

SUCCESS ROAD

Enhance the Competitiveness and Sustainability of European SMEs through succession procedures and models

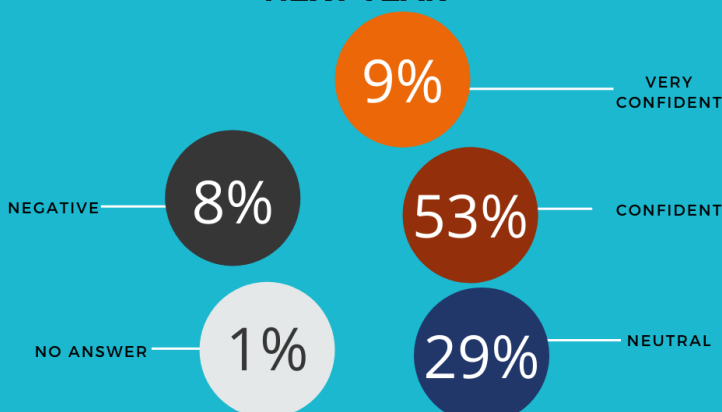
THIS NEWSLETTER IN A NUTSHELL:

- Success Road project: summary & relevance
- Family businesses in the EU: facts&figures
- Lithuania's family businesses policy
- EC's next steps on the "Success Road"
- Contact the partners

FAMILY BUSINESSES: VITAL FOR THE EUROPEAN ECONOMY AND REGIONAL DEVELOPMENT

Family businesses have for a long time made a large contribution to the European economy and played a significant role in its economic growth and social development, in reducing unemployment, and in investment in human capital. Moreover, family businesses generally play a vital role in regional development, and when it comes to employment, transmission of know-how and regional organisation. It is important to underline that family businesses have various sizes, which exposes them to different difficulties and challenges.

CONFIDENCE LEVEL IN THE ECONOMIC FUTURE OF FAMILY BUSINESSES FOR THE NEXT YEAR



SOURCE: KPMG 2019 EUROPEAN FAMILY BUSINESSES BAROMETER



A POLICY-ORIENTED EUROPEAN PROJECT FOR FAMILY BUSINESSES' SUCCESSION

The Success Road project cofounded by the European Commission under the Interreg Europe programme runs from August 2019 until July 2021. The project aims to support SMEs family businesses in the manufacturing sector to overcome their specific challenges related to managing succession, both family succession and selling to third parties. Family-business-targeted policies could encourage entrepreneurship, leadership and a smooth succession.

Success Road brings together partners from five European countries (GR, ES, BE, LT, PL) involving national and regional authorities that influence their respective policy programmes. The consortium will jointly work to improve their related four policy instruments with the support of four Policy Learning Guidelines on identified priority themes. In addition, four integrated regional Action Plans proposing changes and measures for a smooth transfer and succession process will be developed with the valuable contribution of stakeholders and in collaboration with regional/national authorities. By participating in Interregional Workshops, Local Stakeholder Groups meetings and Staff Exchanges, the project expects to build capacity of partners' key staff, stakeholders and policy makers, and enhance their ability to understand and properly implement the policy instruments.

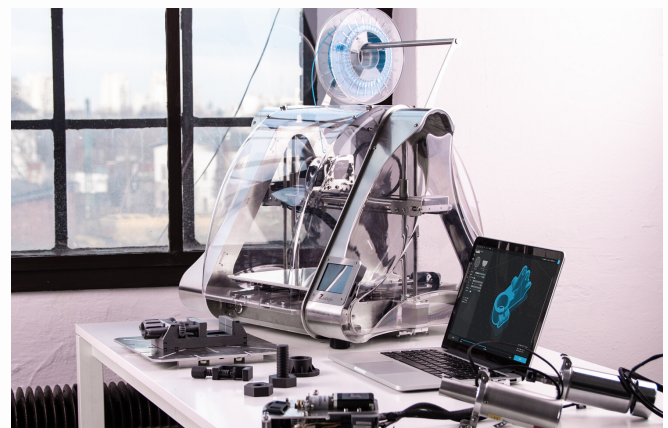
A TYPE OF BUSINESS WITH UNALIKE CHALLENGES

Whereas no legally binding and harmonised Europe-wide definition of "family business" has been developed, and the family business model is unevenly spread across the Member States, there is not so

much research and data available at national and European level to understand the special needs of family businesses. One thing is clear: in 2016, there were more than 14 million family businesses in the EU, generating around 50% of the EU GDP and offering more than 60 million jobs in the private sector[1].

According to a survey research study conducted on 1.600 family businesses and illustrated on the 2019 European Family Business Barometer[2], the world will experience a significant transfer of wealth between generations over the next 5 to 10 years, because the senior generation hands over control of the family business and other assets to the next generation. It comes with no surprise that succession was the main focus of many European family businesses. 35% of respondents to the survey planned to pass ownership of the business to the next generation, and 33% planned to pass on management responsibilities as well. Outstandingly, the respondents mentioned that dealing with the emotional fallout of renouncing ownership was their greatest challenge. The pressure is high as only 62% of the participants out of 84% of the businesses that currently had a family member as president or CEO expected to name a family member as the next president or CEO. Transferring the business to the right person, together with attracting the right skills and talents to their companies, was at the top of family businesses priorities.

Despite the emotional challenges and the unstable global economy, the light at the end of the tunnel is represented by the increased business confidence: 53% of respondents felt confident about their family business' economic outlook over the next 12 months and a further 9% very confident[3].



A PARTICULAR WORKING ENVIRONMENT

Having the interest of their close ones at heart, family businesses demonstrate a high degree of social responsibility towards their staff and manage resources actively and conscientiously. As their main goal is to maintain their family with their business for as long as possible, they generally take a sustainable and long-term approach to the economic future of the business.

