

Involvement of Accountants and Bankers in SME Transfers: Perspectives and Witnessed Difficulties

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Summary

Experts and researcher stress the importance of preparation and planning in SME transfers. Stevenson & Lundström (2002) identify other factors of importance and Le Breton-Miller et al. (2004) find that theory and research tend to overlook contextual and process variables. To extend an earlier study (Van Teeffelen et al, 2005) 25 accountants and 14 bankers were interviewed to identify the main issues, problems in SME transfers. Accountants and bankers have different roles and involvements in SME business transfers. Despite their different roles accountants and bankers seem to have a shared vision. Both of them see opportunity or contextual factors as most important (withholding vital business and financial information, finding buyers, financing, involvement of banks). Bankers also mention motivational or process factors (letting go, postponing the transfer). Planning and preparation is considered less important.

Although this study confirms previous results, it is too early to generalize our findings. The sample was relatively small and only taken in The Netherlands. For future research we recommend to take into account opportunity (amount of buyers available, withholding information and possibilities to attain credit facilities), motivational (the emotional aspects of letting go and postponement) alongside ability factors like planning and preparation to study SME transfers.

Keywords: SME business transfers, bankers, accountants, family business

1. Introduction

The EU (EU Commission, 2002) and research stress the importance of a long preparation of 3-5 years and succession planning (Morris et al, 1997; Kommers & van Engelenburg, 2003; Sharma et al, 2003; Le Breton-Miller et al 2004, Meijaard & Uhlaner, 2005). In doing so, they focus on the preparation and planning abilities of the owner or selling party.

According to Stevenson & Lundström's (2002) framework, entrepreneurship is not only shaped by ability. Also the perceived opportunity and the motivation of the entrepreneur are important. Le Breton-Miller et al (2004) note in their review on succession in family business that theory and research tend to overlook contextual and process variables, contrary to consultants/practioners. Van Teeffelen et al (2005) confirm Le Breton-Miller et al findings. But contrary to Le Breton-Miller's, Van Teeffelen et al. report that consultants don't mention long term planning and preparation as a key factor.

The market for buying and selling small businesses seems vital as opportunity factor in terms of Stevenson & Lundström (2002) and contextual variable in terms of Le Breton-Miller et al (2004). The market is imperfect (EU Commission 2002). On the supply side many small business owners postponed their decision to sell their business. On the demand side, most entry

into small business ownership occurs through new business start-ups (Meijaard, 2005). Retirement is the main reason for business transfers in the many EU countries and Canada (Floren, 2002; Geerts, 2004; Meijaard, 2004; Bruce & Picard 2005). Now the economy is flourishing the expected retirement of the baby boom generation could become reality and disrupt the marketplace. Finding buyers seems relevant since the majority of the transfers in The Netherlands are non-family transfers (Meijaard, 2005). Research among several EU regions indicates that non-family succession have more problems in acquiring credit facilities than family transfers in transfer situations (Geerts et al, 2004). Contact with buyers, bankers and access to credit facilities to finance transfers seem vital marketplace variables.

As motivational factor in terms of Stevenson & Landström (2002) and process variables in terms of Le Breton-Miller et al (2004) the the readiness for the concumbent to let go of the business seems an important predictor a successful transfer (Venter, 2003; Sharma et al, 2001) indicate that the business owner inability of letting go is the single most cited obstacle to effective succession. Kommers & van Engelenburg (2003) also mention the psychological aspect as the most decisive. During the transfer process the actual business owner could obstruct a successful transfer, showing indecisiveness and delaying the transfer (Landsberg, 1999; Flören, 2002).

This paper likes to extend the preliminary study of Van Teeffelen et al. (2005), introducing accountants and bankers as vital advisers and assessors in SME business transfers (De Waard, 2002; Geerts et al., 2004; Bruce & Picard, 2005). Four questions are leading:

- What is the role and involvement of accountants and bankers in the SME transfers?
- Do accountants and bankers have a shared vision on problems in SME transfers?
- Do they have a shared vision in their suggestions to overcome these problems?
- How important are planning and preparation in comparison to others factors?

2. Method

Two qualitative studies were conducted between December 2005 and February 2006. Accountants of 25 firms (n=25) and senior bankers (n=14) of the five main banks were interviewed with a set of open questions. All accountants and bankers work mainly or exclusively for the SME segment.

