Avenues to improve success in SME business transfers: reflections on theories, research and policies

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Preface

Every year I talk to many entrepreneurs about business transfers and acquisitions. Only rarely do they tell me that it was a cinch. Buying or selling a business is complex. For a start, a business should be shipshape from an organizational and administrative perspective, while several legal and fiscal matters also affect the transaction. Moreover, many parties are involved in a business transfer: the buyer and the seller, of course, but also the employees, the spouse and/or family of the entrepreneur, the customers and suppliers. Emotions and trust also play a central role in selling a firm. Many owner/managers find it hard to abandon their business. The fact that a transaction of fixed assets may also be involved is another complicating factor. Is it a good thing to include fixed assets in the sale, or in fact the reverse? Considering that most people find it quite hard to sell their own house, engaging an estate agent to do it for them, it is understandable that buying and selling a business is a transaction fraught with difficulties.

Through research and publications more and more has become known about the factors that increase the chance of success in business transfers. Literature from North America often dominates the social and economic sciences, and the important publications and studies of business transfers in family firms mirror this fact. However, it is European research that dominates general studies of business transfers, of which family transfers are only a small part. A conspicuous number of prominent Dutch researchers are active in the areas of entrepreneurial entry, entrepreneurial exit and business transfers. The list includes Roy Thurik, Lorraine Uhlaner, Mirjam van Praag, Erik Stam, Joris Meijaard, Veronique Schutjes, Sander Wennekers, Marco van Gelderen, Niels Bosma, Jolanda Hessels and Ingrid Verheul, who have paved the way with their publications, stimulating favourable policies, in government and elsewhere, with regard to entrepreneurship.

This booklet presents an overview of recent knowledge, research and national and international policies in the field of business transfers. Chapter 1 delineates the domain and the theories, and formulates the research agenda. Chapter 2 deals with the importance of business transfers for national economies in Europe and provides a framework for policies regarding business transfers. Chapter 3 looks at the profiles of acquirers and successors in comparison to starters, and the effects of their profiles on business results. Chapter 4 sets out issues requiring attention in the field of practice. This includes the use of the succession scan, an instrument that helps entrepreneurs determine their position in the run-up to selling the firm.

Chapter 1
The body of knowledge: theory, research and model

There is a wide range of theories which may be used to predict success in business transfers from the domain of strategy, psychology and economy. As an introduction, the setting of business transfers is defined, as well as the main players and the circumstances that may influence business transfer success.

1.1 The setting of SME business transfers

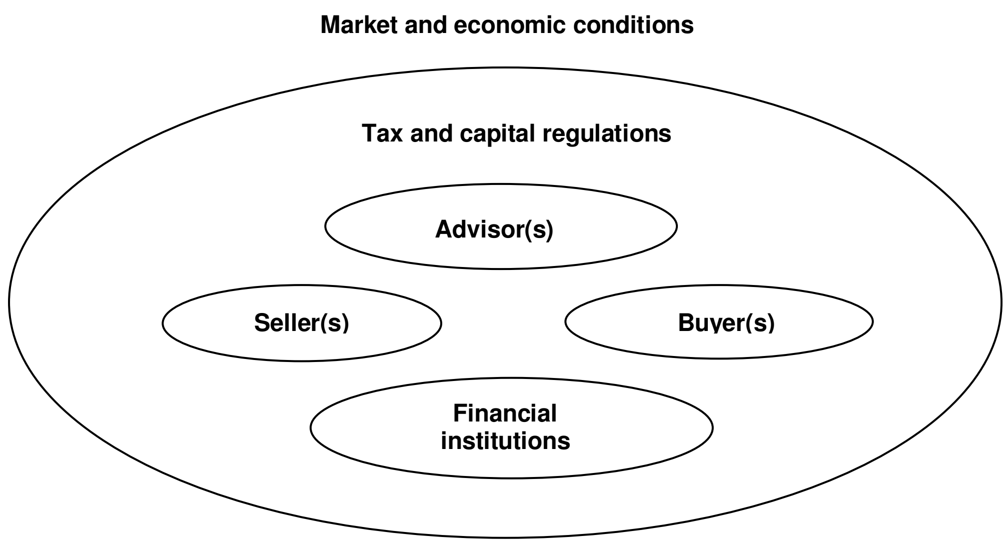
The study of business transfers is a fairly recent phenomenon, with the agenda being set by family firms researchers, addressing the issues of succession in the late 1980s (e.g. Lansberg, 1988) and continuing into the 1990s (e.g. Morris et al., 1997) and 2000s (e.g. Le Breton-Miller et al., 2004). Interest in non-family transfers was triggered in 2002 by a report by the European Commission (European Commission, 2002), which outlined the importance of small-firm transfers to national economies and the massive numbers of business transfers that is to be expected. The report also mentions that the number of family transfers of small firms is decreasing in favour of ownership transfer to third parties. Other studies also provide empirical evidence which demonstrate that the proportion of family transfers in small and medium-sized enterprises (SMEs) is decreasing and that they represent a minority of all business transfers (Grant Thornton, 2005; Howorth et al., 2004; Mandl and Voithofer, 2010; Meijaard and Diephuis, 2004; Stone et al., 2004).

The main focus of business transfer studies is to predict and model the success or failure of the transaction and the post-transfer performance of firms (e.g. Meijaard et al., 2005). A business transfer is defined as a change of ownership of any firm to another person or legal entity assuring the continuous existence and commercial activity of the enterprise when more than 50% of assets or shares are transferred (Van Teeffelen, 2010). This definition encompasses all varieties of business transfers. Although this definition focuses on ownership, a change of ownership in most small and medium-sized firms goes hand in hand with the transfer of the management function (European Commission, 2002).

Sellers and buyers are the most prominent players in business transfers. Studies of business transfers should thus ideally incorporate some notion of two even younger fields of study: that of entrepreneurial exit (seller's side) and entrepreneurial entry (buyer's side). An important question on the seller's side and part of studies on entrepreneurial exit is: Can we predict which firm owners will opt for a sale or family succession compared to closure or continuation (e.g. DeTienne and Cardon, 2010)? An important question on the buyer's side and part of studies on entrepreneurial exit is: Can we identify firm acquirers and family successors and distinguish them from starters (Parker and Van Praag, 2010; Van Teeffelen, 2011)?

Figure 1.1 represents the setting of business transfers. In addition to the selling and buying parties there are two other parties to be considered in such transfers: advisors and financial institutions. The advisor's role is of importance since the transfer of ownership is a once-in-a-lifetime issue for most entrepreneurs (European Commission, 2002; Meijaard and Diephuis, 2004). Most entrepreneurs lack knowledge and experience of the process of selling, buying and acquiring capital for the transaction. The large majority of buyers and sellers are assisted by several advisors, of which an accountant is most often mentioned (Allison et al., 2007; Bruce and Picard, 2006; Geerts et al., 2004; Meijaard and Diephuis, 2004; Van Teeffelen, 2007).

Figure 1.1
Main parties and circumstances involved in SME business transfers



Financial institutions – in EU countries, usually banks – fulfil a key role in financing the business transfer transaction. The refusal of a bank to finance a transfer is among the most mentioned reasons for failure (European Commission, 2002; Eurochambers, 2009; Geerts et al., 2004; Langman and Lugt, 2005). Banks are the main capital providers for SMEs in Europe (ELI, 2011). Recently, acceptance rates for SME credit dropped dramatically, from 70% to 30% (Verhoeven and Smit, 2011), also affecting business transfer capital provisions. The credit market is under pressure: criteria are stricter, more security is needed and costs and interest levels have risen (Verhoeven and Smit, 2011; Braaksma and Verhoeven, 2011). The Dutch government has been advised to stimulate alternative financing options such as angel investments, but estimates show that these parties play a marginal role in transfer financing (ELI, 2011). The few studies available on the assessment criteria of bankers point out that the entrepreneurial profile of the buyer is by far the most important criterion, followed by the financial performance of the transferred firm and the type of sector (Moog and Felden, 2011; Van Teeffelen, 2006). However, recent research reveals that in times of crisis banks become extremely risk-averse and change their assessment strategy completely, tending to look at the sector profile alone, disregarding the firm's track record and the entrepreneurial profile of the credit applicant (Braaksma and Smit, 2011; Verhoeven and Smit, 2011). Another complication in assessing the criteria used is that they differ from banker to banker. In fact, variations within banks may well surpass the variations between banks (Van Teeffelen, 2006). As to the predictive validity of a banker's criteria on post-transfer performance, there is very little research available with respect to SME business transfers (e.g. Moog and Felden, 2011).

Moving to the external setting of business transfers, tax and financial regulations and the market and economic situation are met. Tax legislation and specific financial regulations which provide for capital in business transfers, such as government guarantee programmes, may also stimulate the success of business transfers. In EU countries there is a myriad of tax regulations, financial regulations and guarantee programmes (Crijns and Vermeulen, 2007), the latter differing considerably in terms of applications, criteria, maximum credit amounts and costs to applicants.

Very little is known about the effectiveness and the efficiency of both the tax and guarantee provisions. Certain guarantee programmes have become very popular in the Netherlands, such as the micro-credit programme and specific SME credit schemes. There are signs that increasing numbers of bankers are starting to use the SME credit scheme for business transfers; however, the bulk of guarantee programmes still focus on start-ups and ongoing capital provisions for SMEs (Carnegie Consult, 2011).

The last important factor in business transfers is the market situation. The market and economic situation and its impact on certain sectors greatly influences the number of firms coming to the market (Meijaard, 2006) as well as post-transfer performance (Van Teeffelen and Uhlaner, 2010). In periods of economic downturn the post-transfer performance improves. This can be explained by the lower prices paid for firms. But lower pricing also tends lower the number of firms coming to the market.

1.2 Resource-based view, human capital theory and the trait approach

Having defined the setting of business transfers, this section will look into the core theories to predict the success or failure of a business transfer. The Resource-based view, the human capital theory and the trait approach predict the point of departure, favourable or unfavourable, in a business transfers situation.

