

INTRODUCTION TO SUCCESSION PLANNING/BUSINESS TRANSFER

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RELEVANCE OF SUCCESSION

Company succession is the transfer of the property and/or management of a firm from one individual to another (Ip and Jacobs, 2006) regardless of whether this individual has family connections to the firm, already works for the firm or is an outsider (Olbrich, 2005)

By 2040, \$10.4 trillion in wealth will be transferred from one generation to the next, much of it funneled through family businesses (estimates from the US)

According to estimations a large number of all EU entrepreneurs will leave their firms within the next ten years (Commission of the European Communities, 2006). In absolute terms: some 690,000 SMEs and 2.8 million jobs will be affected every year

Unfortunately, only 30% of first-generation businesses survive into the second generation.

Of those that do survive to the second generation, only 12% make it to the third generation.

Only 3% make it to the fourth generation and beyond.

CHALLENGES ARISING FROM SUCCESSION PLANNING I



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Succession is less frequent in SMEs than in large companies, so practical experience is relatively low

Smaller pool of talent on which to draw

The knowledge of the incumbent as well as some key employees may be a source of competitive advantage



- lack of key knowledge after transfer is executed

CHALLENGES ARISING FROM SUCCESSION PLANNING II



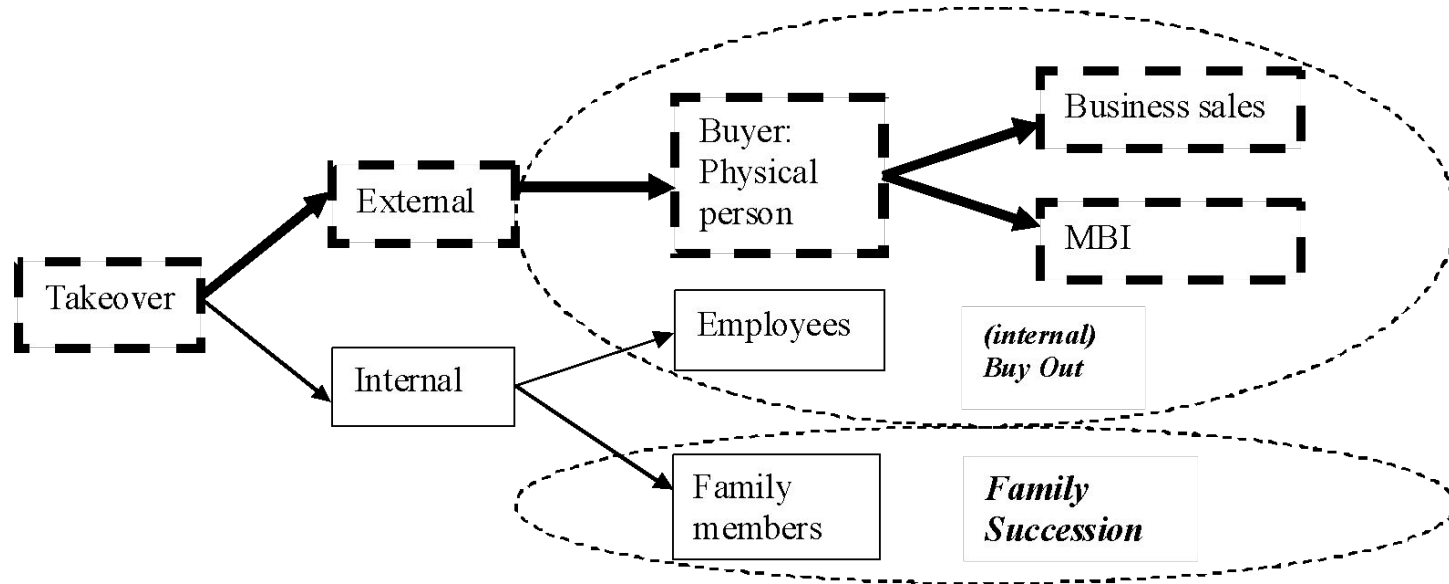
Reality shows that successors are required to learn everything what the company is made of