Table 1: Set of open questions

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1. In which phases of the transfer are you most active?
 2. In which phase of the transfer are you least active?
 3. Are there other experts you involve in the transfer?
 4. What are the major issues in a SME transfer?
 5. Which factors do account for difficulties regarding business succession?
 6. Do you have suggestions or solutions to overcome these difficulties?
 7. A business transfers may result in loosing your client? How do you deal with that?
 8. How do you deal with the emotional aspects of the transfer?
 9. Suppose a buying party introduces himself to you. How do you assess this person?
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The accountants (n=25) work for very small (15), medium (5) or large firms (5) specialized in the SME segment. Dependant on firm size the accountants handle on average 2, 6 or 10 transfers per year. On the selected items we didn't find differences between small firms and medium/large firms in frequencies.

Of the 14 interviewed bankers 12 operate in special transfer/succession teams. Among them there are two national coordinators, four regional senior managers and 8 senior financiers, advisors or account managers. SME Business transfers are daily business for most bankers.

We didn't statistically test for differences between small firm and medium/large firm accountants or accountants and bankers on the items. The required minimum amount of five observations per cell for Chi-square testing was frequently not met. Moreover statistical testing wouldn't add to this descriptive study since Chi-square testing of differences is known to be very conservative for small samples.

To prevent bias of the interviewers, the interviewers were unaware of the transfer models or theory and were trained in general interview and research skills only. The answers of accountants and bankers were processed and categorized independently by two student teams. Subjects gave frequently more than one answer. If so the percentage of given answers and the average number of answers per subject are reported.

We divide the transfer process in five phases:

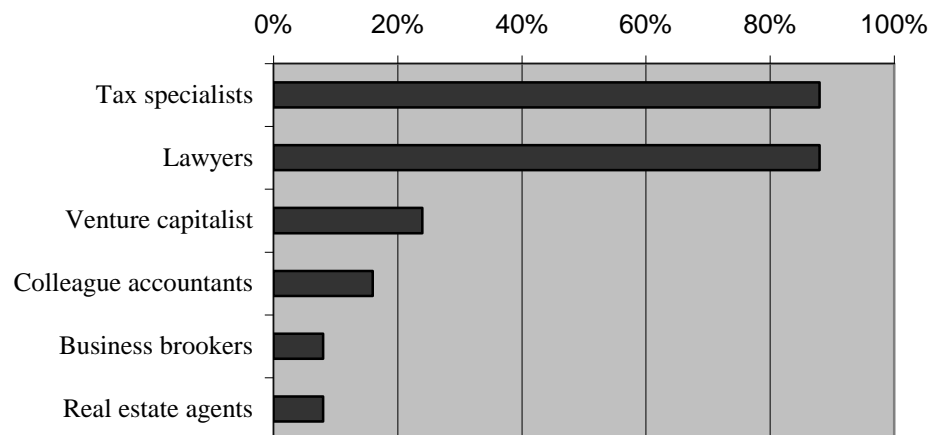
1. Orientation (transfer strategy: how, when, what, who and transfer planning)
2. Preparation (preparing the business for sale, valuation, asked price, bid book and business information for buyers, long list of potential buyers)
3. Matching and Negotiation (actively contacting buyers, first meetings, initial negotiations)
4. Contracting (letter of intent, due diligence, final negotiations)
5. Closing and transfer (final contract, legal transfer of shares or property)

3. Results

3.1 Main results accountants study

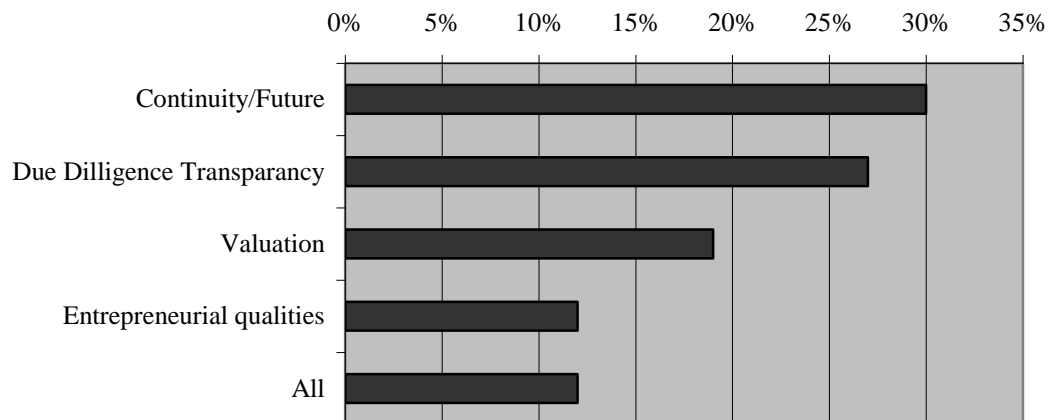
The accountants are involved in all phases of the transfer. They coordinate 75% of the transfers they handle. As coordinator they work both in their controller capacities as well as advisor. They are least active in the matchmaking phase and the negotiations (only 56%).

