



European Union
European Regional
Development Fund

POLICY LEARNING GUIDELINES

**About Innovation, Digitisation and
Modernisation of the legislative framework
for business succession/transfer procedures**

1. Introduction

The present deliverable includes the proposed guidelines that can be used for the preparation of the National Action Plans for the promotion of the business succession/transfer institution.

The preparation of the Action Plans is done at national level, meaning that they must take into account the national priorities for the development of entrepreneurship, as well as the national dimension with whatever peculiarities the institution of succession displays. On the other hand, the drafting of the National Action Plans should take into account the general conditions that constitute the European business environment, but also take advantage of international successful practices.

Therefore, these guidelines meet the requirement for a common approach to the key issues of business succession / transfer, setting the general framework to be taken into account.

To this end, some key findings on the current situation regarding the business succession / transfer institution are briefly summarized, while a description of the targets that should be set during the preparation of the National Action Plans follows.

Finally, after taking into account these objectives, a series of guidelines on the proposed lines of intervention of the National Action Plans are being developed.

2. Findings on the current situation

A series of conclusions and key points on the existing situation regarding business succession / transfer internationally, is presented. These conclusions are a result of both literature review and primary research, as well as the 4th workshop on "Innovation, Digitization and Modernization of the legislative framework for business succession / transfer procedures in textiles, clothing and footwear sectors". More specifically, these findings include:

- Business succession / transfer continue to be at the heart of the European Union's SME policy, which is one of the two main priority pillars of the internal market and industry.
- Businesses' succession / transfer is not just a way to continue entrepreneurship but it also is a growth and innovation opportunity that the new generation can both provide. Family businesses, on the other hand, are sometimes vulnerable to inaction, with senior executives (often family members) being emotionally attached to a single product or a particular way of doing business. Founders, in their desire to leave a long-term legacy, can become even more conservative when it comes to new ideas. These factors can make the development of innovative ideas in a family business even more difficult.
- Business succession is a key component of SME policy, given that according to a recent European Commission study, 90% of successions concern micro-enterprises as a subset of SMEs.
- Family businesses remain a key pillar for the global economy, with their focus on long-term sustainable growth, strong culture, focus on more than just profit and streamlined decision making. Succession planning remains a challenge however, finds a new report, while talent and innovation bottlenecks can impede competitiveness. Family businesses form a key pillar of economic activity, offering stability, a commitment for the long term, and responsibility to their communities and employees. They face challenges however, sometimes different to those of public or other forms of private businesses.
- A company that is successfully transferred has a much better chance of survival, as it has comparative advantages in terms of customers, products and knowledge of market practices.
- Global statistics state that only 3 out of 10 businesses successfully passes to the second generation, 1 out of 10 businesses passes to the third generation and 3 out of 100 passes to the fourth generation (rule of 3-1-1).
- Succession means passing on leadership and ownership from one generation to another. The difficulty in this lies in the transfer of leadership. The differences in educational background, values, and business ideas of the second generation are likely to lead to internal contradictions in family businesses. Furthermore, innovation as a risk behavior is often described as incompatible with family business, because family businesses are characterized by risk aversion, they are not willing to sacrifice stable development to achieve rapid performance improvement. In any case, the process of transferability between predecessor and successor is direct and

continuous, which enable the successor to gain the tacit knowledge. This tacit knowledge is important for intergenerational succession and for the training of next-generation and creates distinction from competitors.

