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Report for the business succession issue in Greece

Elaboration:



HELLENIC REPUBLIC
Ministry of Developer
and Investments



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Analysis of the current situation in Greece

Although family businesses set the backbone of the Greek economy, these firms have not been under extended research so far, as other forms of companies seem to be more interesting for academics. It is a fact that there is not a single definition of family business, and they are usually combined with SMEs.

In Greece, the two terms are used interchangeably, under no specialized legal regulation which means that little support is given by the government for the sector of family business, as 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. The data show that the transferring process is a key issue for a family business, with 7 out of 10 owners planning to transfer the family firm to the next generation.

The first attempt of mapping 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

The survey explored in more depth the profile of the succession/transfer process in Greece, looking into aspects of gender, educational level, age, and most importantly relationship between transferors and successors, both for companies in the process, as well as after the transfer has been completed.

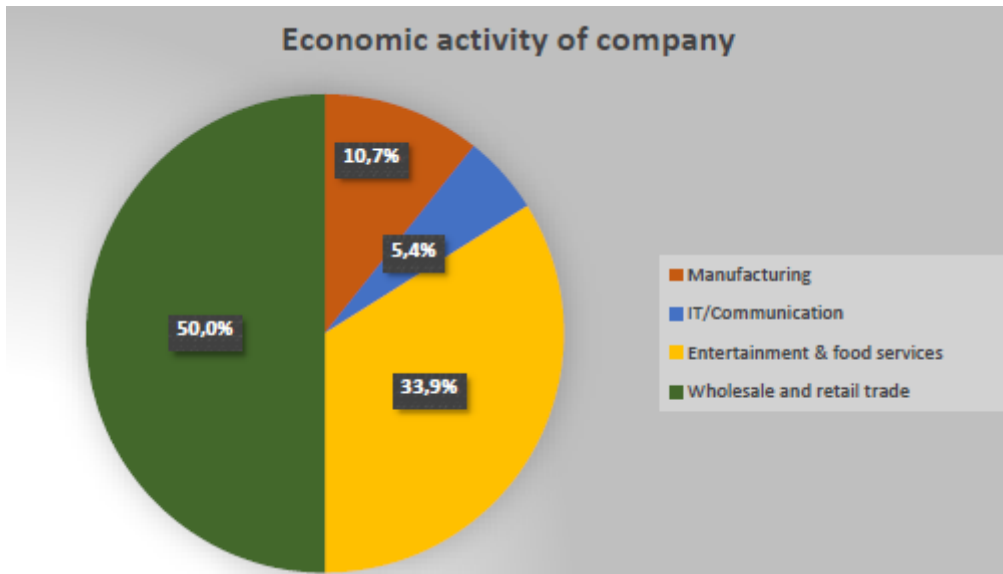
According Hellenic Organization of Small & Medium sized Enterprises (EOMMEX) – “Transfer and Succession in SMEs” (2011), almost 83% of the successors in Greek family businesses are family members, while 79% of the total transfers are parent-to-children transfers. In Greece, 7 out of 10 family business 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 a party. Also, 46% of successors take over their parents’ businesses with the vision to grow and support them to survive in the marketplace. Transfers are made when the owner of an enterprise reaches pension age; 6 out of 10 transferors are between the age of 55 and 64, while 2 out of 10 are even older first degree relatives (85%) are the preferred successors, while the transfer itself serves as a family strategy to secure employment for their children, in the most cases, sons (83% of successors)

As regards to the role of the transferor, 73% of the sample the owners leaves the business but continues to play an active role in its operation.

A more recent survey concerning succession conducted in 2018. The sample consisted of 150 people, 56 participants of which worked in small and medium family businesses in succession status and had knowledge and information about succession process (Triantafillidis, 2018). The most important findings are the following:

