the company, to keep the family heritage grouped and its link for several generations to a predefined group. However, they do not have the versatility of the Anglo-Saxon trust, unknown by Spanish right. Regulation 605/2012 does not regulate this, but does not exclude having this intuition duly constituted by the law of the country with which it has closer ties objectively, without prejudice to the national imperative norms that protect the legitimate one, where it is recognized, and that may eventually be applicable.

Planning the succession of the family business in which there are cross-border elements requires analysing the different legal regimes called to regulate the succession issue. The possibility of choosing successors allows more accurate family planning. Insofar as the testators will be able to designate the law of a country with which they find themselves more socially and culturally linked or that offers them a succession system adapted to the particular circumstances of your case or your will, the supreme law of succession.

However, Spanish tax system is quite favourable for the succession of family business. The Wealth Tax and the Inheritance and Gift Tax have advantageous provisions for family business. Article 4 of Law 19/1991, of June 9, on the Wealth Tax contains a series of exemptions that benefit family businesses in their various aspects. In addition, at the time of regulating the tax benefits of family businesses in the Inheritance and Gift Tax, the law refers to the advantages introduced in article 4 of the Wealth Tax Law. This legal norm has been developed by Royal Decree 1704/1999, of November 5.[56]

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[55] ”Doing Business 2020: Economy Profile of Greece”, <https://www.doingbusiness.org/content/dam/doingBusiness/country/g/greece/GRC.pdf>

[56] “La empresa familiar. Realidad juridico-economica y tratamiento fiscal.” <https://www.lawandtrends.com/noticias/mercantil/la-empresa-familiar-realidad-juridico-economica-y-tratamiento-fiscal-1.html>

For example, Article 4 of Law 19/1991 in section eight establishes that "the assets and rights of natural persons necessary for the development of their business or professional activity shall be exempt, provided that it is carried out regularly, personally and directly by the taxable person and constitutes their main source of income". Nevertheless, having in mind the importance of family business in Spain, there is a lack of other support measures that would facilitate the transfer and continuation of family business in the future.

5. Business succession facilitation good practices

As business succession has an important role for the economic and social development, governments and various policy implementation agencies around the Europe are working to facilitate this process. In this chapter, three good practices will be introduced.

5.1. Assist for business succession in Finland

Business transfer in the Netherlands was considered one of the most critical phases for the continuity of the enterprises. In practice, at least 10% of business closures were caused because of improper preparation of business transfer. In addition, population in Netherlands was aging rapidly and it also made this issue more important. As a result, in 2004, the Ministry of Economic Affairs in Netherlands presented the toolkit for business transfer. The name of the toolkit for business transfer is "*Overdrachtspakket*" (Transfer package). Package was downloadable for free from the website of the Chamber of Commerce and it was free of charge. Transfer package was developed by the Ministry of Economic Affairs, MKB Netherlands (SME association), VNO-ENW (employer organization) and the Chamber of Commerce (public organization).

The transfer package is an information document that addresses questions like:

- Which steps does one have to take for a business transfer?;
- Which requirements have to be fulfilled for a business transfer?;
- With which legal and fiscal aspects does one have to deal with then transferring a business?;
- Which advisors can help?

The information document also includes some useful internet addresses. With reference to advisors for example, the information document provided a list of possible advisors and also pointed at other services of the Chamber of Commerce, i.e., conversation with a specialist. The package has been set up in such a way that it is supposed to be read it in approximately 10 minutes. However, an evaluation of the transfer package showed that the time that is spent to read the transfer package was usually more than 10 minutes. Only 28 % of the entrepreneurs read it in less than 10 minutes and about 52 % read it in 10 - 30 minutes.