The location of family businesses is also relevant in contributing to an economic inclusive growth. According to the 2015 European Parliament INI Report on Family Businesses in Europe[4], family businesses are strongly rooted in a particular location because of their history, and thus also create and maintain jobs in rural and less-favoured areas.

When it comes to success in business transfer, the same report shows that 87 % of family businesses are convinced that maintaining control of the business is one of the key factors. However, this need of control comes with possible conflict between generations. While younger generations envisage a more innovative and digital transformation of the company, the seniors might resist these challenges due to fear of the unknown, and corporate governance measures and a favourable public regulatory framework may facilitate the transition.

LITHUANIA:WHAT COULD BE DONE FOR THE MANUFACTURING SECTOR?

With 38% family businesses out of the total number of companies[5], Lithuania is the second most attractive destination for manufacturing at global level, and where five times more start-ups have been created in the past five years.



During the project meeting held in Vilnius at the beginning of 2020, the delegate of the Ministry of Economy and Innovation explained that improving the business environment and Lithuania's standing in the World Bank's doing business report was among the Government's priorities for 2017-2020.

Despite these numbers, Lithuanian manufacturing industries are currently experiencing big challenges in relation to the processes of Industry 4.0. These industries are dominated by low and medium-low technology sectors, which generate $\frac{3}{4}$ of total output of Lithuanian manufacturing industry. The dominance of low-tech sectors, coupled with a rapid increase in labour costs, poses a significant threat for business competitiveness in the future.

The processes of industry automatisation are catching up at a slow pace and it puts a significant pressure on the competitiveness of Lithuanian manufacturing sector, which can lead to the closure of many big companies.

The policy instrument of Lithuania to be addressed under the Success Road project is the Operational Programme for investing European Structural and Investments funds, with the thematic priority of supporting the capacity of SMEs to grow in regional, national and international markets, and to increase their innovation and productivity. Supporting digitalisation of SMEs could be the most relevant aspect of the instrument to be considered, and SME will be offered support to implement different novel solutions to increase their productivity and competitiveness in this regard. New tools can be elaborated incorporating results from the project and creating new processes using ICT tools as well for facilitating the transfer of business and the creation of new business models in the manufacturing sector, which can ultimately lead by example.

There is a strong aspect linked to resilience of the companies and the regions. Resilience includes prevention (when possible) and adaptation (when necessary), and includes positive transformation that strengthens the ability of current and future generations to meet their needs. In order to provide extra support to the regions involved in this policy instrument experiencing major closures and structural challenges, the aspect of resilience would be assimilated into the policy instrument.

EUROPEAN COMMISSION PLANS FOR FAMILY BUSINESSES

With a new European Commission since December 2019, EU legislators are more ambitious than ever to deliver for the EU business environment. In March 2020, the European Commission presented the Industrial Package[6] aiming to help European industry lead the twin transitions towards climate neutrality and digital leadership. The SME Strategy[7], part of the Industrial Package, has the objective to build SMEs' capacity for these transitions. According to the Strategy, buying an existing company is often a more advantageous alternative to starting a business. The Commission estimates that every year, around 450.000 SMEs change ownership affecting more than two million employees. Unfortunately, the transfer is not successful in a third of cases and, as a result, Europe loses around 150.000 enterprises and 600.000 jobs yearly. Behind these unhappy numbers stand reasons such as lack of early preparation, difficulty in finding a successor, and unfavourable tax and regulatory measures. Through the SMEs Strategy, the Commission is committed to continue its work on facilitating business transfers and will support Member States in their efforts of establishing a transfer-friendly business environment.

THE PROJECT CONSORTIUM

Leader



HELLENIC REPUBLIC
Ministry of Development
and Investments

Communication



Confédération Européenne de la Chaussure
European Footwear Confederation



LITHUANIAN
INNOVATION
CENTRE

Asociación Valenciana de
Empresarios del Calzado



**GENERALITAT
VALENCIANA**



IVACE
INSTITUTO VALENCIANO DE
COMPETITIVIDAD EMPRESARIAL



ΣΥΝΔΕΣΜΟΣ ΚΑΤΑΣΚΕΥΑΣΤΩΝ
ΕΤΟΙΜΩΝ ΕΝΔΥΜΑΤΩΝ
HELLENIC CLOTHING
INDUSTRY ASSOCIATION



ARMSA

Mazovia Development Agency Plc

REFERENCES

- [1] European Family Businesses Association website <http://www.europeanfamilybusinesses.eu/>
- [2] European Family Business Barometer, Succession top of mind as business families eye their legacy, 2019, Eight edition, p. 7
- [3] Idem, p. 9
- [4] European Parliament Own Initiative Report on European Family Businesses from 30 June 2015, A8-0223/2015
- [5] European Family Businesses Association website <http://www.europeanfamilybusinesses.eu/>

- [6] On the 10th of March 2020, the European Commission presented a series of communications including the New Industrial Strategy for Europe, the EU SME Strategy for a sustainable and digital Europe, the Single Market Barriers analysis, and the Action Plan for better implementation of the single market rules.
- [7] Commission Communication on an SME Strategy for a sustainable and digital Europe from 10 March 2020, COM(2020) 103 final, p. 10

INTERREG EUROPE PROGRAMME

Interreg Europe helps regional and local governments across Europe to develop and deliver better policy. By creating an environment and opportunities for sharing solutions, we aim to ensure that government investment, innovation and implementation efforts all lead to integrated and sustainable impact for people and place. We know that better performance leads to better results.

By building on its forerunner, INTERREG IVC (2007-2013), Interreg Europe aims to get maximum return from the EUR 359 million financed by the European Regional Development Fund (ERDF) for 2014-2020. This time round, it's still about doing good, but doing it better!