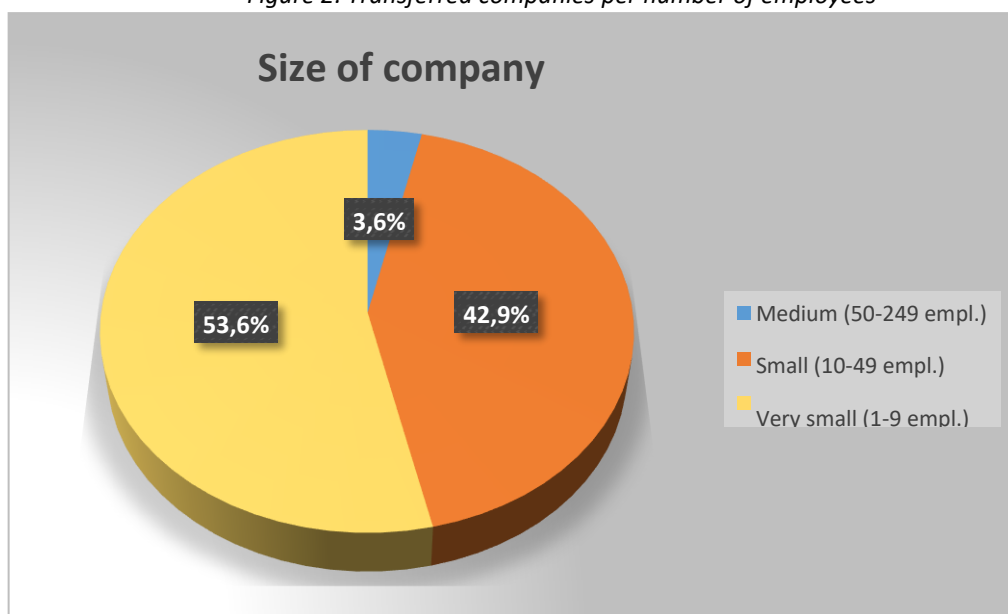
In regards to number of transferred companies per sector of activity (Figure 1), half of the surveyed companies come from the wholesale and retail trade economic activity sector, followed by entertainment and food service activities (33.9%), manufacturing (10.7%) and IT & communications activities (5.4%).

Figure 1: Number of companies per economic activity sector



In regards to the number of employees, the companies that participated in the survey mostly are micro as the number of employees is under 10 persons, 42.9% are small size with 10 to 50 employees, whereas 3.6% employ 50 to 249 persons (Figure 2).

Figure 2: Transferred companies per number of employees



In regards to the age of the transferors, 32 of the respondents (57.1%) are in the age of 61-70 years old and 13 (23.2%) are between the age of 51-60 years old (figure 3). As far as it concerns the age of the successors/transferees, 28 persons (of the respondents are between the age of 31-40 years old and 27 persons (7%) are between 21-30 years old (figure 4).

Figure 3: Age of the transferors

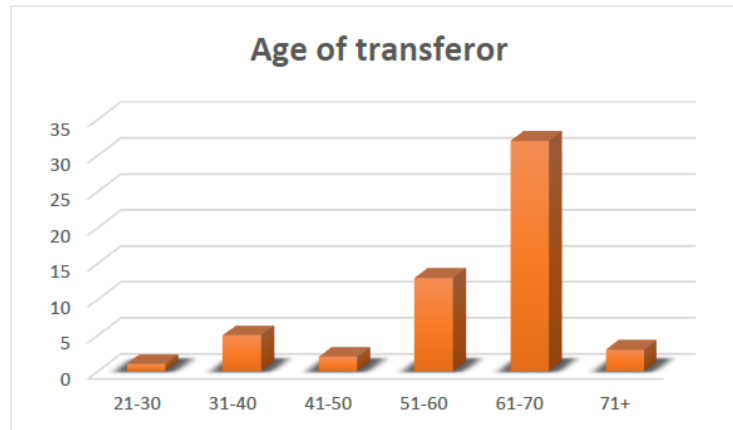
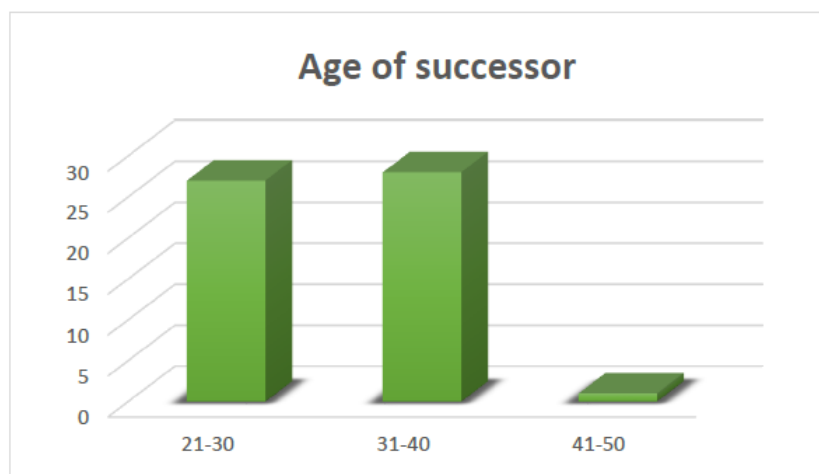