Table 2: Parties involved by accountants



Nearly all of them (88%) involve tax advisers and lawyers in the transfer process. Not a single accountant involves bankers and only a small minority (22%) involves venture capitalists.

Table 3: Accountants on main issues



Accountants predominately take the perspective of the buying party - even if they work for the selling party - giving priority to the future and continuity of the business and a transparent transfer process. Most accountants gave just one answer (n=25, number of answers given = 32).

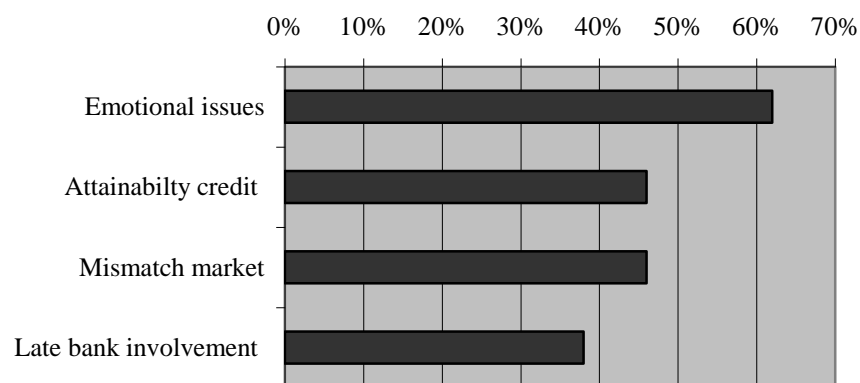
The two most mentioned causes for transfer problems are concealing financial and business information (debts, liabilities, tax claims) and getting credit facilities for the transfer (see plotted in Table 9). Both could be categorized as opportunity or contextual factors. Each accountant gave on average 1.7 answers (n=25, number of answers = 42). Working together closely and coaching the client through the process, is the single most mentioned solution, mentioned by 48 % of the accountants. Only 17% see no solution to these problems (n=25, number of answers=29)

80% deal with conflicts and emotional problems themselves. They take a lot of time for talking and listening (organize family sessions, coach business owners) to overcome emotional issues. 96% of the accountants take the loss of their clients due to new ownership for granted.

3.2 Main results bankers study

Bankers participate only in the contract phase of the transfer, where credit facilities are needed to finance the transfer. Contrary to accountants all the bankers fight to maintain their customers. Business transfers become more and more important to banks, due to the expected increase of transfers and the possibilities of cross selling services. Shifting from credit assessors into advisors, these specialized bankers inform, talk through scenarios and look for alternatives. 70% of the bankers involve affiliated financial specialist or business brokers. 30% of the bankers look for participating in SME transfers themselves.