Everyone had access to the transfer package. The package was available to download for free from the website of the Chamber of Commerce. The Chamber of Commerce also sent these packages to entrepreneurs of 55 years and older, if they requested for it. In this case the entrepreneurs had to pay a small fee to cover the administrative costs. Toolkit for the first time was introduced in 2004, however, in 2008 it was updated. Decision was made to send a letter by the Ministry of Economic Affairs to entrepreneurs of 55 years and older to ask their attention for timely family business transfer. In this letter they were informed about the information package. During various events, attention was also to given to this transfer package. For example, during the theme day “Family business” the secretary-general paid attention in her speech to the transfer package. At the theme day“Business Transfer”, hard copy versions of the toolkit were available at the registration desk.

The impact of the transfer package on the number of business transfers is not clear. In any case a relatively large number of entrepreneurs has requested for the transfer package. In 2005, a letter was sent to 130,000 entrepreneurs of 55 years and older (with 0 – 20 employees) to ask their attention for timely business transfer and indicating that they could order an information package. In total 32,000 packages were sent to entrepreneurs. In 2006, again a letter was sent. About 25% of the entrepreneurs that received a letter showed interest in the transfer package. In the years that followed, the response also was about 25%.

In 2005, evaluation of the information package was performed. For this evaluation approximately 200 entrepreneurs that have requested the transfer package and have had a look at it were surveyed. Results of the evaluation show that the users of the transfer package valuate the package positively on content, completeness, comprehensibility and readability. About 30 % of the respondents indicated that they missed subjects in the transfer package. Almost half of these entrepreneurs mentioned a variety of subjects that were strongly related to their own specific situation. The answers that have been provided do not point to a specific subject that should be added to the transfer package. With regard to the increase in awareness, slightly more than half (53 %) of the entrepreneurs indicate that by reading the transfer package they have been become more aware of the necessity of a timely preparation for business transfer. About 63 % of the respondents indicate that due to the transfer package they now know more about business transfer. In approximately 40 % of the cases, the entrepreneurs indicate that they do need extra information and/or guidance. When asking in what way entrepreneurs prefer receiving this extra information, 78 % indicated that they preferred a one-on-one conversation with an advisor.[57]

5.2. Scoreboard instrument to prepare for succession in Belgium and Netherlands[58]

Succession is a complex process that is determined by many factors. The scorecard is a tool to make the business and its stakeholders more cautious about the success factors. The scorecard tries to envision as complete as possible view of the succession issues. Firstly, it brings factors to attention which the stakeholders may not have thought about. Secondly, the results provide useful information on the possible need for policy. The succession scorecard was launched in 2007 in Belgium and in 2008 introduced to the Netherlands.

[57] Irena Mandi, “Overview of Family Business Relevant Issues.” 2008. < https://www.familienunternehmen.de/media/public/pdf/projekte-veranstaltungen/expertengruppe-familienunternehmen/stiftung-familienunternehmen_expertengruppe-familienunternehmen_abschlussbericht.pdf>

[58] Ilse Matser, Jozef Lievens, “The Succession Scoreboard, A Tool to Assist Family Business’s Trans-Generational Continuity.” < http://www.ownershiptransfer2010.org/wp-content/uploads/2010/03/TransferofOwnership2010_IlseMatser.pdf>

How does the succession scorecard work? The scorecard website consists of three levels. First the home page, with an overview of the ten success factors. Second, a first explanation of the various success factors and thirdly a self-test, which allows the respondent to check how he or she scores on the success factors. The self-test can be filled in by the incumbent leader, the (candidate) successor, the family shareholder or other stakeholders of the firm.