Figure 4: Age of successors/transferees

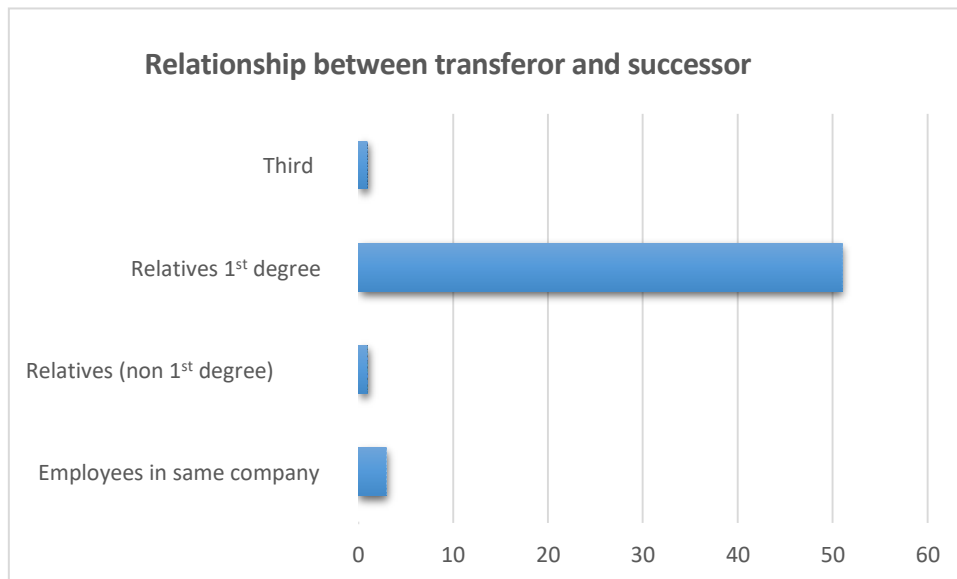


In relation to gender of the transferors and the successors/transferees, according to the sample of companies surveyed, in most of the cases both transferors and the successors/transferees are men (67.9%). In an attempt for combination the answers, the following results emerged:

- In 34 cases the succession concerns man to man.
- In 14 cases the succession takes place from woman to woman
- In 4 cases the succession concerns a man to a woman and similarly, in 4 cases the succession concerns a woman to a man.

As far as it concerns the relationship between the transferor and the successor/transferee, the findings are clear that the majority of the transferred companies (91.1%) have been transferred to a relative of first degree (e.g. children), 5.4% to employees of the same company and only 1.8% to third parties and to relatives except of first degree, accordingly (figure 5).

Figure 5: Relationship between the transferor and the successor/transferee



In regards to the role/position in company of the transferor after the succession, for the most of the companies the transferor has a simple or advisory role, followed by the cases with a supervisory role. Very few of the transferors remain in a supporting role or in the position of General Manager, shareholder or even employee.

