

EUROPEAN EXAMPLES IN SUPPORTING THE TRANSFER AND SUCCESSION OF FAMILY BUSINESS

Velizar Petrov

Regional Development Agency with Business Support Centre for Small
and Medium-sized Enterprises – Plovdiv

Phone: +359878461438 E-mail: velizarp@hotmail.com

Abstract. After the creation and growth of a business, transfer is the third crucial phase in its life cycle. Business transfers/successions are standard in the business life cycle as well as in the entrepreneur's life cycle. Succession is a process that may extend from three to six years, or longer depending on entrepreneur's age and on the successor's age. This happens once in a lifetime and that is why it is extremely important to do it in an optimal way with minimal shocks and losses. Therefore, this process must be supported by optimal measures not only at the company but also at the regional level. The aim was to explore possible solutions, including digital tools, for support from the regions of Europe. The methods for research from the office and exchange and collection of good practices of organizations supporting the business were used. As a result, we created a collection of good practices and possible solutions to be transferred to Bulgaria. An action plan has been set up to change strategic documents at national level. The changes were included in the documents for the next planning period. High-value results were achieved at the national level. In conclusion - the transfer and inheritance of business are a less risky alternative for starting a business and a prerequisite for a sustainable business ecosystem.

Keywords: *business succession, family companies, management/digital solutions/tools*

I. INTRODUCTION

After the creation and growth of a business, transfer is the third crucial phase in its life cycle. Business transfers/ succession are standard in both life cycle of the business and life cycle of the entrepreneur. Inheritance/succession is a process that can last from three to six years or more, de-pending on the age of the entrepreneur and the age of the heir/successor.

Why is business transfer/succession important? A successful business transfer has an immediate positive impact on the national and EU economies. This happens once in a lifetime and that is why it is extremely important to do it in an optimal way with

minimal disruption and losses, therefore this process must be supported by optimal measures, including digital, not only to companies but also at the regional level. Our aim was to explore possible solutions to support business transfer and succession in the regions of Europe. The methods for research from the office and exchange and collection of good practices of business support organizations were used. As a result, we have created a collection of good practices and possible solutions, including digital, to be transferred to Bulgaria.

What is the problem? Planning of heritage as a topic is at the center of attention of the private sector more than 20 years in countries with long-standing democracies, but in Bulgaria, as well as in some post-socialist countries, this process was interrupted and now the country is in a period in which the time has come to make the first transfer of business from the owners-creators of business in the beginning of democracy, and their direct successors/heirs. The main problem is the broken tradition and the lack of experience and legislative framework for this. On the other hand, we are in a great position to take advantage of other people's experience and good practices.

One of the main reasons why succession planning is so important is that because key employees retire or leave for other reasons, they bring with them practical knowledge of how to do their job, as well as institutional knowledge of the company. the organization.

Succession planning is a critical factor in a company's long-term success. If a key CEO resigns or if an unforeseen event removes senior management from their role, we need to be confident that the business will continue. In general, transfers of family businesses are often challenging and, in some cases, do

not occur as planned as only 30% of family businesses survive in the second generation and many fail soon after the transfer, 12% survive in the third, and only about 3% work in the fourth generation and beyond. With the aging of the population in many countries, the volume of business transfers is expected to increase sharply.

Whether changes are planned or not, if there is no effective strategy for succession/transfer, business continuity can be compromised.

What are the current solutions/research of the problem at the moment, including digital? So far, the main attention is paid to the study of the process of transfer/succession of business at the company level, much less at above company/ regional level, and at the level of policies and strategic documents - such research is almost absent.

What are the best solutions? There are no universal solutions. Each one should be adapted to the specifics of the environment. It is generally accepted that family involvement in business makes the family business unique, but the literature continues to encounter difficulties in defining the family business. This also creates difficulties in creating appropriate policies and strategic documents addressing this group.

What have we achieved? Based on the good practices from countries outside Bulgaria, we have selected and adapted three main tools to be implemented in our country. They were approved by the Ministry of Economy and will be tested in Bulgaria within a few years.

II. REPRESENTATION

Small and medium-sized enterprises are an extremely diverse category, which means that special efforts are needed to properly cover the various subgroups and especially small family and traditional enterprises. Many of the world's largest companies are also family-owned. The European Commission encourages the support of small family and traditional businesses, as they are a key element in setting up new activities and generating income in areas with poor resources. They bring added value to the regional development process, especially in less developed regions, as they have deep roots in the local economy, where they invest and contribute to maintaining of employment. The importance of watching in the long run is laid down from generation to generation and this is one of the many distinguishing features of the family

business. It has also been proven to be a source of their endurance. Especially clearly this is seen in the pandemic COVID-19 the efforts of the old generation (historical memory) and the new generation (flexibility and progress) to meet the challenge. There is a prevailing trend that the COVID-19 pandemic is catalyzing - the speed of the inheritance process has increased for many companies worldwide. This is due to a number of reasons, including the death of the founders and liquidity problems in the business.