Resource-based view

The resource-based view (RBV) focuses on the critical resources available to firms to perform, survive and compete. These resources are usually considered to be of a physical, financial, organizational or human nature (Barney, 1991; Hall, 1992). Resources are defined as strategic if they are rare, valuable, inimitable, non-tradable, non-substitutable and firm-specific (Barney, 2001). There is strong empirical support for a positive relationship between strategic resources and firm performance (Crook et al., 2008). The better a resource meets the strategic criteria of rare, valuable, non-tradable and non-substitutable, the more effect it has on firm performance. Results show this is valid for both SMEs and for large companies. Interestingly, human and intangible resources show significantly stronger effects on firm performance than tangible resources. This indicates that the human resources available to the seller, the buyer and the advisors might be a strong predictor of success in transfer situations.

Human capital theory

Becker's human capital theory (1964) deals with the added value of human resources. The concept of human capital is equivalent to the concept of capabilities as defined in RBV: to utilize and manage the firm's tangible resources (Barney, 2001). Human capital encompasses the formal education, age, gender, experience, skills and knowledge of entrepreneurs (Becker, 1975), and is developed through education, training and personal experience. From the economic perspective, human capital is as important as physical resources such as land, factories and machines, and one can invest in human capital as in any other resource (Becker, 1964). Explicit and codified knowledge and skills can be transferred. Although human capital may be substitutable, it is not as easily transferred as property or fixed capital. In particular, tacit knowledge – such as personal experience and the ability to identify opportunities – is difficult to transfer because it is connected to experience within a specific firm (Dimov and Shepherd, 2005).

Human capital has proven to be vital to the creation of firms, as well as their performance, growth and survival in both Western and non-Western countries (Aides and Van Praag, 2007; Bhagavatula et al., 2008; Dimov and Shepherd, 2005; Colombo and Grilli, 2005; Haber and Reichel, 2006; Honig, 1998, 2001; Markman and Baron, 2003; Van Praag, 2003; Van der Sluis et al., 2005). In relation to business transfers, specific human capital variables such as prior experience with business transfers predicts exit choice and transfer success (Van Teeffelen, 2010).

The trait approach
The trait approach to entrepreneurship is closely related to the human capital view, since tacit knowledge also encompasses the personality traits and attitudes of people. The trait approach attempts to explain why one person becomes an entrepreneur and another not. The question of the extent to which successful entrepreneurs differ from less successful ones is also considered (e.g. Markman and Baron, 2003). Schumpeter (1934), the founding father of entrepreneurship theory, first raised the question of why one person chooses to innovate while another maintains business as usual, and he focused on the creative and innovative characteristics and abilities of entrepreneurs. Research by McClelland (1965) showed that the need for achievement is higher in an entrepreneurial setting. His research took an important step in the further investigation of the personality traits of entrepreneurs.

Examining personally traits in order to predict business success, most studies have used different measurements of the same traits and overlooked the importance of attitudes and motives (e.g. Robinson et al., 1991). Markman and Baron (2003) and Driessen (2005) stress the importance of a wider profiling of entrepreneurs, arguing that the success of entrepreneurs is related to a specific set of entrepreneurial traits, attitudes and competences and agreeing upon the importance of perseverance, flexibility, opportunity recognition or market awareness, self-efficacy and social skills. The inclusion of these attitudes, motives and competences extended the trait approach over time.

Research by Driessen (2005) supports the claim that entrepreneurial motives and competences predict better sales turnover and a higher rate of survival in start-ups. De Jong and Van der Velden (2005) observe that the same owner characteristics and competences account for both failures in running a business and in transferring ownership. Van Teeffelen (2010) also demonstrates that social skills, market awareness and flexibility contribute to success in the transfer process.

Looking more closely at the research, studies of buyers are rare (e.g. Geerts et al., 2004). Research on the various ways to become an entrepreneur is strongly dominated by start-ups (Parker and Van Praag, 2010), while little research on the profiles of starters, successors and firm acquirers is available. However, a recent overview of the studies available revealed that resource-based variables such as financial resources, human capital variables such as education, and work and sector experience as well as attitudes and traits related to risk-taking, market awareness, flexibility and creativity differentiate between these three groups (Van Teeffelen, 2011).

The debate on the trait perspective is very much alive, illustrated by the title of Rauch and Frese's (2007) publication 'Let's Put the Person Back into Entrepreneurship Research'. Their review and meta-analysis demonstrates that in addition to the need for achievement and innovativeness, self-efficacy, stress tolerance, the need for autonomy and proactiveness correlate with business creation and business success. Their study shows that traits may have direct, indirect or cumulative effects on a firm's performance.

In summary, RBV, human capital and the trait approach predict that strategic resources and the capabilities of sellers, buyers and advisors, in terms of their specific education, experience with previous business transfers, attitudes, skills and competences, enhances the success of business transfers and post-transfer performance.

1.3 Other theories

There are other theories which should be considered with respect to predicting the success of business transfers. These theories explain, while having a favourable point of departure, business transfer still fail. Four of these theories are briefly discussed below.

Theory of planned behaviour
The first theory worth considering is the theory of planned behaviour (TPB), which was developed to model conscious, individual decision-making and behaviour based on careful consideration of the information available (Ajzen, 1991, 2002). TPB defines three variables that impact on intentions and/or behaviour: personal attitudes towards the behaviour, the social acceptability of the behaviour to a normative reference group (*subjective norms*) and the feasibility of the behaviour (*perceived and actual behavioural control*) (Ajzen, 2002; Krueger et al., 2000). There is strong support in many research domains (Armitage and Connor, 2001; Ajzen, 2002) for the idea that behavioural intentions influence behaviour. Ajzen (2002) also suggests that human capital and firm resources may influence intentions and behaviours. A few studies of entrepreneurial exit support the notion that firm resources and owner capabilities guide both exit intentions and behaviour (Amaral et al., 2007; Balcaen and Ooghe, 2007; Leroy et al., 2007; Ryan and Power, 2009; Van Teeffelen and Leroy, 2009; Wennberg et al., 2009). Nevertheless, it is largely unclear how firm resources and human capital influence attitudes, social norms and the perceived behaviour control of entrepreneurs with respect to exit intentions (DeTienne and Cardon, 2010).

TPB is helpful in explaining why entrepreneurs with an positive attitude to buy or sell a firm refrain from doing so. Obstructive social norms, for example the prevalence of family succession, might interfere with selling the firm off to non-family members. There might also be low perceived behavioural control with respect to the success of selling the firm, due to tax regulations, market or economic conditions, leading to continuation or closure of the firm instead of transferring to another party.

Threshold theory
Another theory in the domain of entrepreneurial exit and entry is the threshold theory, which concerns the phenomena that some entrepreneurs enter or stay in business with very poor performance, while others neither enter nor exit with an objectively high performance level. Threshold theory suggests that entrepreneurial entry and exit are related to individual and subjective performance criteria (Gimeno et al., 1997). It is not the absolute level of firm performance that is of importance in decisions, but the firm's performance compared to individual threshold criteria for each entrepreneur. Non-economic factors such as psychological income, opportunity costs and available options are factors to take into consideration (Gimeno et al., 1997). Human capital factors are believed to be of importance in determining the individual thresholds. Early results of studies of entrepreneurial exit intentions show that human capital variables such as age, entrepreneurial and industry experience and educational level account for different exit choices (DeTienne and Cardon, 2010). Older and lower educated firm owners prefer family transfers, firm owners with specific sector experience prefer employee buy-outs and well-educated firm owners and serial entrepreneurs prefer selling to another company.

Threshold theory is very helpful in explaining why a purchase or a sale does not take place even when objective circumstances are favourable.

Group dynamics
Uhlaner (2008) points out that ownership dynamics in group-owned businesses receive little attention in entrepreneurship research. Most research on business transfers is built upon the assumption that ownership shifts from one owner to another. Some research reports (e.g. Reynolds et al., 2002), show that about half of all existing firms are owned by more than one person. In the light of this, Uhlaner (2008) proposes the study of trust, shared vision and commitment in group-owned firms with the aim of improving their financial performance. While her call resonates among family-firm researchers (Deans, 2008; Le Breton-Miller et al., 2004), Uhlaner (2008) also encouraged non-family-firm researchers to incorporate these variables into their models. Trust, shared vision and commitment to professionalism seem to be of importance in the interaction between buyers and sellers and have been shown to be good predictors of business transfer success (Van Teeffelen et al., 2011; Van Zwol and Flören, 2010; Venter et al., 2003) and post-transfer performance (Berent, 2010).