- The owners of small businesses, actually own a capital that can improve their standards of living by its exploitation. This has a significant social difference compared to the managers of large companies, i.e., managers of a foreign capital, due to the fact that when one owns a capital, even if it is small, he can form a different culture, business behavior and mentality. The culture of an organization is the fundamental part of family business which is the system of shared values, norms, and beliefs. They have been raised in a way that complies with the norms of a business so that they can take hold of their businesses when required. The familiarity with the business gives them an edge over a new startup.
- Regarding small and very small family businesses, owners determine the evolution of the business -it is practically a personal business-, a fact that is related to how the tax system treats the owner, either it's a legal entity or not.
- Being a successor of a family-owned business gives a competitive advantage as it is a part of a value-driven organization that has its own unique identity, established trust, and a sense of belongingness for its customers in a society. Unfortunately, not all family members possess the natural gift of skills to carry out the business, and many of them are not able to learn specialized skills required to manage the business.
- The succession process is a long-term process that requires interventions at multiple levels, since not only the directly involved (founder and successor), but also the indirectly involved (company staff, suppliers, partners and customers) are affected. Moreover, the process becomes more complex when the business is a family business and the issues that arise makes it difficult to maintain the harmony of family bonds in the midst of emotional state created during the succession from one generation to another.
- The internal knowledge learning of the successor refers to the knowledge from the inside of the enterprise that the successor has learned. The inheritor's guidance and apprenticeship model for the successor can not only help the successor to become familiar with the company's internal business, but also help to grasp the existing corporate culture and absorb it, the tacit knowledge of the successor. Successors have a certain amount of internal knowledge that can promote innovation. Further, in the knowledge transfer process of family business, there is not only the successor's learning of internal knowledge, but also the successor's learning of external knowledge. External knowledge can also help the successor to open up ideas, not be bound by the old thinking mode, and still maintain the ability to innovate even when learning a lot of internal knowledge.
- Since there is not always a successor to continue the business, selling the business to a person(s) (inside or outside the business), poses a question. In many European countries there are already markets (marketplaces) that match the sellers-business owners to the potential buyers.
- Support from institutions is sometimes not offered in an organized and systematic way and thus does not necessarily reach the target audience. Raising public awareness, providing information on available support, providing specific training

activities on business transfers, mentoring on entrepreneurship, providing markets for business buyers and sellers, and providing funding are important tools to facilitate and provide support for business transfers

- In several European countries, groups of experts have been set up to deal with business transfer / succession issues. These groups on the one hand conduct research for the sector and its challenges / problems, and on the other hand try to persuade the public authorities to change the respective framework so that succession / transfer promotes growth and innovation.

3. Targets of national action plans to promote business succession / transfer

Taking into account the above findings and our current state, before setting the specific axes of intervention, it is appropriate to set public policy targets in favor of the institution of business succession / transfer, without being restrictive. So far the findings show that the following should apply:

- ⇒ Ensure that the tax and the legal framework in general is simple, understandable and favorable to the envisaged transfer procedures, while the system focuses on the entrepreneur.
- ⇒ Develop the tools that will be used in case there is no successor in the family to take over the business and a buyer must be found (inside or outside the business).
- ⇒ Develop multiannual programs to support business transfers, as the transfer is a long process that can take up to 3-5 years.
- ⇒ Strengthen and expand cross-border business transfer opportunities and make better use of the single market context.
- ⇒ Understand and accept the differences between the generations, as the generation gap often brings conflicts that burden the process of succession in family businesses.
- ⇒ Address the lack of professional experience of the prospective successors, who have never worked and are part of the very protective environment of the family business.
- ⇒ Understand that through the cooperation of the public and the private sector, complementarity can be created between the roles of the actors for the implementation of actions to promote the institution of succession, covering gaps and areas where one actor cannot be active, while another has the relevant adequacy.
- ⇒ To make the most out of the role and capabilities of each involved body that can contribute to the implementation of interventions in favor of the succession / transfer, undertaking different activities such as informing the founders, diagnostic control of businesses to be transferred, finding successors, training its staff business, training of successors, etc.
- ⇒ Formulate a long-term public policy in favor of the transfer of businesses that will aim at the continuous optimization of the distribution of resources for the implementation of the interventions, but also at the promotion of good practices.