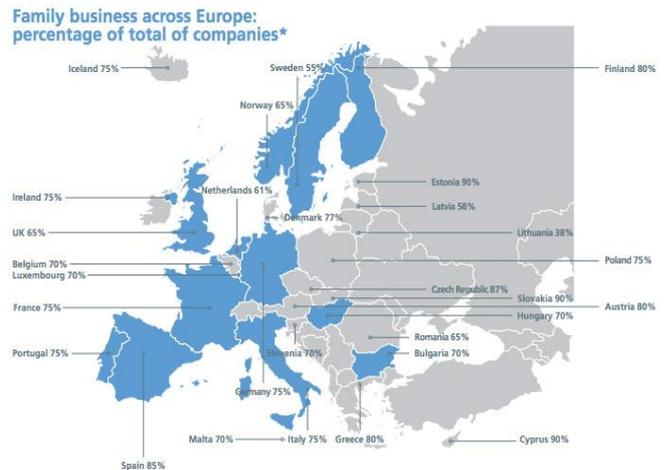


Fig. 1. Family business in Europe (% of total companies) [1].

In Europe, this unique category plays a vital role in the economy:

- Family business is an important part (on average 40-50% of all jobs) in European private employment.
- Family businesses reinvest profits responsibly, preferring equity instead of debt financing.
- Act as responsible owners because of their long-term strategy to the interests of stakeholders, including employees, customers, shareholders and local communities.
- Transmission of family values with a high sense of social responsibility.
- Special care for the local or regional base.
- Natural incubators of entrepreneurial culture, they encourage the next generation of European entrepreneurs.
- Managers of social and economic capital from one generation to another.

The main advantages of family businesses are their long-term perspective, the specific values that form their unique organizational culture, and their commitment to the local community. Their unique culture is based on the values promoted by family

stakeholders, such as a high degree of trust in the company and a high quality of services or products offered.[2]

It is generally accepted that family involvement in business makes the family business unique, but the literature continues to encounter difficulties in defining the family business. This also creates difficulties in creating appropriate policies and strategic documents dealing with this group. The main focus is on family small and medium enterprises and less on large family businesses, for example. Adequate policies are needed to ensure that we give the next generation the best chance. To succeed, we need a strong legal and regulatory framework for these business transfers to happen.

Every year, about 450,000 family businesses, which employ about 2 million people, face this challenge. About 150,000 companies close down each year due to a failed succession settlement, leading to the loss of 600,000 jobs.

What is needed:

- Greater emphasis and attention on business transfers by policy makers
- Tax and regulatory frameworks that do not put family businesses at a disadvantage when transferring
- Accurate annual data on the transfer of the business situation in Europe
- Improved dissemination of best practices between Member States
- More public support for support, especially small and medium-sized, family businesses better prepare their transfers.

For almost three years, we exchanged experiences and good practices with organizations from 8 regions (Germany, Denmark, Poland, Finland, Romania, Slovenia, Spain and Bulgaria) of the European Union, and how they deal with the challenges of business transfer. Each of them focused its efforts on the impact of various policy instruments, including digital, - laws, strategies, regional plans and others, to optimize the environment in which the transfer and inheritance of business take place. We in Bulgaria focused on optimizing the National Strategy for Promotion of SMEs in Bulgaria 2014-2020.

What actions and tools did the organizations from the nine regions choose to optimize their policy instruments?

Germany: The Action Plan [3] focuses on the Operational Program of the Land of Brandenburg for the European Social Fund (ESF) for the funding period 2014-2020.

The Brandenburg Action Plan consists of three actions (A). The Ministry of Economy, Labor and Energy of the Province of Brandenburg is responsible for the implementation and monitoring of all actions under this action plan. The Ministry of Economy and Energy is responsible for the implementation and monitoring of the third action.

A1: Development of a concept for a "Business Transfer Competence Centre". It is designed as a one-stop shop for all aspects of business transfer.

A2: Regional succession clubs. With this approach, the successors are given the opportunity to exchange experiences with other future successors and to improve their knowledge and skills in a small closed group.

A3: Program to increase the attention of SME owners to early consideration of the transfer and business succession. The program is aimed at entrepreneurs aged 55 and over. The aim is to increase the sensitivity of business owners, to consider continuing their business earlier and to find an agreement on succession.

A4: Workshop for transfer, together with project iEER.