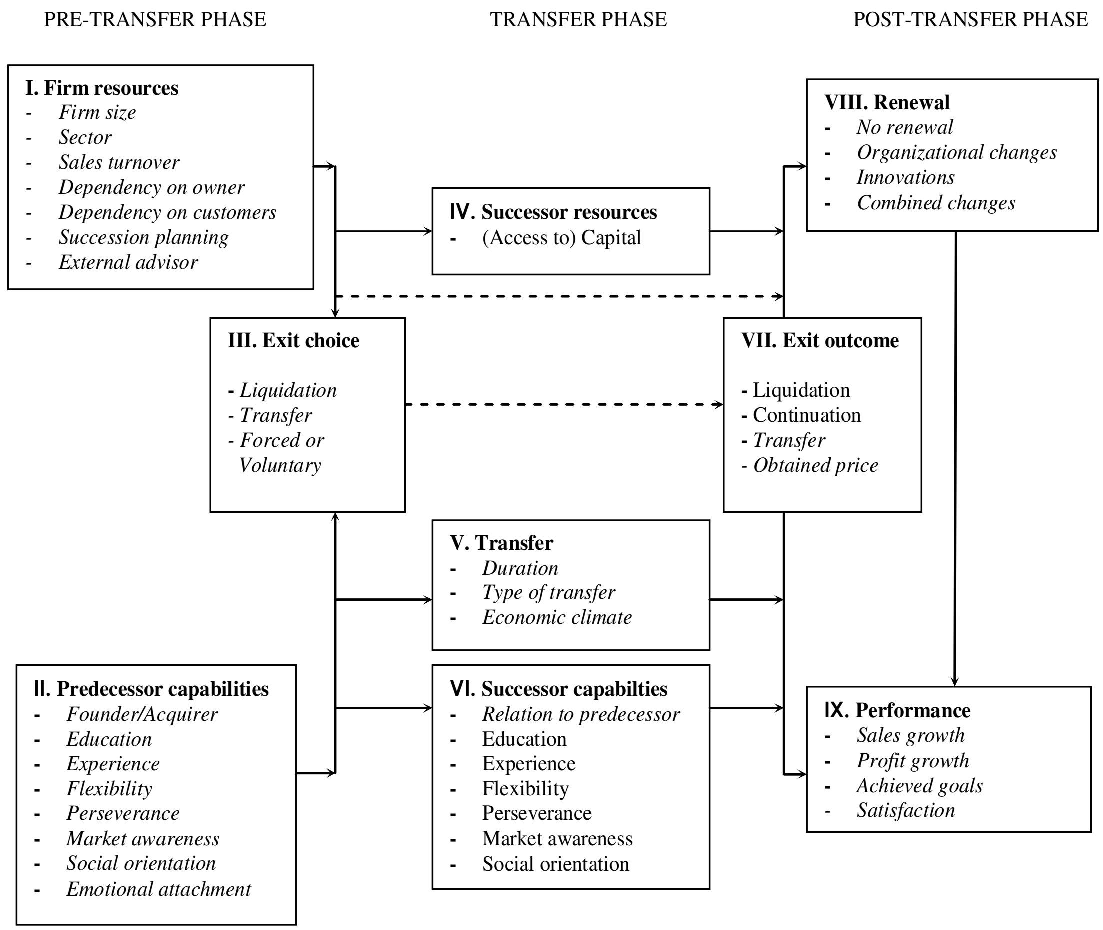
Agency theory: advisors as agents
In most ownership transfers, advisors are involved as agents for buyers or sellers in the preparation, negotiation and closure of transfer transactions. Their role may be vital to prevent legal and financial obstructions and may also speed up the process. According to RBV, the use of advisors as additional resources may generate a competitive advantage due to their specific capabilities and experience in business transfers. However, agency theory (Jensen and Meckling, 1976) predicts that advisors as agents do not maximize the welfare of their principal, the sellers and buyers. Schleifer and Vishny (1989) go a step further in their theory of managerial entrenchment by postulating that agents make themselves valuable, then costly to replace, and primarily invest in their own position. Thus, agency theory predicts negative effects of the use of advisors in ownership transfers. Although research on the added value of advisors is scarce, the few studies available tend to support the agency theory (see Chapter 2). Agency theory provides an alternative paradigm to RBV and explains why the impact of advisors in research thus far has generally been neutral or negative in relation to business transfer success.

1.4 Modelling business transfer success

The model
Family business researchers were the first to model the factors that influence business transfer success (Le Breton-Miller et al., 2004; Lievens, 2006; Morris et al., 1997). It is unfortunate that their models excluded other business transfers. Building on the model of Morris et al. (1997), Meijaard et al. (2005) created the only model to date that includes both family and non-family business transfers. This model divided business transfers into three different phases, adopting the three phases proposed by Harvey and Evans (1995): a pre-transfer phase, the actual transfer and a post-transfer phase. Van Teeffelen (2010) developed the model theoretically, modifying the variables mainly in accordance with RBV, including human capital variables and entrepreneurial attitudes and motives as capabilities.

Figure 1.2 presents the fully adjusted model and focuses primarily on four clusters of variables which predict business transfer outcomes: ‘Firm resources’ (Box I), ‘Predecessor capabilities’ (Box II), ‘Successor resources’ (Box IV) and ‘Successor capabilities’ (Box VI).

Figure 1.2
Research framework: resources, capabilities, renewal and business transfer outcomes



Note: Vertical relationships and dependencies between most categories are omitted for reasons of transparency.
The variables in ***italics*** are tested.

Source: Van Teeffelen (2010)

New to the model of Van Teeffelen (2010) are Box III, 'Exit choice' and Box VII, 'Exit outcome'. Both boxes are related to TPB. Exit choice is similar to 'the intention' to exit, while exit outcome is similar to 'behaviour' in TPB. These boxes were added because research on entrepreneurial exit has shown that firm resources and owner capabilities are important drivers of different types of exit (Amaral et al., 2007; Balcaen and Ooghe, 2007; Leroy et al., 2007; Ryan and Power, 2009; Van Teeffelen, 2010; Van Teeffelen and Leroy, 2009; Wennberg et al., 2009).

The model also incorporates emotional attachment (see Box II), which is seen as a major obstacle to business transfer (e.g. Sharma et al., 2003) and as also preventing a positive exit outcome. Studies of the effects of emotional attachment on the decision-making process in business transfers are rare.

Interestingly, the successor capabilities and resources defined have also been found to have predictive value in research on intentional or actual entrepreneurial entry. More financial resources (Flash Eurobarometer, 2009), lower education (Helleboogh et al., 2009; Oudmaijer, 2007; Parker and Van Praag, 2010; Van der Wal et al., 2007), more work and sector experience (Amaral and Baptista, 2006; Coopers and Dunkelberg, 1986; Kay and Schlömer, 2007; Parker and Van Praag, 2010) and a lower risk-taking and creativity profile (Halter et al. 2007) predict the choice of firm acquisition or family succession as opposed to starting up a firm.

Thus, apart from predicting business transfer success the model provides a possible framework to investigate entrepreneurial exit and entrepreneurial entry.

Finally, Box VIII considers strategic renewal: actions to overcome routines that reduce the ability of a firm to renew, expand and adapt (Child, 1972, 1997; Teece, 1984; Teece et al., 1997). The premise of strategic renewal is that it improves firm performance. Strategic renewal is an extension of RBV, which is unresponsive to different market situations (e.g. Barney, 2001; Priem and Butler, 2001). In terms of RBV, strategic renewal could be seen in terms of the successor's capability to innovate and reorganize, and it is closely related to the extended trait approach.

Empirical evidence

This conceptual model has been tested in three studies, all confined to the Netherlands. Meijaard et al. (2005) looked at the impact of planning, the use of external advisors, the type of transfer and successor characteristics on post-transfer profitability, controlling for firm size (based on the number of employees) and sector. They found that planning was weakly related to post-transfer profitability, the use of advisors was negatively related to post-transfer performance, and there was no relationship between the human capital variables of the successor and post-transfer profitability. By far the best predictor of post-transfer profitability was firm size: the smaller the firm, the better the post-transfer performance.

Berent et al. (2009) examined the effect of the type of transfer (e.g. family-to-family vs. non-family transfers) and the effect of successor characteristics on post-transfer profits and found that family-to-family transfers are slightly less profitable than non-family transfers. Firms whose successors have more work experience outside the company tended to report lower post-transfer profitability and, finally, formal planning only increased post-transfer profits in family-to-family transfers.

To date the study by Van Teeffelen (2010) has tested the model most extensively. Table 1.3 shows the relationships between the variables in the boxes of the model.

Table 1.3
Individual relationships between the variables tested

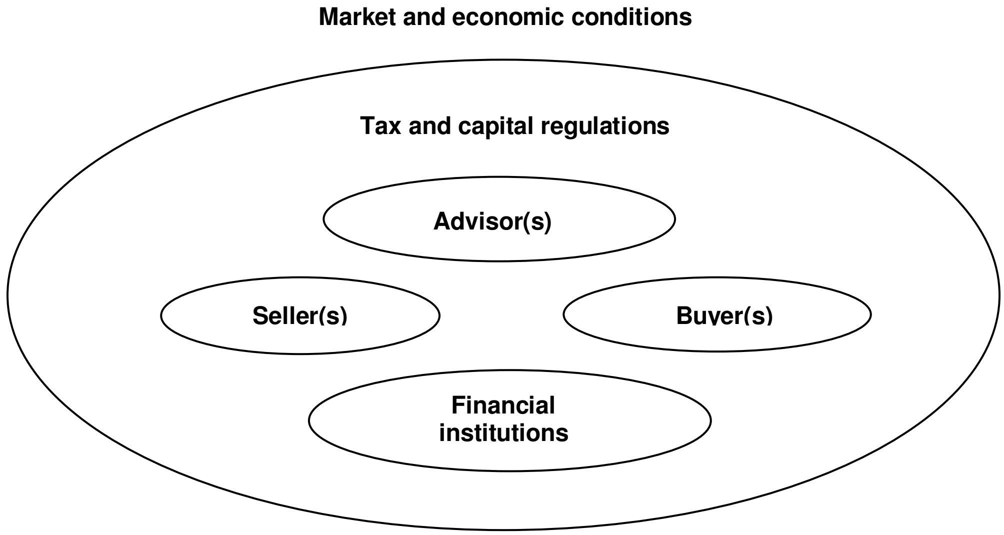
Phase	**Pre-transfer**		**Transfer**		**Post-transfer**
Outcome	*Exit choice*	*Duration*	*Obtained price*	*Satisfaction*	*Performance*
I. Firm resources					
Firm size	+	0	0	0	+
Sector	nt	nt	nt	nt	0
Sales turnover	+	nt	nt	nt	nt
Dependency owner	+	nt	nt	nt	nt
Dependency (few) cumstoners	+	nt	nt	nt	nt
Succession planning	nt	0	0	+	nt
Use of external advisors	nt	+	0	0	nt
II. Predecessor capabilties					
Acquisition experience	+	nt	nt	nt	nt
General education	0	0	0	0	nt
Years of ownership	+	+	0	0	nt
Flexibility	nt	+	0	+	nt
Market awareness	nt	0	+	0	nt
Social orientation	nt	+	0	0	nt
III. Exit choice					
Forced or voluntary	nt	0	0	0	nt
V. Transfer					
Type of transfer	nt	nt	nt	nt	0
Economic conditions	nt	nt	nt	nt	+
VI. Successor capabilties					
Relation to predecessor	nt	+	+	+	nt
VIII. Renewal					
Organizational change	nt	nt	nt	nt	+
Innovation	nt	nt	nt	nt	+
Combined actions	nt	nt	nt	nt	+

Three studies in one country cannot prove the predictive validity of a model, let alone the importance of the core concepts of RBV in business transfers. For now, the limited research results are promising, but many relationships remain to be established. What topics are still in need of investigation? The last section of this chapter will concentrate on avenues for further research.