Table 4: Bankers on main issues

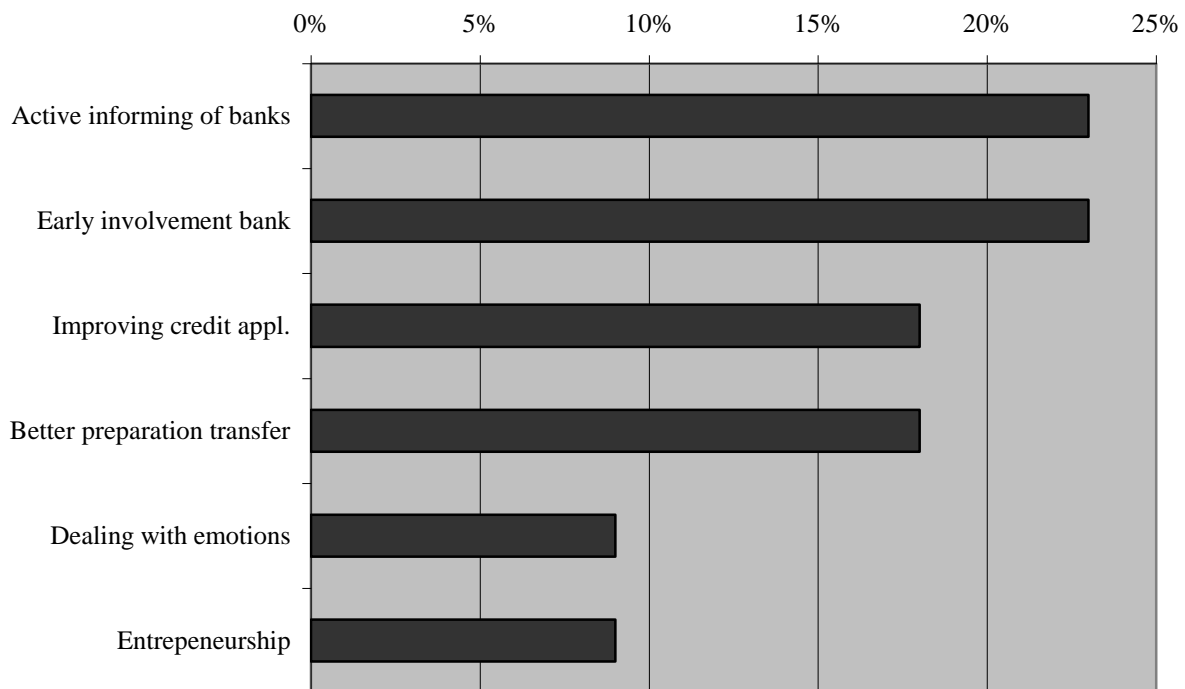


Bankers see the motivational factors or process variables (postponing succession, letting go of the business) in the transfer and the opportunity or contextual factors (the attainability of credit facilities, the late involvement of the bank and mismatches in the market) as the main issues. Each banker gave 2.4 answers (n=13, number of answers = 31).

The main problems that arise with SME-transfer are due to emotional problems, late bank involvement, no credit facilities and the problem of finding buyers (see plotted Table 6).

Bankers gave an average of 1.7 answers (n=14, number of answers = 24)

Table 5: Solutions by bankers



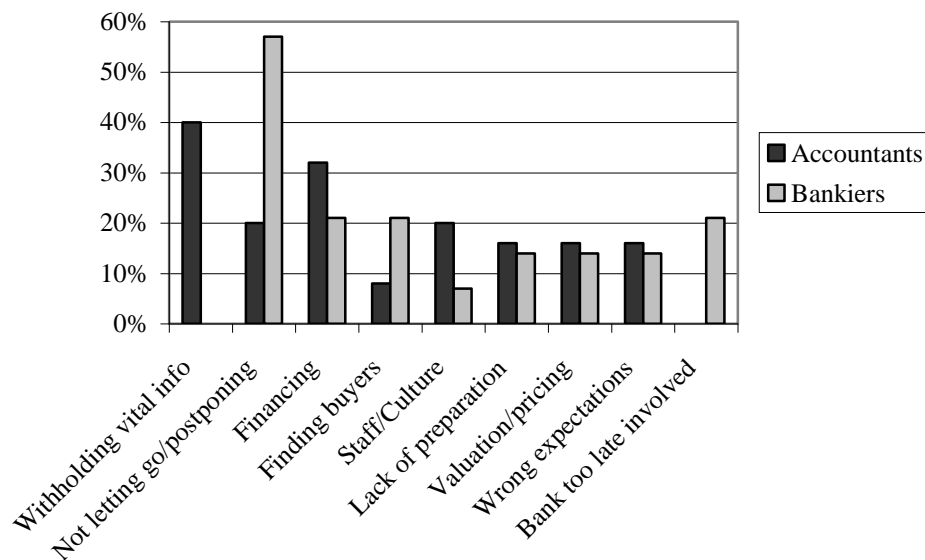
Bankers have no clear solution for this problem. Earlier involvement in the transfer process and bankers informing their clients more actively are the two most mentioned. Better credit applications and a better transfer preparation are also frequently mentioned. Each banker gave 1.7 answers (n=13, number of answers=22).

3.3 Plotted results

Accountants guide their client through the whole transfer process. Bankers are only involved at the contract phase but would like to move in earlier in the transfer process. In being so involved the accountant is closer to motivational or process factors than the banker.