In order to better prepare for the succession, 10 factors influencing business this process were identified. Related to these factors, 50 questions were made and were accessible through the web. By answering the questions true or false, the respondents received an instant feedback. The feedback was not an exact grade, but instead the individual respondent received an overview of the ten success factors divided in positive or negative outcomes. In general, the more factors are present, the greater is the chance that the succession will be successfully completed. These are the ten factors with the related questions:

1. **The transferor finds a new role**. One of the biggest obstacles related to business succession is transferors, who have difficulties in preparing and carrying out their own departure. The transferor really holds the key for a successful succession in his own hands, and if he proves obstructive, the succession process will take much more time and it will not go smoothly. Taking into account this problem, questioners included these questions related to this topic:

• The incumbent leader finds that the family business is professionally organized
• The incumbent leader has sufficient financial resources in reserve for after the succession
• The incumbent leader clearly knows what his activities will be after he has transferred the leadership of the family business
• The incumbent leader believes that the successor can lead the family business without him
• The incumbent leader has a positive attitude with regard to the succession

2. **A capable and well-motivated successor becomes new leader**. Central in the succession process is that the management of the family business ends up in the hands of a competent and well-motivated successor.

• An atmosphere of trust prevails within the family
• An atmosphere of respect for one another prevails within the family
• The communication within the family is good
• Conflicts are constructively resolved within the family
• I think that our family business has a good future

3. **The relationship between the transferor and the successor is good**. According to various researches, good relationship is a crucial success factor for a smooth succession. Components such as trust, support and feedback, learning from one another, fun and friendship are vital parts of it. Good relationships can be facilitated by the factors like self-confidence, mutual respect or positive attitude towards other.

•	The board of directors of the family business meets at least three times a month a year for two hours
•	In the board of directors of the family business there is at least one outside director (i.e. someone who is not a member of the family or of the personnel)
•	A written family charter was drawn up within the family
•	A family forum (or family council) exists within the family
•	The family members have the same vision about the future of our family business

4. **Good relations exist within the family**. Good family relations are perhaps the most important success factor for an optimal succession arrangement. A high degree of trust among the various family members is of vital importance for building up good family relations. This applies even more during the succession process, which is generally characterized by a climate of anxiety and uncertainty. Mutual respect, optimists about the future of family business, family harmony are among the other values and traits which are key to the successful transfer of business.

•	The successor is well-trained to be able to lead the family business
•	The successor deals well with people
•	The successor wants to become the leader of the family business
•	The successor respects the family members
•	The successor has a good vision of the strategy of the family business

5. **Governance of the company and of the family**. Succession is undoubtedly facilitated when the family and the family business score well in the field of governance. Along with the governance of the company itself, a family business must play attention to governance of the family or family governance.

•	The incumbent leader does not trust the successor
•	The incumbent leader often gives positive feedback to the successor
•	The incumbent leader and the successor can communicate well
•	The successor receives a great deal of support from the incumbent leader
•	There is mutual respect between the incumbent leader and the successor

6. **The successor forms a team with non-family members**. It is important to keep the eye on the ambitions and aspirations of non-family members working in a business. Conflicts among the successor and non-family employees can hamper the success of take over. Future successor must seek good relations with these employees and establish trust and respect which can prevent future conflicts.

•	Non-family managers are involved in the strategy of the family business
•	There is a good communication with non-family managers
•	Non-family managers enjoy the trust of the family
•	In the family business, non-family managers do not get opportunities which correspond to their abilities

- In our family business there is little respect for non-family managers

7. **All alternatives are throughout studied**. Before deciding about family succession, all alternatives should be weighed against one another. In general, there are four possibilities: family succession, selling, interim management, outside management. Different circumstances have to be evaluated and various elements have to be included when analysing these alternatives.

- One will definitely opt for family succession, even if there are no competent successors
- There is no other solution than succession by a family member
- The idea of selling the family business is taboo under all circumstances
- Our family business can only be led by family members
- Our family stands as a single block behind the successor(s)

8. **The family business is professionally run**. Professionally-led business will offer the transferor the security that it will continue well after his departure. For the successor too it is important to find a stable situation. Family business therefore must professionalise in the areas of administration, accounting, sales, marketing, IT, planning, budgeting, decision making and so on.

- Our family business has a mission and a vision which is set down on paper
- Our family business has a written business plan
- Our family business has a well elaborated human resources policy
- Our family business scores well in the area of organization and administration
- Our family business is financially sound

9. **The succession leads to a proper regulation of the ownership.** There are two types of transfer: management and ownership. Succession is only complete if the ownership is transferred.