1.5 Avenues for future research

In addition to its relevance to the model discussed above, Figure 1.1 assists us in setting a research agenda. Starting from the inside and with the most important parties in the business process, we will work outwards formulating a research agenda for the next 4-8 years in each of the six fields.

Repeated Figure 1.1
Main parties and circumstances involved in SME business transfers



Entrepreneurial profiling of buyers

As mentioned previously, most studies of business transfers concentrate on family transfers and/or focus on the selling party. The buyer's side (e.g. Geerts et al., 2004) is largely neglected, as well as the role of financial institutions. The same holds for studies in the field of entrepreneurial entry, in which the large majority of studies concentrate on start-ups, ignoring firm acquisition and family succession (Parker and Van Praag, 2010). What are the main differences in entrepreneurial profile between firm acquirers and family successors compared to starters, and what makes firm acquirers and family successors successful after the actual transfer of ownership? The research model presented in Figure 1.2 gives some indication that specific experience, competences and skills might predict the entry choice, business transfer success and post-transfer performance. One hypothesis worth considering is that stronger motives, attitudes, skills and/or experience with regard to innovation and reorganization predict a better post-transfer performance. Chapter 3 will partly address these questions and hypotheses.

Transition, seller's emotional attachment and decision-making

The dynamics of the transitions period in the firm, where the predecessor and successor must agree on the ownership change and the new roles, has rarely been the subject of study or theory. Emotional attachment is seen as a major obstacle to business transfer (e.g. Sharma et al., 2003), but there is no empirical evidence to date for this assumption. Future research may shed light on both the positive and negative aspects of emotional attachment with respect to decision-making in business transfers. Furthermore, there is little known how advisors deal with the emotional aspects in ownership transfers. Are advisors able to manage the emotions and potentially non-realistic expectations regarding the successor or the selling price? Does managing emotions affect the transfer process? Are buyers who use business brokers or other transfer specialists more rational in their decisions? These questions have been little explored and are yet to be answered.

Financial institutions and their criteria
The role of financial institutions, mostly banks in the case of the EU, are very important to the success of SME business transfers. There are indications that credit criteria may vary from banker to banker and that assessment depends on the economic situation (Van Teeffelen, 2006; Verhoeven and Smit, 2011). Research into the predictive validity of the criteria with respect to post-transfer performance of SMEs remains scarce (e.g. Moog and Felden, 2011). How do bankers assess the entrepreneurial profile of buyers? How do bankers assess the viability of the firm? Are these criteria valid predictors for the post-transfer performance of firms?
Advisory services and the effectiveness of support programmes
Related to the role of financial institutions is the added value and the effectiveness of the working methods of all advisors active in the business transfer process. The existing research outcomes on the added value of advisory services (see Chapter 2), showing neutral or negative effects, must be very disappointing to accountants, business brokers and bankers. Research on their roles, their quality and qualifications, the cooperation between the different disciplines and the effects of advisory services on post-transfer performance would give us a better insight into the added value of advisors.

One hypothesis in need of further consideration is that group-learning advisory programmes for sellers and buyers would be more effective and efficient for entrepreneurs than traditional one-to-one advisory. Not only are group programmes cheaper for entrepreneurs, they can also raise awareness and improve capabilities with respect to the main issues more efficiently, allowing entrepreneurs to listen to and discuss cases with fellow entrepreneurs. The effect of these programmes might be measured on a multidimensional performance scale that includes objective and subjective performance measures such as transfer success rates, selling price obtained compared to the firm valuation, transfer duration, satisfaction and post-transfer firm performance.

Another hypothesis is that a one-stop-shop advisory point would improve cooperation between and the effectiveness of advisors. Experimental research might also address the issue of whether better quality advice can improve business transfer success or whether agency theory's predictions of advisor self-interest will generally prevail.

The influence of tax and financial regulations
As mentioned in Section 1.1, in EU countries there is a myriad of tax regulations, financial regulations and guarantee programmes (Crijns and Vermeulen, 2007) which differ considerably in terms of credit applications, criteria, maximum credit amounts and costs for applicants. Very little is known about the effectiveness and the efficiency of such tax regulations and guarantee programmes. Comparative research on several measures of business transfer success could be rewarding.

The relationship between business transfers and economic development
Finally, looking at the market and economic conditions, we know that firm acquirers rather than starters contribute to the Dutch economy in many ways (see Chapters 2 and 3). However, there are no reliable figures on the effects of business transfers on a national economy, except for Austria (Mandl and Voithofer, 2010). In this regard, predictions of macro-economic effects of business transfers compared to the much higher number of start-ups, possibly including the costs to support programmes, would be of value. To do this, a standard definition and the registration of business transfers are necessary to accurately track transferred firms over a longer period. This is one of the issues that is explored further in the next chapter.

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Chapter 2
Policy recommendations to improve business transfer support

2.1 Introduction

This chapter discusses the economic importance of business transfers, the research to date on the main issues involved in ownership change and potential policies to reduce the chances of failure in business transfers within the EU, including failure due to the provision of poor advisory services. Unfortunately, policymakers are largely unaware of the pitfalls of ownership transfer in SMEs and the inadequate advisory services available.

Change of ownership is triggered by personal changes in the life of the firm owner, such as a career change, divorce, illness or retirement (European Commission, 2002; Meijaard and Diephuis, 2004; Gibcus and Verhoeven, 2005; Van Teeffelen, 2007). Many researchers and institutions do not define the meaning of a change of ownership (e.g. Le Breton-Miller et al., 2004; Morris et al., 1997; Venter et al., 2003). Sharma et al. (2003: 669) define business transfer briefly in the context of families as '... a transfer of leadership from one family member to another'. The European Commission (2002) specifies a transfer of ownership more neutrally as a transaction in which at least 51% of the shares change hands. However, this definition only considers private limited firms, excluding sole proprietorship and non-limited firms. Van Teeffelen (2010b) uses a definition that encompasses all legal entities considering a business transfer as: a change of ownership of any type of firm to another person or legal entity assuring the continuous existence and commercial activity of the enterprise when more than 50% of assets or shares are transferred. For non-limited firms, assets are transferred; for limited firms, either shares or assets. This definition emphasizes the commercial activities of the firm. In doing so, the definition excludes commercially inactive holdings and private limited companies founded solely for the purpose of managing pensions, real estate, firm property or other fixed assets. Although this definition focuses on ownership, a change of ownership in most small and medium-sized firms goes hand in hand with the transfer of the management function (European Commission, 2002).

In addition to family transfers, it is also possible to differentiate between non-family transfers to other persons and to firms. Person-to-person transfers involve an asset transaction in non-limited firms. Person-to-firm transfers and firm-to-firm transfers may involve shares or assets in a private limited company. The new owner may be former management (management buy-out) or former employees (employee buy-out), an external individual (management buy-in) or a firm (acquisition or merger).

The remainder of this chapter is organized into three sections. In the following section the economic importance of SME business transfers will be discussed. After this, research on advisory services will be presented to illustrate some causes of failure. Finally initiatives to support entrepreneurs and policies to improve advisory services will then be discussed.

2.2 Economic importance

In many countries, the importance of business transfers to the economy may well surpass the importance of start-ups. Table 2.1 provides a projected estimate of the number of business transfers in EU countries and the jobs involved, based on three reports (European Commission, 2002; European Commission, 2006; Stone et al., 2004). The number of business transfers per year per country amounts to 3-4% of all enterprises, involving 1.5-2.5% of all jobs per country per year, excluding the entrepreneurs themselves (in most statistics). Thus, approximately one-third of all 9.1 million EU firms with employees face a possible business transfer each decade (European Commission, 2002).

Table 2.1
Projections of business transfers in EU countries

	All enterprises *			Employment
Austria	5 600	2.8 %	45 000	2.0%
Belgium	3 637			
Denmark	10 000	3-4 %	34 000	2.5%
Finland	8 900	4.0 %		
France**	43 160		162 000	1.2%
Germany	71 000		900 000	
Italy	66 000	4.0 %	220 000	
Luxemburg	500		3 000	1.5%
Portugal				
Spain	150 000			
United Kingdom***		> 3.5%	300 000	
Sweden****	5 000			

* For A, B, G, FIN, I, Sp yearly transfers are arithmetic averages of projections for a 5-10 year period.
** Underestimation, real figure is likely to be double the numbers (EC, 2002).
*** Stone et al. (2004), based on extrapolated statistics of owners' age and job losses due to transfer failure.
**** EC (2006)

Dyck et al. (2002) are among the first to suggest that ownership change is essential to the vitality and performance of national economies., Empirical evidence is accumulating, though limited to Northwest European countries, suggesting that transferred businesses outperform start-ups with respect to survival, turnover, profit, innovativeness and employment (e.g. EROV, 2010; KfW, 2009; Meijaard, 2007). Survival for five years, depending on the economic climate, generally ranges somewhere between 35-50% for start-ups, while the figure for transferred firms is 90-96% (Geerts et al., 2004; KfW, 2009; Kommers and Van Engelenburg, 2003; Mandl, 2002). Compared to start-ups, transferred firms ensure 2.5-5.5 more employment (EROV, 2010; KfW, 2009; Meijaard, 2005). Nevertheless, most EU governments fail to recognize the importance of support for business transfers and spend little time, effort and money stimulating programmes for sellers and buyers of SMEs (Crijns and Vermeulen, 2007; European Commission, 2002, 2006; Eurochambers, 2009).

The support of SMEs is vital because 90% of all business transfers occur with limited resources in the micro-firm segment (European Commission, 2002; Van Teeffelen, 2007). Micro-firms are firms with 0-9 employees and studies show they are as viable for sale as small and (10-49 employees) and medium-sized firms (50-249 employees) (Amaral et al., 2007; Stone et al., 2004; Van Teeffelen, 2010b; Wennberg et al., 2010).