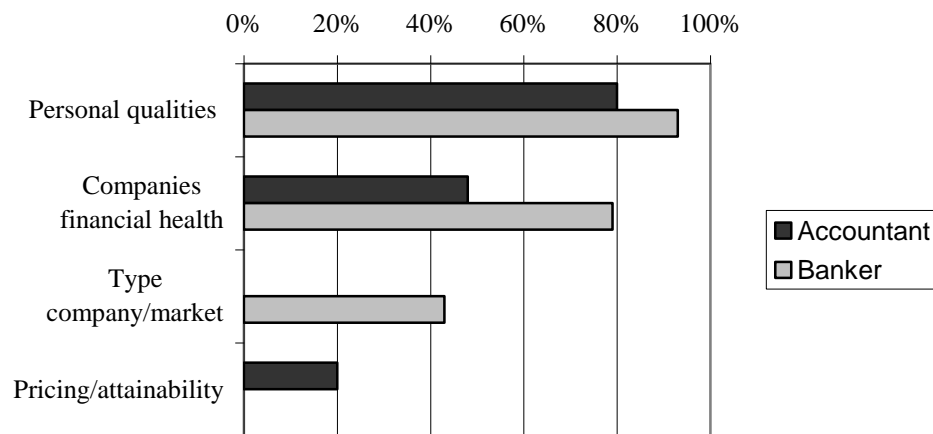
Accountants and bankers have a common perspective. They both look at opportunity or contextual factors. Accountants call it continuity and the future of the business, bankers look at marketplace conditions. Bankers also mention motivational or process factors, which are normally dealt with by accountants.

Table 6: Main problems in SME-transfers



The plotted results of the main problems in transfers indicate a shared vision. They both gave 1.7 answers per individual. Both bankers and accountants mention emotional aspects and finding credit facilities among the three most important problems. Accountants point out that number one problem is the withholding of vital financial or business information. Bankers point at the emotional aspect of a transfer and also mention the late involvement of the bank and the problem with finding buyers. Dealing more with the emotional aspect of transfers and for a longer period, accountants rate the emotional aspects lower. Although transfer preparation is mentioned by both parties it is clearly among the lower end frequencies.

Table 7: Assessing buyers



In assessing a fruitful relationship with the buyer or successor, both bankers and accountants mainly look at the same aspects: personal qualities of the entrepreneur and the financial health of the business.

4. Conclusions and recommendations

Accountants and bankers have different roles and involvements in SME business transfers. Accountants guide their client through the whole transfer process. Bankers are only involved at the contract phase but would like to move in earlier in the transfer process. Accountants tend to underrate the emotional aspects (motivational or process factors) which are emphasized by bankers. Bankers are much more commercial driven and competitive.

Accountants look with buyers' eyes at transfers mentioning continuity and future of the business and a transparent transfer as the most important aspects. Bankers look at the market place and emotional issues.

Though their different roles and involvement the results indicate they have a shared vision on the main problems arising with SME transfers and assessing a fruitful relationship with a buying party. Both of them see opportunity or contextual factors as most important (withholding vital business and financial information, finding buyers, financing, involvement of banks). Bankers also mention motivational or process factors (letting go, postponing the transfer). Planning and preparation as an ability factor is considered less important. Their criteria to assess potential buyers as clients are very much alike: personal qualities and the financial health of the business.

Accountants and bankers see different solutions to these problems. Where accountants clearly see coaching as the way, which is clearly shared by many consultants/practioners (Landsberg, 1999; Miller et al, 2003; Reece, 2003) bankers seem to hesitate about the best approach. Partly they blame their clients (and indirectly their accountants) in the late involvement in the transfer process, substandard credit applications and preparations. Partly they see that they might take a more active role by informing their clients better.

We may conclude that the findings of the preliminary study (Van Teeffelen et al., 2005) are confirmed: Dutch consultants/practioners take into account contextual and process variables, but fail to see long term planning and preparation as key issues.

It is too early to generalize our findings. First of all our results have limited external validity. We used a small sample of accountants and bankers and our sample was taken only in The Netherlands. We can't generalize for Europe or Canada. Replication in other EU countries and Canada is needed to generalize these findings.

Le Breton-Miller's et al. (2004) literature study also is likely to have a bias, which might account for the emphasis on preparation and planning. Publishing consultants/practitioners are mostly USA citizens. The USA is known to have a lower threshold for venture and private capital. External parties participating in business transfer may demand better planning and preparation abilities.

Our findings suggest that the relatively easy surveyed planning and preparation of transfers could be of very limited value. For future research we recommend to take into account opportunity, motivational and ability factors of entrepreneurs. Alongside abilities the emotional aspects of letting go and postponement and the market situation (amount of buyers available and possibilities to attain credit facilities) might be important to predict failure or success of SME transfers

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