- loss of valuable time needed for more important activities

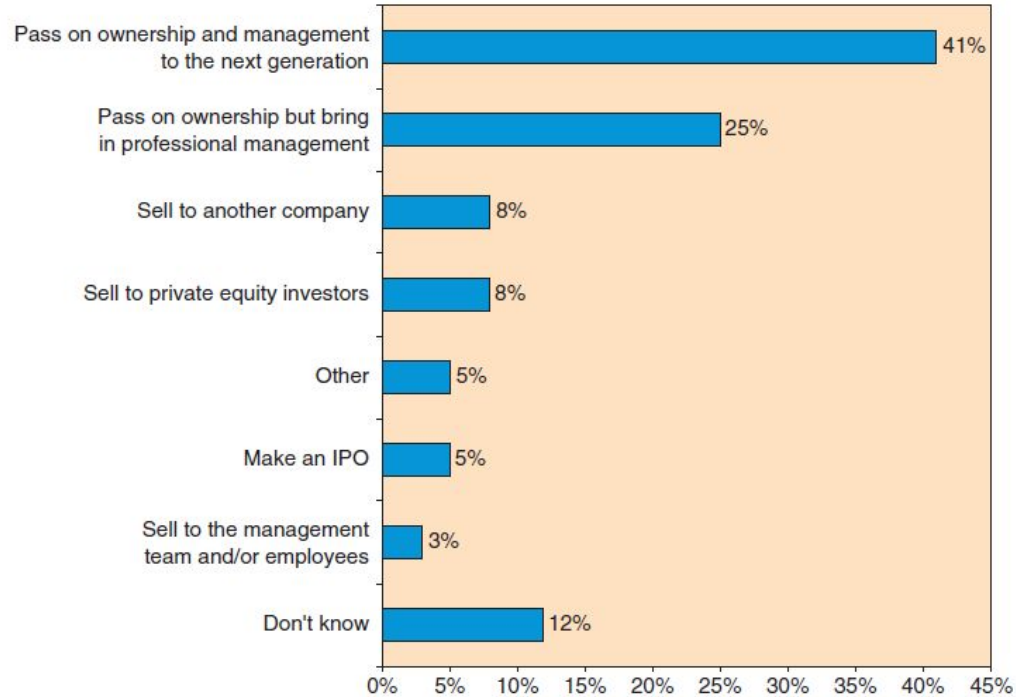
Dealing with emotional factors between potential successors and the incumbent



FORMS OF TAKEOVER



EXIT STRATEGIES (IN THE US)



EXIT STRATEGIES (IN THE US)

Entrepreneurs planning to retire often use two exit strategies:

- Sell to outsiders
- Sell to insiders
 - Leveraged buyout (LBO)
 - Employee Stock Ownership Plan (ESOP)

ECONOMIC REALITY SPEAKS IN SUPPORT OF EXTERNAL TAKEOVERS/BUSINESS TRANSFERS (EUROPE)

The survival rate for company formations through business transfers is higher than that for new venture creations (Austrian Institute for SME Research, 2004; OSEO, 2005; Entrepreneurship Foundation, 2010)

More jobs are created by already established rather than new firms (Pasanen and Laukkanen, 2006) i

The changing demographic trends and decreasing interest of family members will lead to a lack of successors in family firms (Entrepreneurship foundation, 2010)

The majority of business transfers are non-family meaning external transfers (Van Teeffelen et al., 2011)

DIFFERENCES BETWEEN INTERNAL AND EXTERNAL SUCCESSION I

- External successors lack an overview of the strengths and weaknesses of the company (not given with buy-ins)
- Because of inferior access to information a higher amount of time needs to be spent on analysing the company □ information asymmetry problem
- External successors will be provided with no or only little time to grow into the owner-manager's role.
- The (longer term) relationship assists in the establishment of trust between incumbent and prospective successor which in turn facilitates the flow of information and knowledge.