What challenges do buyers and sellers of SMEs face in ownership transfer? As the transfer of ownership is a once-in-a-lifetime issue for most entrepreneurs (European Commission, 2002; Meijaard and Diephuis, 2004; Van Teeffelen, 2010b), they tend to lack knowledge and experience of the process. The most commonly mentioned reasons for transfer failure in research include a lack of succession planning (Kirby and Lee, 1996; Lansberg, 1988; Mandelbaum, 1994; Meijaard et al., 2005; Rue and Ibrahim, 1996; Seymour, 1993; Sharma et al., 2003; Stavrou, 1996), the inability to find an appropriate successor (Le Breton-Miller et al., 2004; Meijaard et al., 2005), the delay or postponement of the transfer because of emotional attachment (Flören, 2002; Lansberg, 1999; Sharma et al., 2001; Stone et al., 2004), the failure to obtain financing from a bank (European Commission, 2002; Geerts et al., 2004; Stone et al., 2004), the lack of trust between seller and buyer (Howorth et al., 2004; Sharma et al., 2003; Venter et al., 2003) and the lack of agreement about the sale price (Van Teeffelen, 2010a).

Firm acquirers primarily meet difficulties in financing the transaction, a lack of management or professional experience and legal and fiscal issues (Eurochambers, 2009; Van Teeffelen, 2011a).

2.3 Failure of advisory services

The appeal for support for buyers and sellers in business transfers is widely expressed in the literature due to the complexities met (European Commission, 2002; Kommers and Van Engelenburg, 2003; Le Breton-Miller et al., 2004; Sharma et al., 2001; Stone et al., 2004). While most people can rely on a real estate agent when buying or selling a house - a relatively simple economic transaction - small-firm owners need to be experts on organizational, financial, tax, law and emotional issues (European Commission, 2002; Kommers and Van Engelenburg, 2003; Le Breton-Miller et al., 2004; Sharma et al., 2001; Stone et al., 2004). The use of advisors is thus expected to alleviate the burden placed upon entrepreneurs, since the former are assumed to have specific knowledge and experience of SME business transfers.

Unfortunately, it seems that throughout the EU the market fails to provide adequate professional services and support for small business owners. Studying six different EU countries, including the Central European countries of Poland, the Czech Republic and Hungary, De Waard (2002) observed that professional SME advisors in general target their services at medium-sized firms and are too expensive for small firms. Moreover, studies in the United Kingdom and the Netherlands have shown that many advisors are ill-equipped to provide advice over the entire process of a business transfer (Allison et al., 2007; Stone et al., 2004; Van Teeffelen, 2009a). The Next Business Generation project (2007) collecting data from five EU regions in Germany, Greece, Italy, the UK and Austria, as well as the non-EU country Switzerland, also identified a lack of proper advice for small-firm owners in business transfers.

The studies on the added value of financial advisors in SME business transfers reveal a gloomy picture. Financial advisors have a detrimental effect on post-transfer performance (Morris et al., 1997; Meijaard et al., 2005), increase the duration of the transfer process and have no effect on the price obtained (Van Teeffelen et al., 2011). Analysing more than 1000 SME acquisitions in Belgium, Germany and the Netherlands, Van Teeffelen (2011b) finds that accountants, bankers, business brokers and lawyers have little success in overcoming acquisition obstacles related to financing and unexpected financial shortfalls, as well as cultural and staff problems after acquisition. However, it was found that they do stimulate innovation after ownership change (Van Teeffelen, 2011b). These marginal effects might be explained by the limited experience of the advisors with respect to the entire process, a lack of cooperation between different advisors, or owners disregarding sound advice. To illustrate some of the problems firm owners face when using advisors, the research outcomes of a qualitative study (Van Teeffelen, 2009a) are presented below.

The starting point of the qualitative study was the important role of accountants in business transfers and the potentially different views of other specialist advisors on the main issues in business transfers. Accountants are most often mentioned as advisors by SME owners (Blackburn and Jarvis, 2010), which also holds for SME business transfers (Allison et al., 2007; Bruce and Picard, 2006; Geerts et al., 2004; Meijaard and Diephuis, 2004; Van Teeffelen, 2007). The study concentrates on the main issues in business transfers, interviewing four groups of advisors dealing solely with ownership transfers in SMEs in the period 2006-2008: 25 accountants, 20 business brokers, 14 senior bankers and 12 business consultants from the Chamber of Commerce. Their opinions were contrasted with 10 entrepreneurs who sold their firms in the same period.

Table 2.2
Involvement of advisors in the phases of ownership transfer

	Accountant	Bus. Broker	Banker	Bus. Consultant	Total
Orientation	17%[a]	0%[a]	8%[a]	**58%**[b]	18%
Preparation	**92%**[a]	**71%**[a]	8%[b]	**67%**[a]	65%
Matching	-13%[a]	**71%**[b]	15%[a]	25%[a]	21%
Negotation	-4%[a]	**71%**[b]	8%[a]	-8%[a]	15%
Contract	8%[a]	**94%**[b]	**100%**[b]	-17%[a]	44%
Post transfer	-17%	0%	8%	-17%	-8%

1= most active 0=not mentioned -1= least active

Mean scores with a different superscript differ significantly (p<.05), tested one-way by Tukey HSD

Looking at the totals and bold figures in Table 2.2, which reflect the percentage of active involvement of advisors, it is evident that there is only support for entrepreneurs in the preparation phase, with little support in the orientation, matching, negotiation and post-transfer phases. While accountants are the preferred advisors for SME owners, it is clear that entrepreneurs need 2-3 other advisors to cope with all of the phases in an ownership transfer. This is corroborated in a more recent study covering Belgium and Germany (Van Teeffelen, 2011b).

The negative scores in Table 2.2 indicate that, on average, advisors withdraw in that particular phase. Of the accountants, 25% report that they withdraw in the matching, negotiation and the contracting phases due to potential liabilities if they advised incorrectly. The accountants also reflect their uneasiness during business transfers in depth questions: 30% report role conflicts and 16% know the selling party is withholding information. The results also show that accountants interact significantly less with other specialists, such as lawyers, tax consultants and bankers, than business brokers.

In this study, business brokers seem to be the preferred party to confide in. In reality, De Waard's (2002) findings – advisors target their advice and fees at the mid-market – seem valid. Business brokers tend to disregard micro-firm transactions and others under €250,000, since part of their earnings come from a percentage of the selling price. Thus, the most appropriate advisors are in fact unavailable for the far majority of all transactions in the marketplace (European Commission, 2002).

When using several advisors, what kind of problems might firm owners face in the process of selling or buying a firm? Table 2.3 shows that advisors from different professions disagree about the main issues.

Table 2.3
Issues in ownership transfer

	Accountant	Bus. broker	Banker	Bus. Cons.	Entrepreneur	Total
Future of the firm/continuity	**35%**[b]	0%[a]	0%[a]	0%[a]	10%[a]	8%
Missing info/clarity during transfer	17%	10%	0%	0%	10%	9%
Value or price	22%	15%	8%[a]	8%	**50%**[b]	19%
Preparations	4%[a]	0%[a]	0%[a]	**67%**[b]	0,00[a]	12%
Financing the transfer	0%[a]	25%	**46%**[b]	0%	10%	15%
Emotions	0%[a]	15%	**62%**[b]	0%[a]	20%	12%
Accountant is not proper advisor	0%[a]	**35%**[b]	0%[a]	0%[a]	0%[a]	9%
No specific issues	13%	20%	0%	0%	10%	7%
Mismatch in the market	0%[a]	0%	46%	0%	10%	9%

Mean scores with a different superscript differ significantly (p<.05), tested one-way by Tukey HSD

Each professional field seems to be driven by its own perspective, which is not shared by other specialists. Moreover, advisors seem to be driven by commercial self-interest. Accountants emphasize the future/continuity of the firm, which is in line with their own interest of keeping their client, since selling generally means losing the client. Business brokers point out the inabilities of accountants, their main competitors in the market. Bankers pinpoint emotions, which they mention as a disturbing factor in decision and deal-making. Finally, the business consultants from the Chamber of Commerce mention planning as the main issue, the only service other than orientation that they are allowed to provide. This shows how confusing it may be for business owners to deal with several advisors.

Table 2.4 provides another example of the difference in opinion between advisors and the firm owners on the main solutions. The importance of awareness/information is widely acknowledged by advisors, but entrepreneurs favour the use of a professional advisor. This reveals the importance of adequate advice for firm owners.

Table 2.4
Ways to overcome ownership transfer issues

	Accountant	Bus. broker	Banker	Bus. Cons.	Entrepreneur	Total
Awareness/informing entrepreneurs	60%	54%	23%	92%	**0%**	50%
Have your homework done	16%	0%	31%	8%	33%	14%
Use a professional advisor	0%	31%	46%	0%	**67%**	16%

2.4 Some recommendations

At present, few EU countries have national programmes or provide one-stop business services in relation to business transfers. Most initiatives are either locally or regionally instigated (Crijns and Vermeulen, 2007) or are short-term projects funded by the EU (Eurochambers, 2009). This section discusses some policy implications and examples of formerly successful projects.

1. Create a one-stop shop for business transfers

Experts and researchers have argued that governments, or their agencies, should lower the thresholds for expensive advisory services or encourage comprehensive support programmes for business transfers (e.g. Allison et al., 2007; European Commission, 2002, 2003; Van Teeffelen, 2010b). Experts have also advised EU governments to create one-stop advisory shops (European Commission, 2003).

One way national policymakers can repair market failure is to lower the costs of and access to advice, as has occurred in the German state of Baden-Württemberg, where the costs of advisory services to both the buyer and seller are subsidized by 50% (Ifex, 2008). In Italy, the Saturno project offers vouchers for consultancy and mentoring in family succession, and PMI Next offers 20 free consultancy hours for firms involved in handicrafts (Crijns and Vermeulen, 2007). A project designed to support 100 micro-firm transfers in the city of Amsterdam also revealed the relatively little time in needed for support: well under 40 hours in most cases (STEW, 2008).

There are other ways to provide support to firm buyers and/or sellers, such as offering integral support programmes. In the Belgian region of East Flanders there is provision for ownership transfer programmes at low cost through the BEBEO project (www.erov.be), which organizes 8 meetings and individual support at very low cost for owners selling their firm. Eurochambers (2009), the European Chambers of Commerce, also positively evaluated an extensive programme of 10 meetings and coaching, mainly implemented in France, Italy, Spain and Romania. It should be noted, however, that lengthy and intensive programmes offered during the daytime show low levels of participation (Eurochambers 2009). The explanation for this is quite straightforward: most entrepreneurs have to run their business during the daytime.