- Non-active shareholders can help define the day-to-day policy of the family business
- All of the children will be treated equally in terms of ownership
- The succession-law consequences of the succession were studied
- Concrete agreements were made with regard to the proper role of the shareholders after the succession
- The shareholders can determine who can work in the family business

10. **The succession is methodologically approached.** Some studies have shown that a systematic approach is a major factor to implement successful succession. Succession plan is a vital tool for it, however only small part of the firms has prepared such a plan. What is more, even when the succession is getting closer, the level of planning remains low. Firms that have a written succession plan have a significantly smoother transition.

- There is a career plan for the successor

•	There is a training plan for the successor
•	The incumbent leader communicated on what date the leadership of the family business will be transferred
•	There exists an emergency plan in case the incumbent leader dies prematurely or becomes disabled
•	The succession has been studied from a legal and tax angle

5.3. Facilitating the transfer of SMEs by setting up matching and assistance systems for potential transferor and successor (Belgium)[59]

Succession of business is about a person or group of people who will take over the business. Depending on the definition of this process, these can be not only a family members or employees, but also people from outside the company.

The transfer of businesses was a real challenge for the Walloon economy in Belgium. In this context, the Walloon Government has included an action "Strengthening awareness-raising actions on the transfer of businesses". New policy measure was introduced and implemented by the organization of SOWACCESS. Two main policy goals were set:

- Raise the awareness of entrepreneurs, inform them about the most important aspects of the transfer and / or takeover and the importance of preparation, and provide professional support to the seller and the buyer during the transfer to ensure the continuity and development of the local economic sector;
- Establish contacts between potential buyers who have gone through pre-selection (based on their skills, experience and available assets) and sellers, assisted by professional consultants to help ensure greater transparency in the market.

The measure has succeeded in creating a network of business succession professionals that supports the SOWACCESS platform. Over four years, the networking platform has helped to establish 1,005 contacts between buyers and sellers, conclude 28 contracts, submit 102 partner offers, and meet the needs of 880 buyers.

Regarding the services SOWACCESS is providing, there are two types of support activities.

1. **How to sell business**

How to sell my business	Organization supports business in the transfer process, whether it is: • Intrafamily transfer; • Transfer to one or more employees; • Transfer to a third party. Organization helps business by: • Providing information and advice; • Analysing the needs of the company;

[59] “Sowaccess”, < http://www.sowaccess.be/fr>

	• Providing information regarding support measures; • Finding a potential successor of the company.
Business transfer test	Organization provides free of charge test. It is a test with 90 questions, which allows assessing the level of preparation of the company for the transfer.
Get advice	Experts of organization provides assistance on the various technical aspects related to business succession: financial, legal, tax, social, emotional.
How to find a buyer	If business owner plans to transfer the company to a third party, organization is able to help business find the buyer, depending on the situation. Organization uses a database platform, which helps to connect buyers with sellers.

2. **Take-over of business**

How to take over a business?	Organization support potential business owners: • An entrepreneur who takes over his first business; • A buyer who has already taken over several companies; • A buyer who pursues an external growth strategy. Provided support includes: • Information and advice; • An analysis of takeover project; • Networking; • Provide information regarding support measures; • Finding a business to take overt
Take-over test	Organization provides free of charge test which helps potential successor to evaluate his own preparation level for take-over.
Trainings & Clubs	Organization organizes trainings in taking over a business. It also informs about various initiatives to prepare for taking over a

	company. Topics covered include: business valuation, finance, legal aspects, negotiations, management and so on.
Get advice	Experts of organization provides assistance on the various technical aspects related to business succession: financial, legal, tax, social, emotional.
How to find a business to take-over	Organization helps to find a business which could be transferred by using its own database platform.
Funding	Organization provides the information and contacts regarding funding possibilities: banks, private investors, venture capital and so on.