Denmark: The Action Plan [4] focuses on the Decentralized Growth Strategy 2019, the program "Increased Competitiveness of SMEs", funded by the European Regional Fund and funds for the promotion of decentralized business.

A1: Awareness raising/program for owners-managers with potential for succession. Free one-stop-shop information, along with other traditional channels, to raise awareness.

A2: Succession screening and mentoring. The idea of the action is through screening to recruit SMEs with the greatest growth potential for individual succession. The concept is to create a strategy for successful transfer of the company through an individualized succession plan and to ensure the potential for growth to be realized after the succession. Mentoring by the independent public business service to assist the owner-manager in his/her succession planning efforts. Private specialists and experts will be involved in

solving specific problems and providing a professional succession plan.

A3: Voucher for consulting services. The idea is to help SME owner's amateur in the use of private specialists and experts in the field of succession. The concept is to offer 50% payment for private specialists and experts.

Poland: The Action Plan [5] is directed towards the Regional Operational Programme of the Małopolska Region for the years 2014-2020.

A1: Direct introduction of procedures and processes related to strategic planning and implementation of continuity in the catalogue of consulting services provided under the sub-measure "Vouchers for consultations" of the Regional Operational Programme of the region of Lesser Poland 2014 - 2020

A2: Increasing access to knowledge and raising awareness about business transfer among entrepreneurs from the Małopolska region

A3: Network of the heirs of the Małopolska Region Increasing the level of readiness for continuity among the companies from the Małopolska region thanks to the organization of the pilot edition of the programme.

E4: Strengthen cooperation between institutions in the region in the field of promoting available inheritance instruments.

Finland: The Action Plan [6] focuses on the Finnish Structural Funds Program: Sustainable Growth and Jobs 2014-2020. Only one action is planned earlier.

A1: Business transfer service platform

Romania: The Action Plan [7] focuses on operational programs funded by the EU and the national budget.

A1: Promotion and raising awareness of the importance of business transfer in events organized and funded by Ilfov's council.

A2: Business transfer support, guidance and advice.

A3: Online platform for connecting contacts for business transfer

Slovenia: The Action Plan [8] focuses on the Operational Program for the Implementation of the EU Cohesion Policy 2014-2020 and the Regional Development Plan of the Gorenjska Region 2014-2020.

A1: Raising awareness

A1.1 Continuity map

A1.2 Emergency planning

A2: Connection

A2.1 Network of succession consultants

A3: Support services

A3.1 Seminars for preparation of succession plan

A4: Financing

A4.1 Financial product for business transfer

Spain: Action Plan [9] targets Andalusia's ERDF Operational Programme 2014-2020.

A1: Creating an integrated framework for business succession and transfer in Andalusia. This action aims to ensure the coherence and long-term sustainability of the policy approach and measures to promote and facilitate business continuity and transfer in Andalusia.

A2: Development and dissemination of information, awareness-raising materials and technical support.

A3: Training of staff to provide consulting services in business transfer

A4: Special program to support the transfer of business in rural areas

Bulgaria: Taking into account all types of inheritance and business transfer - within the family (from father and/or mother to son and/or daughter), outside the family - to investors/employees, as well as mixed decisions - transfer only to management, but not to ownership, as well as by analyzing the good practices and action plans of colleagues from 8 regions of the European Union, we have selected and adapted three main instruments to be implemented in our country. They were approved by the Ministry of Economy and will be tested in Bulgaria within a few years.

In the course of the research, we found the following problems:

- There is no specific definition and study of the family business, including a definition of "family business"

- There are no specific support tools for family business and business transfer

- There are no organizations to support business transfer

Regarding the National Strategy for Promotion of SMEs in Bulgaria 2014-2020, given that "small and medium-sized enterprises" are an extremely diverse category, we recommended to define a sub-group "Family Enterprises".

We have developed the following activities in our action plan [10]:

A1. Local network for managers-owners (successors): In Bulgaria more than one third of the current business owners will reach retirement age in the next ten years and very often there is no one within the family who can be transfer business, nor is there much practice of transferring business outside the family circle. The pilot local network is for family business owners who have reached the stage of transferring the company to the next generation or transferring the business to other companies; looking for opportunities to transfer business to new managers or stakeholders.

A2. Regional Business Transfer Platform (RBTP): This action focuses on business transfer and succession, a topic often overlooked and not recognized as a priority in industrial policies and entrepreneurship. On the one hand, the RBTP will provide access to useful documents as well as a training platform. On the other hand, it will provide succession and business transfer services to family businesses in which business management is "ripe" for the use of such services. The RBTP will also work as a tool for downloading and disseminating. The RBTP will lead to overall coordination of business transfer support, will help increase the lack of consulting and business transfer support services, including improving the quality of micro-enterprise transfer arrangements. The RBTP service is planned to serve all companies located in the region.