One issue ignored in the literature concerns the dominant advisory model – the one-on-one relationship between the advisor and the entrepreneur – which explains the costly nature of advice. Providing group-based programmes and the opportunity to exchange experiences among entrepreneurs are quite uncommon to accountants, business brokers and bankers. However, group programmes can dramatically reduce costs for entrepreneurs without necessarily harming the revenues for advisors. Late, single-afternoon sessions on business transfers with groups of firm owners, providing short and coordinated presentations by three relevant experts and leaving room for discussion and exchange of experiences have proven to be very cost-efficient and highly appreciated by Dutch entrepreneurs (CBW-Mitex, 2009). More generally, PLATO group learning programmes have proven to be successful among entrepreneurs in Belgium, the Netherlands and Eastern European countries (Huysmans, 2010). In these programmes, entrepreneurs learn from one another, invite guest speakers and exchange their experiences at low cost.

In France, while regional and local support is organized differently, at the national level support is organized by the Club des Cédants et Repreneurs d'Affaires (CRA). The CRA is a federation of volunteer former firm owners and entrepreneurs which has branches in all major French cities. They organize meetings, support, coaching for buyers and sellers of SMEs and assist them to gain access to financial institutions.

Sweden uses a different model, involving the Jönköping International Business School (JIBS), which provides documentation and support programmes. Although there is also support available from the JIBS Centre for Family Entrepreneurship and Ownership, it is unclear whether support activities are still subsidized and available for non-family transfers at a national level. As in many other EU countries, national, regional and local support programmes are funded for a limited period and supported by EU money.

2. Improve the transparency, the professional standards and the cooperation between advisors

To gain an impression of the lack of transparency in advisory services, one only need visit the websites of business transfer specialists in any EU country. In many cases it will be hard to find a clear description of their services or any indication of fees, the total number of hours needed for a specific service or examples of the costs and work done. Although most services are negotiable, firm owners have no bargaining power, lacking prior experience and information on fees and the standards of work delivered.

Business brokers, accountants and other advisors who are active throughout the process of ownership transfer should be registered to ensure they comply with the necessary standards in terms of knowledge, skills, experience and quality in cooperation with other specialists. Allison et al. (2007) point out that in many EU countries anyone can call themselves a business broker. Van Teeffelen (2009b) also found that accountants do not learn about business transfers in Bachelor's or Master's programmes and in practice are poorly equipped to support firm owners in business transfers, yet they are the most relied on advisor during such transfers (e.g. Geerts et al., 2004). Associations for accountants, business brokers and other transfer specialists could help to ensure professional standards and better cooperation between the different specialists. Providing affordable and transparent services, not only costly one-on-one assistance, will be a major challenge for business transfer professionals and their associations. More concern about evidence-based methods might be a concern for professional associations. So far there is no proof of the added value and credibility of advisors in business transfer transactions (e.g. Morris et al., 1997; Meijaard et al., 2005; Van Teeffelen, 2010b).

3. Use uniform definitions and improve registration

Research and policy evaluation in the domain of SME business transfers is challenging for two reasons: a lack of a clear definition of business transfers and inadequate registration within and among EU countries (e.g. Van Teeffelen, 2010b). Not surprisingly, the European Commission (2002, 2006) urges EU members to implement public registers for business transfers using straightforward criteria. This should be an issue for policymakers, since studies of the economic impact and evaluations of programmes will be very costly without a proper registration system (Eurochambers, 2009; Van Teeffelen, 2010b). Austria is a good example to follow as it is already very actively involved in defining and registering business transfers, both in family and non-family firms. Consequently, the Austrian government can build on scenarios of economic growth, sector-specific developments and population demographics based on the number of business transfers to be expected (Mandl and Voithofer, 2010). They are also able to evaluate their policies, since the number of successful business transfers and the effects of the support programmes can be identified.

Other countries still rely on estimates of the number of ownership changes and their effects on the economy, with the lowest and highest estimates of the number of ownership transfers differing in some instances by a factor of three (e.g. European Commission, 2002; Van Teeffelen, 2010b). A business transfer was defined in the introduction to this chapter. Here it is suggested that, preferably, public registers should register ownership transfers of all firm entities such as sole proprietors, private partnerships and private limited firms.

2.5 Conclusions

Ownership changes provide for innovation, growth and employment, much more than start-ups. The complexities of an ownership change make SME sellers and buyers dependent on inadequate and expensive advisory services. There are some underlying patterns in the market failure to provide advice. First, advisors tend to focus on mid-market parties in terms of size and transaction price, ignoring 90% of all transactions in the market. Second, there is no one-stop shop available, forcing buyers or sellers to hire 2-3 different professionals. Third, accountants, business brokers, business consultants and bankers seem to disagree about the main issues in ownership transfer, their positions reflecting their respective self-interests. Fourth, their services are expensive due to a one-on-one advisory model, rather than the alternative of low-cost group learning and support programmes. Fifth, only few advisors are able to advise throughout the entire process of an ownership transfer. Finally, thus far research has been unable to prove the added value of advisors in ownership transfers. This might be due to low professional standards of advisors in relation to cooperation and a lack of education and experience. The call by the European Commission in 2002 for better support of ownership change is still pending.

Creating an affordable one-stop shop and structural national support programmes for business transfers and a transparent, uniform national register of ownership transfer may improve the monitoring and success of business transfers, thereby contributing to the revitalization of national economies.

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Chapter 3
Differences in profile between starters and acquirers

3.1 Introduction

The Dutch television programme *Ik vertrek* (I'm leaving) follows people who emigrate and attempt to build a new life as an entrepreneur through the acquisition of a business. The problems highlighted by the programme are:

- They do not speak the local language, or lack knowledge of the market and customs.
- They buy without knowing all the ins and outs.
- Their only work experience was gained in employment, not as an entrepreneur.
- They fail to obtain the required financing or end up with a double financial burden.
- There are nearly always cost-overruns and lower earnings than expected.

The programme also shows that these problems usually give rise to great tension within families.

There is a surprisingly small body of scientific research into the different profiles of starters and takeover entrepreneurs. During the preliminary phase of this study, only 9 studies were found, most of which were of European origin. Human capital factors (gender, age, education, work experience, entrepreneurial experience and management experience) in particular were compared in the various studies. The most important conclusion from the preliminary study:

"Persons with work, entrepreneurial and management experience, knowledge of the line of business in question and a higher income tend to opt for acquisition rather than starting their own firm. A striking aspect in relation to this is that acquirers are generally better educated than successors, but less well than starters. In matters of entry choice attention should be paid to the differences per sector, because where the entry threshold is high, or start-up costs are considerable, a takeover is more likely than a start-up." (Van Teeffelen, 2011a, p. 2)

The more widely available publications about the failure and success factors in business transfers indicate that in addition to human capital factors, personal characteristics and the competences of entrepreneurs also play a vital role. The preliminary study concludes:

"There are also more entrepreneur-specific competencies that are vital to the success of an acquisition or succession. They include a good relationship with the buyer, knowledge of the market, flexibility, perseverance and the ability to manage change. Besides, these characteristics are valuable in realizing the funding of an acquisition. The timing of the acquisition, having some capital of your own and market conditions are also crucial factors". (Van Teeffelen, 2011a, p. 2).

3.2 Relevance

Dutch public bodies invest large sums in ambitious projects and provide extensive support to stimulate starters in a variety of ways: in regional public participation companies, incubators, starter and techno-centres at universities and large start-up programmes. Do potential firm acquirers or successors enjoy the same level of support? No, not at all (see Chapter 2)!

There is reason to doubt the massive use of resources for starter programmes. While international studies have shown that starters reinforce the competitive power of business and industry, in the long term they have a negative effect on employment (Van Praag and Versloot, 2007; EIM, 2011). Firm acquirers, much more than starters, have very high survival rates and contribute more to innovation, turnover and employment (EROV, 2010; KfW, 2009; Meijaard, 2007).

Various researchers assume that starters and entrepreneurs are a homogeneous group with identical characteristics. The economists from the Global Entrepreneurship Monitor do this implicitly by not differentiating between starters and acquirers (e.g. Hessels et al., 2009). Economic psychologists using the trait approach assume that entrepreneurs form a more or less homogeneous group which can be recognized on the basis of a fixed set of traits such as a willingness to take risks, perseverance, drive for achievement and self-confidence (e.g. Markman and Baron, 2003; Driessen, 2005; Rauch and Frese, 2007). The question is whether this assumption is correct.

A number of notable studies that deal with the differences between starters and acquirers use data from the 1970s (Coopers and Dunkelberg, 1986) or the early 1990s (Parker and Van Praag, 2012), yet there have been important demographic developments within the Dutch population of entrepreneurs since the 1990s. For example, the number of female starters has risen considerably, from 25% in 2000 to 40% in 2010 (Bleeker et al., 2011; Kamer van Koophandel, 2011). The average age of starters has also increased, to 38 years. The cause of the increase in age is the growing influx of starters of 50 years and older (Kamer van Koophandel, 2011; Brummelkamp, 2011). Thus, are the findings from the 1970s and 1990s still valid in 2011?

If any differences emerge in the profiles of starters and acquirers, the question is whether those differences have a predictive value towards business performance. Furthermore, what contribution to business performance do human capital factors make in comparison to personality traits?

The research questions that are central to this chapter are:

1. What are the differences in the profiles of starters and acquirers?
2. Are there differences between different types of acquirers, such as acquisition by management buy-in (MBI), management buy-out (MBO) or successors in a family firm?
3. What are the characteristics that predict the business performance of starters and acquirers?
4. To what extent is support for entrepreneurs available and necessary, and what kind of support?

3.3 Sample

This study defines starters as entrepreneurs who have become active by starting their own business, while acquirers are entrepreneurs who have become active by taking over an existing firm. A takeover is defined as an acquisition/succession of more than 50% of assets or shares from another person or legal entity (Van Teeffelen, 2010b).

The entrepreneurial sector of the Dutch Chamber of Commerce, consisting of 9,275 entrepreneurs, was selected as the population for this survey. This group is representative of the Dutch population of entrepreneurs, although higher educated entrepreneurs and entrepreneurs over 50 years of age are overrepresented, while the number of employees per firm is slightly higher compared to the core data of Dutch SMEs (EIM, 2011). The same bias returns in our data set.