DIFFERENCES BETWEEN INTERNAL AND EXTERNAL SUCCESSION II

- The danger of company blindness should not be underestimated with internal successions. Likely situation: prospective successor sticks with existing, but not optimal, structures or processes.
- External succession is expected to be more promising because it offers access to new ideas and point of views from outside the firm, also less commitment to the status quo can be assumed.
- In case of external succession, it might be more difficult to find out whether the phase the company is in suits the successors' abilities.
- External persons are interested in companies that call for restructuring.

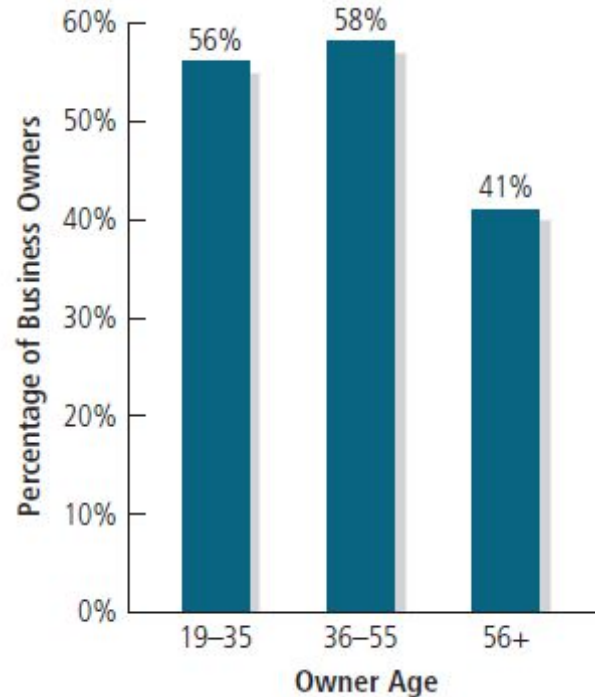
MANAGEMENT SUCCESSION

For a smooth transition, family businesses and SMEs need a succession plan

- Although 95% of small business owners acknowledge the need for a succession plan, only one in eight actually has a written plan in place for leadership continuity



BUSINESS OWNERS WHO HAVE SUCCESSION PLANS





SUCCESSION PLANNING

According to Sambrook (2005, p. 580), succession planning refers to the “attempt to plan for the right number and quality of managers and key-skilled employees to cover retirements, death, serious illness or promotion, and any new positions which may be created in future organisation plans”.

Succession planning is believed to help affected organizations to address this challenge (Pynes, 2004), as it can provide relevant information about needed knowledge and capabilities.

SUCCESSION PROCESS

Model for company succession process (Ballarini & Keese, 2006, p. 442)

	Incumbent				
phase	Planning	Preparation	Realization	Retreat	Retirement
He/she possesses	Property & management	Property & management	Property & management	Management	

	Successor				
phase	Planning	Preparation	Realization	Establishment	Consolidation
He/she possesses		Property or management	Property & management	Property & management	Property & management



PROBLEM OF SUSTAINING ENTERPRISE KNOWLEDGE

- Most knowledge is kept in the heads of the owner and some key employees
- Existing know-how is undervalued
- The smaller the company the less it has an overview of the firm's knowledge i
- Only modest measures are introduced to foster knowledge management
- Limited internal resources complicate the issue of knowledge retention / knowledge management
- (Often) centrality of owner-manager. He/she possesses most of the firm's human and relational capital

ROLE OF KM IN ADDRESSING THE CHALLENGES

- Stronger integration of the meaning of knowledge into SMEs' succession process
- Stronger focus on the strategic dimension of intangible assets/knowledge assets
- Increased activities on findings ways to transfer (tacit) knowledge (and also using them)
- Implementation of appropriate means to store and disseminate knowledge
 - Increased meaning of succession planning

LINK BETWEEN SUCCESSION AND KM



In the case of succession, the retention (and transfer) of critical knowledge represents a critical aspect in view of a company's continuity, as the knowledge of the incumbent and some key employees may be the source of the firm's competitive advantage (Barney, 1991).