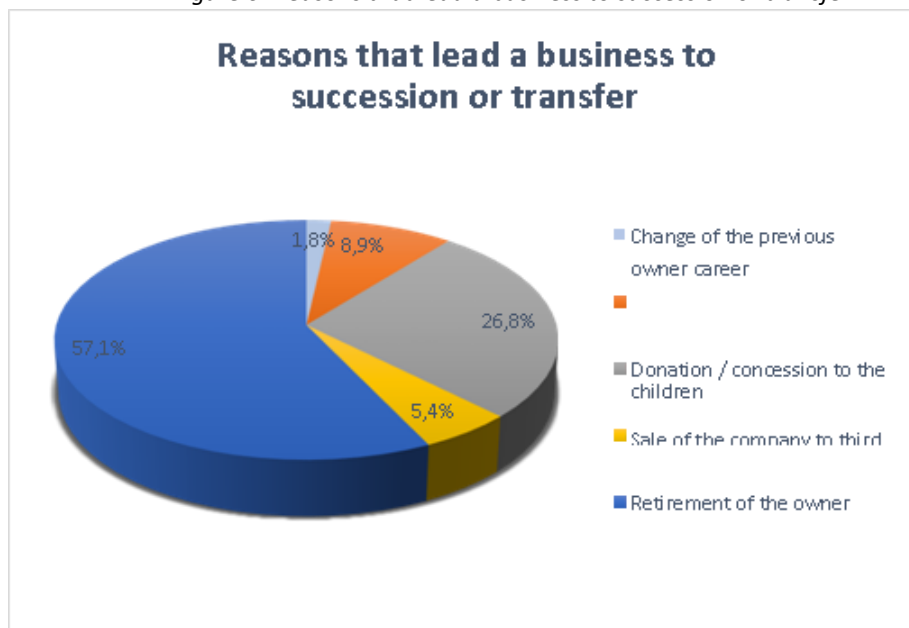
On the topic of the factors that can affect a succession and the problems that may delay and make it difficult to pass on to the next generation in a family business in Greece, the following are mentioned:

- Regarding the institutional framework, the aspects are shared with a slight advantage over the answers, which is quite important and very important. In other words, there is a feeling that for an important part of the respondents it is not a key element for a transfer - succession.
- Regarding the difficulty of staff to harmonize to new conditions after the succession, most of the respondents stated that it is a moderately important factor, while a considerable percentage considers it is not at all important.
- Also, the lack of incentives from the state is considered as a very important factor, while very few respondents stated that it is a less or no important factor.
- High costs for the succession process appear to be a moderately important factor, quite significant and very important, which does not allow to safe conclusions.

Other factors that affect the succession process are the legal form of the transferred companies as well as the economic problems of the activity sector or the economic crisis in the region where the company is. Also, the difficulty of finding a successor is considered as an important factor in almost half of the respondents. Respondents also mentioned that the size of the company affect the decision and the process of succession. Finally, the small involvement of the state through policies and measures is considered as a slightly important factor.

Regarding the reasons that lead a business to succession or transfer solution, it is obvious that in the most of the cases the owner has reached retirement age (57.1%). Another important reason is the existence of a donation / concession of the company to the children for their future professional rehabilitation (26.8%). In less of the cases (8.9%) it was mentioned that an unforeseen event occurred (e.g. financial crisis, bankruptcy, death, etc.). Finally, the sale of the company mentioned as a reason (5.4%) or the decision of the previous owner to change his career (1.8%) (Figure 6).

Figure 6: Reasons that lead a business to succession or transfer



Also it is worth-mentioned the findings of the **Family Business Survey 2018** that is a global market survey among key decision makers in family businesses within a number of PricewaterhouseCoopers key territories. The goal of the survey is to get an understanding of what family businesses are thinking on the key issues of the day. The profile of the sample is presented to the following figures 7-9.

Figure 7: Number of Generations

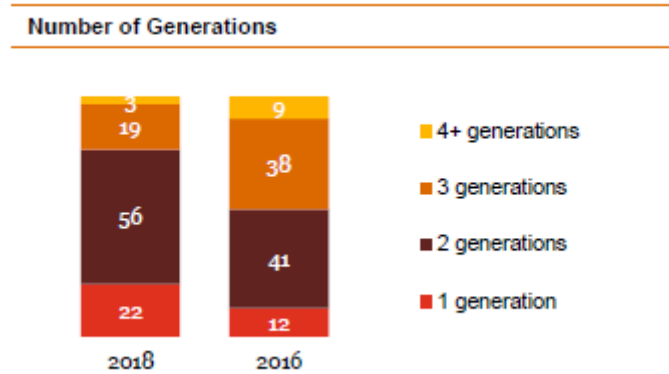


Figure 8: Number of companies per Sector (2018)