A random sample of 2,922 entrepreneurs was drawn from this panel in three rounds in February, April and September 2011. Of these, 2,298 entrepreneurs responded to the survey, a response rate of 79%. No selection bias was observed among the respondents.

The data set comprises 25% women and 75% men. The distribution of legal status of the firms is: single-owner business 60%, partnership 12%, private limited company 25%, other 3%. More than half of the entrepreneurs were over 50 and more than half had completed university level education. Of the entrepreneurs 92% had a micro-firm (0-9 FTEs), 33% had no employees, 33% had one employee and 33% had 2 or more employees. On average, there was 4 FTEs of employment in addition to the entrepreneur.

An analysis of 1827 starters and 413 acquirers was undertaken, on which the results below are based unless indicated otherwise. The acquirers comprised 50% family successors, 25% management buy-ins and 25% management buy-outs. The two-sided tests were carried out using T-tests, univariate analyses and hierarchical regression analyses.

3.4 Results

Previous studies indicate that acquirers are older and have more managerial experience (Amaral and Batista, 2006; Coopers and Dunkelberg, 1986; Parker and Van Praag, 2010), more experience of the sector in question (Kay and Schlömer, 2007) and are less educated than starters (Helleboogh et al., 2009; Oudmaijer, 2006; Parker and Van Praag, 2012). These studies have also shown that acquirers have different motives to starters: they are driven less by the economic climate, market opportunities and dissatisfaction with their work/work prospects than starters (Oudmaijer, 2006).

Table 3.1
Human capital and motives

Human Capital

Variables	Starter	Difference	Acquirer
Gender	26% female	>	17% female
Age at registration	41 years	>	37 years
Education	HAVO/VWO+ (5.3)	>	HAV/VWO- (4.8)
Work experience	18 years	>	13 years
Management experience	11 years	>	9 years
Sector experience	44%	<	50%
(Previous) owner of another firm	28%	=	28%

Motives

Variables	Starter	Difference	Acquirer
Being my own boss	agree	=	agree
Well payed/earnings	neutral	=	neutral
Hard to find the right job	neutral (2.4)	>	disagree (1.8)
Dissatisfied with my work	neutral (2.8)	>	disagree (2.2)
Paid off	disagree (1.8)	>	total disagree(1.4)
Market opportunities	agree (4.1)	>	agree (3.9)

Siginificant at p< 0.05

Table 3.1 shows that the differences in motives in 2011 correspond to earlier findings. There is a strikingly large difference between starters and acquirers as to their dissatisfaction with their job or the poor opportunities on the labour market as a motive to become an entrepreneur. This may be an indication that some starters opt for entrepreneurship out of necessity. There is a relatively small difference between starters and acquirers in relation to 'market opportunities' as a motive.

Surprisingly, the findings show that the population of starters is on average older than that of acquirers. This is in contrast to the findings of previous research. The most obvious explanation for this unexpected finding lies in the large group of over 50s who now become starter entrepreneurs (Chamber of Commerce, 2011). This also serves as an explanation of why it is starters and not acquirers who have more work and management experience.

The results corroborate earlier findings that starters are more highly educated than acquirers. Moreover, women are better represented among starters than among acquirers.

There is an assumption, certainly in the Netherlands, that entrepreneurs are a more or less homogeneous group as to personality (Brummelkamp, 2011). But is this true?

Table 3.2
Personality traits and competences

Traits and competences

Variables	Starter	Difference	Acquirer
Dominant	2.70	<	2.96
Goal-oriented	4.08	>	3.95
Risk-taking	3.43	>	3.29
Endurance	3.63	<	3.75
Need to achieve	3.66	=	3.66
Self-reliance	3.58	>	3.38
Sociability	3.76	>	3.69
Flexibility	3.67	>	3.62
Market awareness	3.46	<	3.77
Siginificant at $p < 0.05$			

Table 3.2 shows that acquirers have a lower risk profile than starters. However, the biggest differences can be found in the area of dominance (drive to manage/lead), endurance and market awareness (knowing what the competition does). There are no differences between the competences of social skills and flexibility when starters and acquirers are compared.

The acquirers in this study are made up of 50% family successors, 25% acquirers through a management buy-in and 25% acquirers through a management buy-out. Previous research has shown that there is a difference between family successors and MBI and MBO acquirers in terms of level of education (e.g. Coopers and Dunkelberg, 1986) and external experience (e.g. Van Zwol and Flören, 2010). Family successors have a lower level of education and have less work and management experience.

Table 3.3. shows that within the group of acquirers, family successors are the youngest (36 years of age), followed by MBO (37) and MBI (39). The family successors are less educated and have less work, sector and management experience than MBO and MBI acquirers. The question remains, however, whether these human capital factors are significant to turnover in the long run (see Section 3.5).

There is no difference between the various acquirers in terms of motives behind opting for entrepreneurship, or personal traits and competences. There is *one* exception: the motive of being your own boss is stronger in the case of management buy-ins and significantly higher (4.49) than in the case of family successors (4.17). Thus, acquirers can be regarded as a homogeneous group from the point of view of motives and personal traits.

Table 3.3
Differences between family successors and MBO and MBI acquirers

Human capital	Family successor	MBO	MBI
Gender	19% female	18%	13% female
Age at registration	36 years	37 years	39 years
Education	HAVO/VWO (4.7)	(5.0)	HAVO/VWO (5.1)
Work experience	9 years	16	16 years
Management experience	7 years	10	11 years
Sector experience	40%	71%	46%
(Previous) owner of another firm	25%	32%	29%
Siginificant at p < 0.05			

The significance of personality traits is often underestimated in studies of entrepreneurship. Differences in personality traits may affect the performance of a business directly or indirectly (Rausch and Frese, 2007). If this is true, personality traits could be as important as human capital factors in predicting firm performance. The question is whether there are differences between starters and acquirers when it comes to the kind of predictors of business results. Table 3.4 shows the relationship between the various predictors and absolute turnover.

Each asterisk in Table 3.4 represents a rounded-off value of 0.05 as a predictor (standardized beta coefficient). Green asterisks indicate a positive relationship and red asterisks indicate a negative relationship to the level of turnover or the increase in turnover over several years. The variable of income dependence on the business has been included as a control variable in the analysis.

Table 3.4
Predictors of turnover in 2010 and increase in turnover in 2008/2009/2010

Control variable		Starter	Acquirer	Starter	Acquirer
100% dependent on firm results	no/yes	*****	*****	0	0
Human Capital		**2010**	**2010**	**08/'09/'10**	**08/'09/'10**
Gender	f/m	****	***	0	0
Education		**	0	0	0
Age in 2011		**	0	*****	**
Work experience in years		***	**	***	0
Management experience	no/yes	**	0	**	0
Sector experience	no/yes	*	0	0	0
(Former) owner of other firm	no/yes	***	0	0	**
Traits and competences		**2010**	**2010**	**08/'09/'10**	**08/'09/'10**
Dominant		*	***	0	0
Goal-oriented		0	**	0	0
Risk-taking		0	**	0	0
Endurance		**	***	**	***
Need to achieve		0	0	0	0
Self-reliance		0	**	0	0
Sociability		0	**	0	0
Flexibility		0	0	**	**
Market awareness		**	**	0	**
Number of respondents		1519	327	1669	339

The following conclusions can be drawn from the table:

1. In the case of starters, human capital factors are the primary predictors of the turnover, whereas in the case of acquirers a decisive part is played by personality traits.

2. In the case of starters age is very important. Work and management experience are compensatory factors here. Looking at the long term, the older a starter, the smaller the increase in turnover. The more work and management experience a starter has, the bigger the increase in turnover. Age is less significant in the case of acquirers and is compensated for by their previous entrepreneurial experience.

3. There are big differences in predictors across the short and long terms. While men perform considerably better than women in terms of turnover in 2010, there is no difference between men and women when turnover growth is measured. The effects of age and work experience change completely when the turnover measurement changes. Thus, in the short run the number of years of work experience has a negative effect, whereas this changes into a positive effect in the long run. While nearly all characteristics of acquirers are of significance to their absolute turnover in 2010, only perseverance, flexibility and market awareness play an important part in explaining the increase in turnover over several years. The effect of dominance, significant to turnover in 2010, disappears completely when turnover growth is taken into account. The differences found between the levels of turnover could point to the specific circumstances of 2010 when, after the recession of 2009, economic growth was realized once again and entrepreneurs invested.

4. The differences with regard to predictive personal traits when comparing starters and acquirers become less when the growth in turnover over several years is taken into consideration. The important personal traits for both groups in this respect are perseverance and flexibility.

5. Although we saw above that there are differences between starters and acquirers, and among acquirers themselves, these differences are not always significant enough to predict business results. The level of education is indeed a significant factor for starters when it comes to the prediction of turnover, but it does not play a role in the case of acquirers. With respect to turnover growth, younger entrepreneurs with less work, sector and management experience do almost as well as acquirers with more experience. This is good news for family successors.

6. On the whole it appears that only 2 of the 18 predictors show a consistent effect for starters and acquirers: perseverance, which predicts better turnovers, and being achievement-driven, which has no effect on turnover. The remaining 16 personal characteristics have different effects.

3.5 Conclusions

The most important conclusion from this study is that an acquirer is a different type of entrepreneur to a starter. There are not only differences in their motives and personal characteristics, but other characteristics are also of importance in predicting the growth of their business. Human capital factors in particular are essential to growth in the case of starters, while the role of personal characteristics is decisive for acquirers.

Generally, the differences vary from those found in studies using data from the 1970s and 1990s. Starters in particular are now the older entrepreneurs and have more work and management experience, possibly due to the large number of over-50s who now start their own businesses. There are other human capital factors that affect starters and acquirers with respect to predicting growth in turnover. Age is very important to starters and has a negative effect, but this may be compensated for by work and management experience. Age is of less importance in the case of acquirers and is not compensated for by work and management experience but by previous entrepreneurial experience.