A3. Financial instruments / mentoring schemes. Certification. The purpose of the activity proposal is to provide financial support through a voucher scheme to SMEs and organizations based in Bulgaria who want to be prepared for the process of succession/transfer of business through consulting services as a financial instrument. Vouchers can be used to purchase specialized consulting services (including succession and transfer) that are not related to the company's normal operating expenses (eg routine tax consulting services, regular legal services or advertising). The councils should cover, inter alia, procedures and processes related to the strategic planning and implementation of the succession, with special emphasis on areas that are crucial for ensuring further activity and stability of the company's work.

III. CONCLUSION

How did the proposed actions plan to change/improve the strategy/policy?

A1 The local network of owner (successor) managers will contribute to creating and maintaining an environment in which entrepreneurs can thrive and entrepreneurship is rewarded: care for future entrepreneurs, in particular by promoting entrepreneurial interest and talent. The local network for owners-managers (recipients) will contribute to the transfer of business measures aimed at the smooth implementation of business transfer and achieving a more positive effect on the development of sustainable market competitiveness of Bulgarian SMEs.

A2 The Regional Business Transfer Platform will contribute to creating and maintaining an environment in which entrepreneurs can thrive and entrepreneurship is rewarded: care for future entrepreneurs, in particular by promoting entrepreneurial interest and talent. The regional platform for business transfer will contribute to the transfer of business measures aimed at the smooth implementation of business transfer and will achieve a positive effect on the development of sustainable market competitiveness of Bulgarian SMEs.

A3 Financial Instrument / Mentoring and Certification Schemes will contribute to creating and maintaining an environment in which entrepreneurs can thrive and entrepreneurship is rewarded: caring for future entrepreneurs, in particular by promoting entrepreneurial interest and talent. The financial instrument / mentoring and certification schemes will contribute to the transfer of business measures aimed at the smooth implementation of business transfer and achieving a positive effect on the development of sustainable market competitiveness of Bulgarian SMEs.

The situation in Bulgaria: The situation in Bulgaria, as of March 13, 2020, is subject to measures to combat the COVID19 pandemic with a number of restrictions. In 2020 we were engaged in the development of plans and programs for the next programming period 2021-2027, such as "National Plan for Reconstruction and Sustainability of the Republic of Bulgaria", "National Strategy for SMEs 2021-2027". We participated in workshops and discussions for the development of the National Strategy for SMEs 2021-2027

As a result: the family business is included in the National Strategy for SMEs 2021-2027 based on our participation. The definition of family business is

adopted in the national strategy 2021-2027. The draft technical report includes an in-depth analysis of SMEs in Bulgaria and the relevant measures.

REFERENCES

- [1] Overview of Family Business Relevant Issues' Kmu Forschung Austria Report (January 2009), Statistical Pilot
- [2] Klimek, Jan, INT/765 – EESC-2015-00722-00-00-AC-TRA Становище на ЕИСК относно „Семейните предприятия като източник на подновен растеж и по-добри работни места“, Брюксел, 17.09. 2015г., <https://webapi2016.eesc.europa.eu/v1/documents/eesc-2015-00722-00-00-ac-tra-bg.docx/content>
- [3] IHK-Projektgesellschaft mbH, “Action plan to support the transfer of business in the region of BRANDENBURG”, 2019, www.interregeurope.eu/stobregions/library/#
- [4] Business Development Center–South Denmark, Action Plan for the Region of Southern Denmark, 2019, www.interregeurope.eu/stobregions/library/#
- [5] Region of Malopolska “Action plan to support the transfer of business in MAŁOPOLSKA region”, 2019, www.interregeurope.eu/stobregions/library/#
- [6] Kainuun Etu Ltd., “Action plan to support the transfer of business in region of KAINUU, FINLAND”, 2019, www.interregeurope.eu/stobregions/library/#
- [7] Ilfov City Council, “Action plan to support the transfer of business in region of Bucharest – Ilfov”, 2019, www.interregeurope.eu/stobregions/library/#
- [8] BSC Kranj, “Action plan to support the transfer of business in region of GORENJSKA”, 2019, www.interregeurope.eu/stobregions/library/#
- [9] Chamber of Commerce Seville “Action plan to support the transfer of business in region of ANDALUCIA”, 2019, www.interregeurope.eu/stobregions/library/#
- [10] RDA BSC SMEs – Plovdiv, “Action plan to support the transfer of business in region of Bulgaria, NUTS3 Plovdiv region”, 2019, www.interregeurope.eu/stobregions/library/#