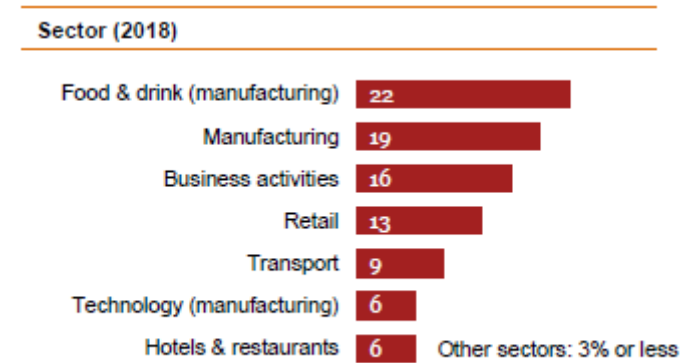
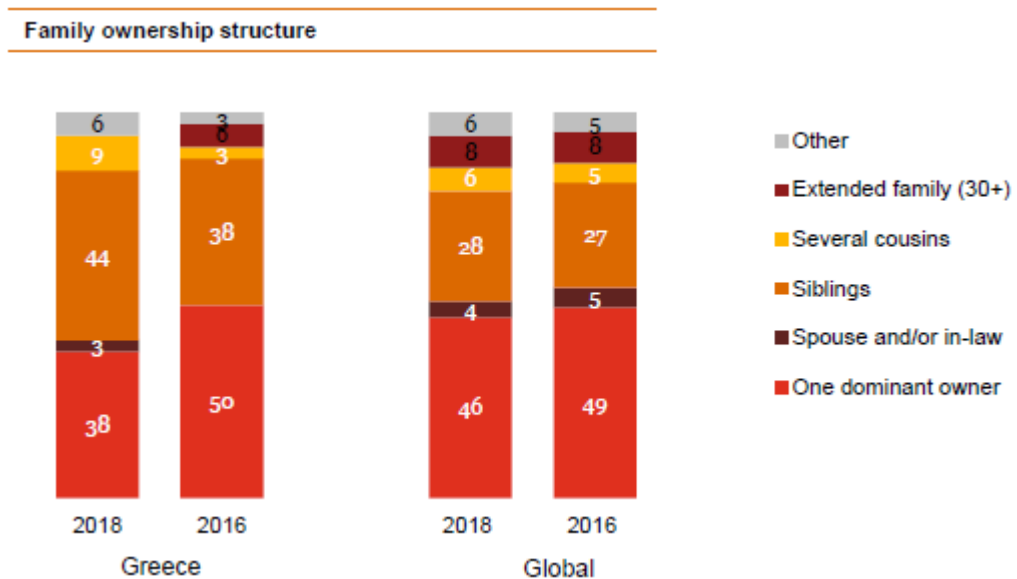


Figure 9: Family ownership structure



According to the Greece report, 41% of Greek family businesses spouses/partners are allowed to own shares or take up governance roles, while 31% of Greek family businesses allow spouses/partners to work in the business (Figure 10). 22% of next generation works in the business, even in not a senior role and 25% are not member of staff but are shareholders (Figure 11).