There is a strong relationship between human capital dependency and firm size (Huggins & Weir, 2012).

DEVELOPING A MANAGEMENT SUCCESSION PLAN (PART 1)

Guide to successor selection

Step 1. Requirements for successor and compensation package

Step 2. Evaluate potential candidates

Step 3. Inform successor

Step 4. Inform company environment

Step 5. Transfer of management (and ownership). (Includes coping with the financial realities of estate and gift taxes as well as non-financial realities.)

DEVELOPING A MANAGEMENT SUCCESSION PLAN (PART 2)

Guide to successor training

Step 1. Determine knowledge to be transferred

Step 2. Transfer of knowledge

Step 3. Determine responsibilities to be transferred

Step 4. Transfer responsibilities

DEVELOPING A MANAGEMENT SUCCESSION PLAN (PART 3)

Guide to employee involvement

Step 1. Determine employee involvement

Step 2. Involve employees

Step 3. Determine responsibilities to be transferred

Step 4. Transfer responsibilities

SOME RESEARCH FINDINGS



RESEARCH AIM

To better understand how SMEs tackle the aspects of knowledge management and succession planning



RESEARCH APPROACH

Strategy of inquiry

- Qualitative approach

Research method

- Series of semi-structured interviews
 - Guided interview approach
 - Between October – December 2011



Level of analysis

- 10 owner-managers of small firms from Austria and Liechtenstein

Data analysis


- Pattern matching

CHARACTERISTICS OF THE FIRMS SURVEYED

Interviewee	Industry	Characteristic			Company's age	Number of employees	Turnover rate
		of industry	Legal form	Position			
1	Spice	Stable	Plc	Managing director	39	13	low
2	Trade (Software and computer accessory)	Rather dynamic	Partnership	Managing director	15	23	low
3	Printing	Dynamic	Plc	Managing director	85	50	low
4	Mechatronics	Rather stable	Limited company	Managing director	61	12	low
5	Corrosion prevention	Dynamic	GmbH & Co. KG	Managing partner	153	40	low
6	Software (medical)	Rather dull	Est.	Founder and managing director	8	15	low
7	Main contract work	Conservative	Limited company	Managing director	38	37	low
8	Printed media	Dynamic	Limited company	Owner-manager	26	40	low
9	Printing machines	Dynamic	Limited company	Managing director	0.75	21	low
10	Engineering (drive technology)	Stable	GmbH & Co KG	International Sales Manager	62	220	low

PRESENTATIONS OF FINDINGS I

Succession planning

- Succession is mainly associated with the owner-manager's own person
- Succession is not a matter of concern before a certain age
- No preferences concerning succession solutions 
- Substitutes address short-term drop outs!

PRESENTATIONS OF FINDINGS II

Knowledge Management

- Knowledge is relevant
- Participants are aware of knowledge concentration with some organization members. Challenge to tackle skills shortage
 - Solutions used: in-firm training, knowledge sharing, developing and training internal replacements
- Emphasis on continuous training
- Sources of new knowledge: external formal and informal contacts
 - considerable individual tacit knowledge is at hand
 - 👍 in day-to-day business
 - 👍 in the context of succession

DISCUSSION AND CONCLUSION I

Participants are aware of the potential danger of departing organization members

- they know their risk!

Demographic changes imply a need for action

- Retaining and utilizing critical older staff beyond retirement age
 - Design of (new) employment contracts
- Change of mind-set
- Replacement solution (including the owner's own mortality)

DISCUSSION AND CONCLUSION II

Implications for managerial practice

- For practitioners: Stronger need to initiate actions to tackle the danger of knowledge attrition
- For policy makers: Provision of specialist support to help managers to initiate action within the firm, e.g. support in recruiting process, more events underlining the attractiveness of working in SMEs