There is a notable difference between starters and acquirers regarding dissatisfaction with their job or poor opportunities on the labour market as motives for becoming an entrepreneur. Acquirers seem to be more satisfied with their jobs and the opportunities offered by the labour market. Thus, it might be more difficult to talk them into an acquisition. As target groups, that of the acquirers is smaller than the starters and may be harder to reach. Good campaigns to attract acquirers – who may also be active entrepreneurs – seem advisable, of which there is no history at present. The second and third generations in a family firm should also not be forgotten; although there is no guarantee that they will take over the family business, they do have an above-average interest in taking over other firms.

As to personal characteristics, acquirers can be recognized by a higher level of dominance, higher market awareness, higher perseverance and less willingness to take risks. In contrast to starters, acquirers must have more capital available to receive additional funding for an acquisition.

The differences between the various types of acquirers are relatively small and mainly relate to their level of education, and work, sector and management experience. In this regard, family successors lag behind MBO and MBI acquirers. However, the good news is that the level of education and experience seem to have no effect on the growth in turnover of a business that has been acquired. A possible explanation is the fact that the difference in the levels of education is very small and that it is more important to have the right kind of experience. With respect to experience, it might also be asked whether there is any difference between 7 and 10 years of management experience. Perhaps specific experience and not generic experience, as measured in our items, is of more significance.

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Chapter 4
Applying knowledge

4.1 Introduction

Scientific research, both theoretical and applied, is strongly driven by the desire to publish in scientific journals. In this regard a contribution to theoretical knowledge is often considered more important than knowledge that can be applied in practice. When researchers at universities are assessed, they are generally not held accountable in terms of tangible contributions to innovations in SMEs or improvements in policy: they even find it annoying when they are approached by firms or entrepreneurs (Van Praag, 2011).

The aim of researchers at business schools is to close part of the gap between theory and practice. Although it is also in the interests of researchers at these universities to publish in scientific journals, they are not solely assessed on their contribution to the body of knowledge (theory), but also on their contribution to the body of practice (practice and/or education), which is equally important. Researchers at the Research Centre for Business and Innovation at HU Business School Utrecht are held accountable with respect to their contribution to the innovative capacity of entire business sectors, groups of professionals and/or the renewal of programmes for students. This is reflected in the modest funding of research by the Faculty. The search for partners, as well as individuals and institutions to finance or co-finance practice-based projects, is a continuous challenge to and concern for all researchers, with the renewal of their four-year tenure heavily dependent on their funding success and contribution to the body of practice.

Giving back knowledge can be done in several ways: by setting up and organizing new educational programmes and lifelong learning, developing easily accessible instruments for entrepreneurs, contributing to policymaking or policy evaluation through research, or supporting a trade or professional association through projects and innovation. The following sections will discuss which aspects can best strengthen the body of practice.

4.2 Educational innovation

Research into business transfers has led to the development of a Business Acquisition and Franchise minor at HU Business School, which was introduced in the 2010-2011 academic year. A modest start in distinguishing between starters and acquirers has been made. Small Business and Retail Studies, as well as other similar courses for entrepreneurs would be well advised to differentiate between these two groups (see Chapter 3) and develop separate programmes for the students in question. Our business school prepares 15 to 20 students annually for the acquisition of a firm, most of whom want to buy into an existing firm or take over a business.

The students are guided through the entire process as a real buyer over six month period. Firstly, the student's own entrepreneurial profile is drawn up and several career paths are compared. This is supported by various tests and the study of relevant scientific publications. Simultaneously, a search for the firm that will be taken over, as well as comparable competitors, is begun. Secondly, a strategic post-acquisition plan is drawn up in which the buyer analyses innovation opportunities and changes regarding the business model, both of which must be financially supported. Thirdly, the essential fiscal and legal aspects are dealt with and, finally, the chosen firm is assessed and a due-diligence inspection carried out.

4.3 The succession scan

Another way of giving back the knowledge gained in research is by building internet-based tools. With this in mind, the succession scan (www.opvolgingsscan.nl) was developed in cooperation with Dr Martijn Driessen of Entrepreneur Consultancy and is designed to assist for entrepreneurs who want to sell their business. By answering simple questions without exposing confidential financial matters users gain an idea of how they can improve their chances of success.

The test is entirely evidence-based, which means that the predictions made are all based on scientific studies undertaken in the past few years, including our own. The major scientific insights, also discussed in Chapter 1, have been incorporated into the succession scan.

Research has made it clear that entrepreneurs themselves can influence the chance of success (De Jong and Van der Velde, 2005; Van Teeffelen, 2010). Knowledge of the market, social skills and flexibility contribute to a successful transfer process. The profile of the entrepreneur in this respect is measured by the succession scan.

Economic conditions, sector-specific and local developments greatly affect the chance of success of a business transfer. The number of buyers in the market is much smaller when the economy is in a downturn (Meijaard, 2006). If there is little demand, it may indeed be impossible to sell a business. Therefore, timing is essential and, in fact, the business should be ready for sale at any moment. The succession scan provides information and tips that can be applied quickly.

Does this mean that an entrepreneur should make extensive plans for a transfer, perhaps even 7 to 10 years before the actual date, as is suggested in many books? No, our research shows that extensive planning does not affect the chance of success of a business transfer (Van Teeffelen and Uhlaner, 2010). From a fiscal perspective, however, it can be attractive to adapt the structure of a firm and/or make use of fiscal facilities. There is, for instance, the possibility of engaging in a so-called 'silent transfer', in which the seller does not have to settle accounts with the tax office. The succession scan also handles this issue. Planning also contributes order to the process and leads to more satisfaction after the transfer (Sharma et al., 2003; Van Teeffelem and Uhlaner, 2010). Even this aspect can be consulted on the succession scan.

The level of education of an entrepreneur with respect to business transfers is subsidiary to the specific experience the entrepreneur has gained, for instance, with buying and/or selling a business (Van Teeffelen, 2010b).

Financing is the main issue in many business transfers. Banks play a major role in the Netherlands. What does a bank look at, what does it consider? How can you increase your chances of obtaining credit? Is it wise to include fixed assets in the sale, or not? All of these questions are answered by the succession scan.

In short, the succession scan enables every entrepreneur to gain an idea of their own position and that of the firm. Armed with answers and tips entrepreneurs are given a solid platform on which to stand when entering into talks with buyers, takeover specialists and banks. Advisors and banks can also benefit from such a scan, which they might offer their clients. This will provide them with insight into the position of the entrepreneur, allowing them to provide specific support or advice.

4.4 Some future contributions

In the period 2007 to 2012, one or two popular scientific reports about business transfers were published each year. Through our research we hope to focus unflagging attention on the issues and thereby improve policy and the support for transfers and takeovers.

The reports – having been produced in close cooperation with the Dutch Chamber of Commerce – have already generated media interest in 'Takeover Days', and the outcomes of our research have led the Chamber of Commerce to adapt its information packets and services and to lower the age of people eligible to receive them. They have also stimulated owners of SME takeover sites to be more aware of the quality of their sites and encouraged the national media to pay more attention to business transfers. In May 2011 this media attention in internet forums and the financial press led to questions in parliament about the support for business transfers. Chapter 2 makes it clear that the Netherlands is not doing very well in supporting firm acquirers compared to the countries around us. No lessons have yet been learnt from good practice abroad. The government mantra was and is that the market should organize the support for business transfers, whereas national and international studies have shown that the market has no interest in 90% of all transfer and takeover transactions (see Chapter 2).

At the moment we work with external partners to actively support events, workshops and presentations on buying or selling a firm, reaching 2,000-3,000 entrepreneurs. In the near future we hope to design a low-cost national programme and, more importantly, evaluate its added value compared to advisory services.

Recently the Dutch Academy for Research Entrepreneurship was founded, with the challenging acronym DARE. As the representative of our university in this organization I have the privilege of further stimulating cooperation between research institutes and universities in the field of entrepreneurship.

Our Research Centre for Innovation and Business is frequently involved in large-scale sector innovations. A major question we ask ourselves is how we can ensure that these projects have effects beyond the short term, with our ambition being to strengthen groups of entrepreneurs over a longer period. We are now pursuing the monitoring of the dynamic capabilities (Teece, 2007) of firms to measure the vitality of businesses. Such capabilities ensure the readiness of firms to constantly change in response to the desires of their customers, the capabilities of their employees and the technological changes in their environment. Research on SME dynamic capabilities is in its infancy, but cooperation with the University of Nordland in Norway currently offers us the opportunity to validate a test which can measure dynamic capabilities over time.

Initiating projects together with trade organizations and professional groups is the final manner in which our knowledge is developed and utilized. Although there are a few new projects in the pipeline – for example a large EU grant application with three of our foreign partner universities to increase the support of SMEs by student teams – no definitive project has yet been approved. It is the ambition of the Research Centre for Innovation and Business to support lines of business, or parts of them, to improve business models. This includes aspects such as viability, creating value and revitalizing firms by succession or acquisition.

4.5 References

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My work of many years as a management consultant and programme manager has taught me that reconciling interests, co-creation and aiming for tangible results are the keys to success. It has also made me aware of the fact that many professionals, whatever their discipline, find it hard to change their views and methods. As most things are subject to change, this will change as well. I am grateful to my close colleagues for our joint explorations.

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Curriculum Vitae

Lex van Teeffelen (1958) was raised in an entrepreneurial family. After obtaining a Master's degree in Social Psychology at the VU University in Amsterdam he started his career as an academic researcher. Being more attracted to supporting organizations than to writing about them, he worked for 15 years as a management consultant, and in a senior role has assisted boards and middle management in strategy, decision-making and implementing major process innovations.

Since 1999 Van Teeffelen has worked at the HU Business School Utrecht, first as a part-time senior lecturer, later as the programme manager for Innovation and Change. He has combined management, teaching and consultancy projects with research on SME business transfers. In 2010 he successfully defended his PhD dissertation at Nyenrode Business Universiteit on the subject of 'Exploring Success and Failure in Small Firm Business Transfers'.

In September 2011 has been appointed as (research) professor. Curious about the effect of succession in the development of SMEs and dazzled by the complexity of ownership transfers, he is now developing tools as well as educational and research programmes to improve the success rate of ownership transfers. His research is primarily funded by external partners such as the Dutch Chamber of Commerce, professional and trade associations and grants.

Colophon

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