Figure 10: Family and spousal involvement in business

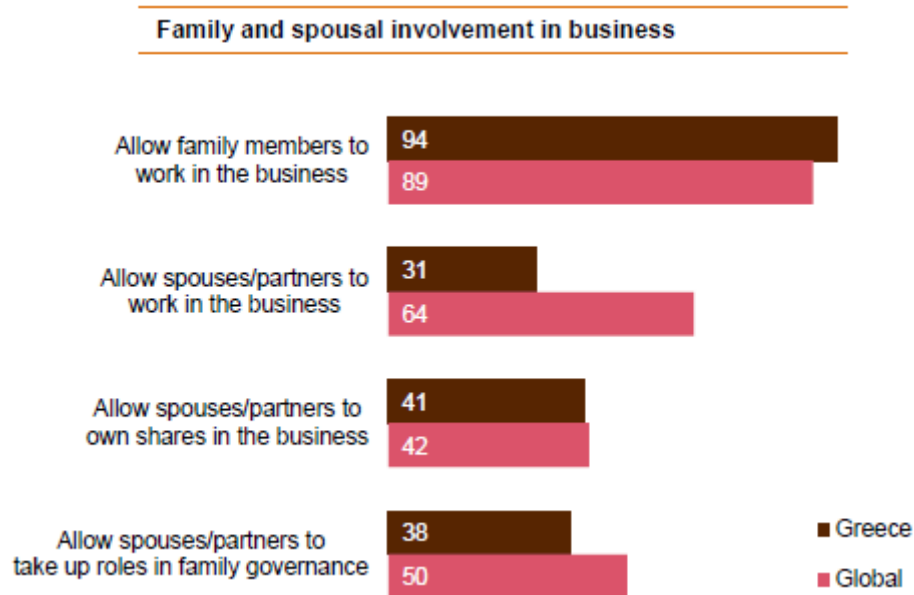
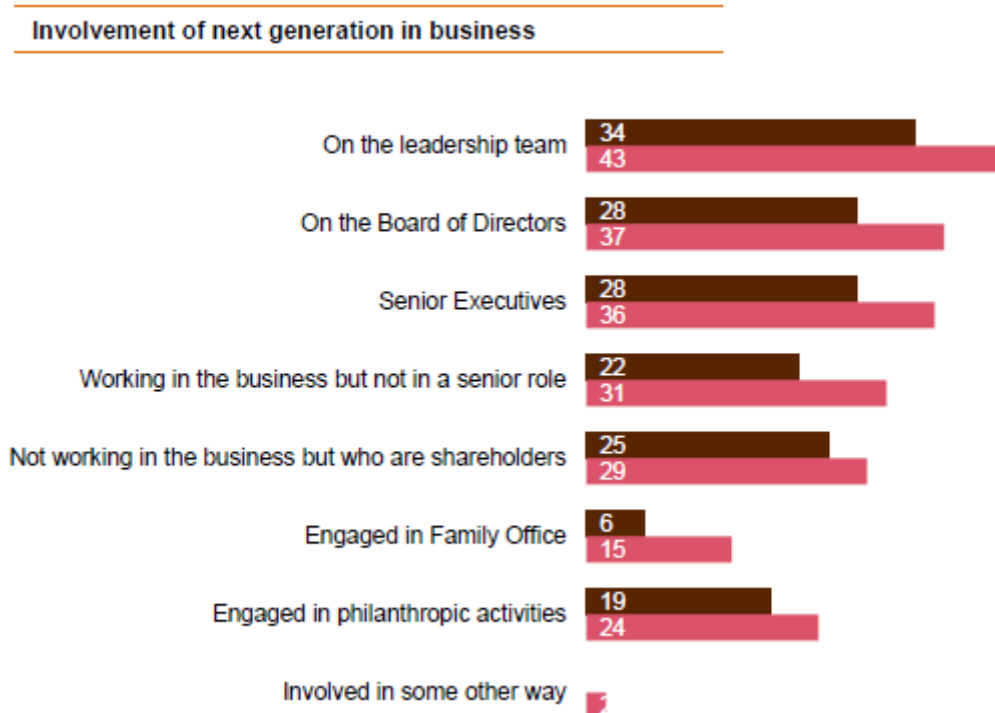


Figure 11: Involvement of next generation in business



Also 9% of Greek family businesses have a robust, formalized and communicated succession plan in place (Figure 12). 44% plan to pass on management and/or ownership to the next generation, compared to 57% globally (Figure 13).

Figure 12: Do Greek family businesses have a succession plan in place?