4. Recommendations and proposals for indicative axes of intervention

A series of proposals that can serve as recommendations without exhausting the scope for action and specialization of the interventions that can be included in the National Action Plans follows. In particular, it is suggested that the following issues should be addressed:

- ☑ Review of the tax rates governing the transfer of family businesses to the younger generations, so that they do not affect its viability.
- ☑ Introduce tax arrangements that enhance the transfer of corporate shares from one generation to another without burden it.
- ☑ Simplify licensing procedures for starting or transferring a business, with an emphasis on digitizing the procedures. A Road Map could also serve this purpose, which could lead step-by-step the entrepreneurs who want to pass their business on to the next generation or sell it.
- ☑ Development of structures or interventions to provide support services to founders and successors. Such services can be:
 - Diagnostic control, i.e., evaluation of the real value of the company by certified appraisers of companies, so as to have an overall picture of the company. The diagnostic control enables the owner to understand in what condition his business is, as well as the way through which the transfer can take place, while for the successor it gives the clue on how to: use the digital tools, give value to the business that he will undertake, develop the appropriate networks in order to promote products and services in the market, etc. In addition, the diagnostic control can be used to have an honest relationship and knowledge of the real data from both sides (founder and successor).
 - Mentoring through certified consultants / mentors in e-business, sales development, inventory management, e-shop creation, new financial tools, microfinance, business planning, refinancing, business debt management, process re-organization, general trading, trading organization of the business based on the problems they have, issues of financial management – tax issues.
 - Development of an institution of certified intermediaries between founders / owners and successors / buyers who will undertake the mediation procedure, especially in cases where family problems.
 - Applications that utilize Big Data so that notifications for the transfer of businesses that want to be sold in order for specific indicators to be valued in the best possible way or a benchmarking by region or even by sector, are created.
 - Organization of open and easily accessible training programs on the procedures and requirements of succession planning, which will be addressed to both SMEs' owners and business support professionals (e.g., financial advisors, business consultants, accountants, etc.).
 - Creating platforms for information, e-learning, e-consulting, e-coaching, e-mentoring, while the creation of a platform that will function as a Marketplace for matching owners and successors who want to buy a business is very important.

- Creation of a database, in which the data of the businesses that want to initiate their transfer will be digitally recorded.
- ☑ Strengthening the system of governance and policy production through interventions:
 - systematic social dialogue,
 - continuous monitoring and evaluation of policies and interventions in favor of the institution of succession / transfer
 - updating national public policies to promote the institution of business succession / transfer
 - pilot implementation of standard tools for knowledge transfer and certification in order to support succession / transfer,
- ☑ Develop win-win partnerships between all stakeholders in both the public and private sectors and even between academia or the media to promote succession in the business community
- ☑ Provision of financing from the public sector, such as opportunities from development banks or public banks that provide support through loans, guarantees, and even hybrid financing programs, to mitigate the business risk for the buyer
- ☑ Creation of Specialization Programs by Academic institutions oriented towards the succession and transfer of businesses, with the main objectives of training professionals the integrated support in the succession processes, but also the increase in the awareness about the succession planning.
- ☑ Enhancing information on business succession / transfer, which refers to both the dissemination of information between government authorities, policy makers or the general public) and targeted businesses, especially family businesses, e.g., changes and developments of the business environment.

A key point for the effectiveness of the interventions is the cooperation between the actors involved in the implementation, covering all areas of a succession ecosystem. For example, the public sector can provide information and guidance to appropriate consultants from chambers, development agencies, private professionals through registries, etc. In addition, the involvement of academic researchers and experts is important to investigate the real state of the succession / transfer and highlight critical issues. In addition, the involvement of the media in order to highlight the issues of succession / transfer to the business community, is also important.

In any case, in order to develop a business transfer ecosystem, it is appropriate to explore previous practices from other countries even more, but above all to investigate these practices before adopting them in the country of application. In addition, the completion of the business transfer ecosystem should be gradually completed, in order to be built solidly and correctly.