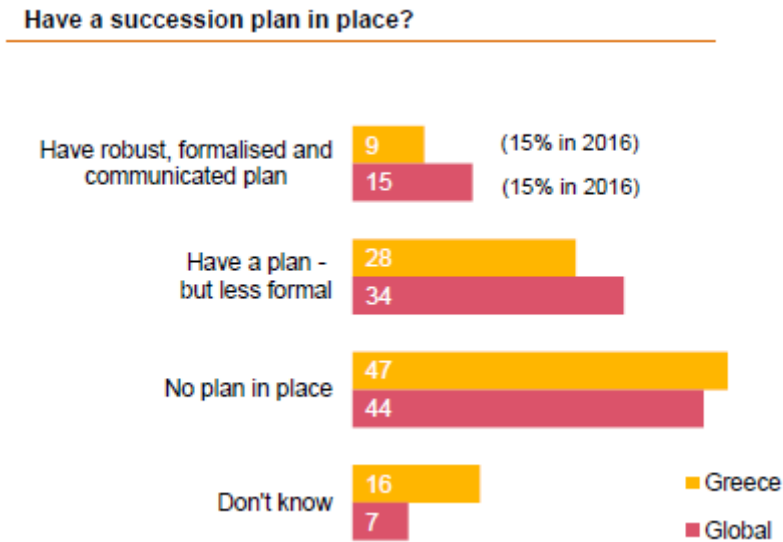
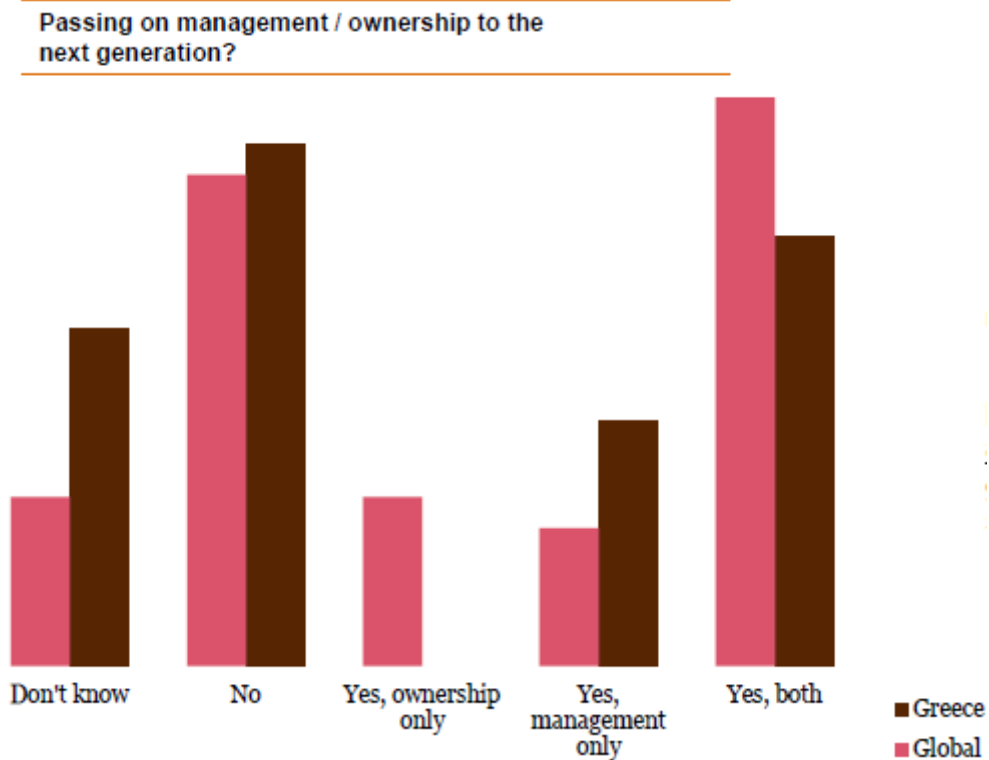
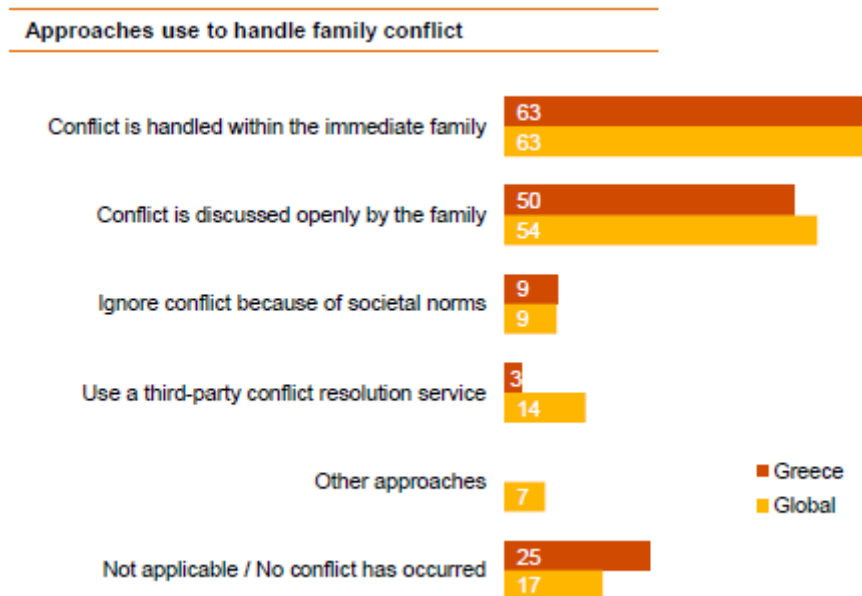


Figure 13: Passing management to the next generation



Finally, it is worth-mentioned that in cases that there are family conflicts between family members that involved in the succession process, 63% claim that family conflict is handled within the immediate family while only 3% use a third party resolution service (Figure 14).

Figure 14: Approaches that use to handle family conflict



Difficulties and obstacles regarding succession and transfer issues in businesses (family businesses and non-family businesses)

The most important problems indicated by family business owners in Greece and Europe concern high transfer taxes, need for adaptation of company personnel to new ownership / management status, not sufficiently developed managerial competencies of the successor and low level of customized successors' training.

In Greek Company Law (Law 2941/2001) however there is no definition of "family business". Most of them are small family businesses 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.

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).

According to an older PWC survey (Family Business Survey, 2006) the main financial challenges and priorities for Greek family-owned businesses are the following:

- ⇒ Control of the cost (78%)
- ⇒ Improvement of cash flows (58%)
- ⇒ Access to financing (36%)
- ⇒ Tax planning and tax issues optimization (22%), while, the most important challenges are:
 - ⇒ Business strategy formulation (70%)
 - ⇒ Staff employment (27%)
 - ⇒ Transition of ownership or control to the next generation (22%)

Some interesting data on how Greek family businesses address the issue of succession and transfer, especially in terms of preparation and training, may be found in a recent survey by KPMG (Family Business Barometer 2015 – Greek results vs European). 90% of the surveyed 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, with the argument of the responsibility of the senior generation. Almost 8 out of 10 respondents placed high importance on family communication issues and activities to be undertaken before any steps into changes in management and ownership are taken. Almost all of the respondents 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 such non-family executives as prospective extra-family successors.

In other European countries the catalyst of change in family businesses are the changes in relationships between family members. In Greece, what is feared in family businesses – and not only – is that any changes will be mainly related to market conditions and possible changes in the ownership of companies, as a consequence of the economic crisis. These differences as well as how family businesses in Greece and other European countries cope with potential major changes in Europe, are examined in a survey by Deloitte entitled “Next Generation Family Business”. Although Greek family businesses, due to the crisis, take into account their long-term consequences, they 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.

Also, in Greek family businesses, in addition to the Board of directors and family members, their employees seem to play an important role in decision-making. Respondents in Greece believe that the greatest advantages of family businesses are the speed and flexibility in decision-making, and the ability to adopt even high-risk approaches that aim at long-term viability rather than on long-term benefits.

On the other hand, the biggest disadvantages of family businesses in Greece are the lack of funding and the lack of organized business structures. In addition, a disadvantage is the emotional attachment to the heritage and the company’s tradition, which can slow down innovation and cause friction in decision-making.

In the case of Greece, in general, family business owners do not seem to think highly of the possible support from external actors (e.g. consultants, business advisors etc.) when it comes to succession planning or even to the implementation phase of such Plans. Family business owners, most of the times, consider themselves to be the appropriate persons to

handle the situation, believing or even taking for granted that since they are experienced and successful entrepreneurs, this automatically makes them Good Advisors in such cases (Athens Chamber of Commerce & Industry, 2017).

Targeted training on the issue of family business succession may be found in certain curricula of tertiary education institutions in Economics and Management, in both graduate and postgraduate levels.

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