JULY 2020 | NEWSLETTER № 2

SUCCESS ROAD

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

IN THIS EDITION:

- New Success Road Interreg Europe Project Video
- Why family businesses fail to succeed?
- What could be done to improve the business transfer success rate?
- Poland's family businesses policy
- How EU family businesses will help the economic recovery after COVID-19 pandemic?

New! SUCCESS ROAD INTERREG EUROPE PROJECT VIDEO

During the second semester of the Success Road Interreg Europe Project, the consortium made the best out of the lockdown measures taken across the globe because of the COVID-19 pandemic and focused on desk research, drafting policy learning guidelines and outcomes that will support an easier transfer of EU family businesses. This newsletter edition will focus on two of our partner-countries: Lithuania and Poland.

Our Lithuanian partners drafted the first policy learning guidelines recommendations. They outline a comprehensive analysis of the gap between the existing and desired succession or transfer status, and the obstacles delaying its bridging into the textiles, clothing and footwear SMEs.

Furthermore, this edition will introduce the Polish family businesses environment and the policy instrument to implement.

In addition, this newsletter will summarise the EU measures taken to support SMEs, family businesses included, to survive the consequence of the COVID-19 pandemic.

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European Union
European Regional Development Fund

A PROJECT DEDICATED TO SUCCESSFUL BUSINESS TRANSFER/SUCCESSION OF EUROPEAN SMES

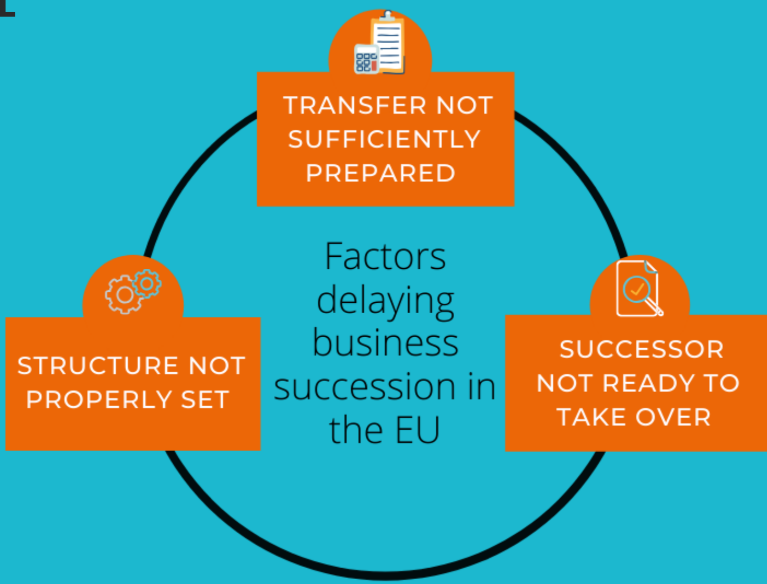
Success Road Interreg Europe project started in August 2019 and is designed to support SMEs family businesses in the manufacturing sector to overcome their specific challenges related to managing succession, both inside the family and selling to third parties. Family-business-targeted policies could encourage entrepreneurship, leadership and a smooth succession. Success Road project consortium is aiming at helping Member States implement these policies and new succession measures in their operational programmes that will ultimately contribute to the overall economic growth.

The project brings together partners from five European countries (GR, BE, LT, PL, SP) involving national and regional authorities that influence their respective policy programmes, and assisting EU Member States in improving four specific 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 authorities. Catch up on your reading by checking out the first project newsletter here.

LACK OF PREPARATION: MAJOR REASON WHY FAMILY BUSINESSES FAIL TO SUCCEED

The first Policy learning guidelines have been elaborated following discussions in a thematic capacity building workshop with family business representatives and policy makers held in Vilnius, Lithuania, at the end of January 2020. Among the subjects of analysis were also the findings of the report “Existing and desired succession/transfer status and investigating the parameters and obstacles delaying its bridging into the textiles, clothing and footwear SMEs” elaborated by Taurimas Valys, Board Member at Lithuanian Family Business Association and Associate Professor at Vilnius University Business School.

The guidelines analysed the **three main factors delaying business succession in Europe:**



- **The business transfer was not sufficiently prepared**

Experiences in various EU countries indicate that business succession planning is not fully exploited and business owners-managers are reluctant to prepare this plan. Four main types of problems delay this process: the psychology and emotions, the complexity and duration of the process, the legislation and tax systems, as well as the transfer of knowledge, especially tacit knowledge that cannot be easily transferred from one generation to another.

- **The successor was not ready to take over the business**

Due to the political and historical situation in most European countries, many of today's company owners are baby-boomers, and they are, or will soon be, in the retirement age. Based on this fact, Europe will have a huge demand for successors of family businesses within the next years. A smooth leadership transfer will never take place unless there is an interested and well prepare successor.

- **The business structure was not properly prepared for transfer**

Business succession is a process that involves not only a business owner-manager, the potential successor, but also the whole business structure. Involvement in the process will help maintain the relationship necessary to continue a successful business. If employees are sufficiently involved in the process of business succession, the temptation to leave will be reduced and the business structure most likely will be saved.

A GENERATION SETBACK

The historical and political context is the main reason why countries in Central and Eastern Europe have not yet developed a business succession culture and tradition. On the opposite side, Southern European countries are characterised by deep-rooted and time-tested traditions regarding family businesses which offers them a higher chance to succeed.

In countries such as Lithuania and Poland, private enterprises started to establish in the early 90s by the baby-boomers generation now reaching the retirement age. As a consequence, Europe will have a high demand for successors of family businesses within the next years. However, a successor position is currently more challenging as it requires skills and competencies that are gained through years of practice, combined with the motivation and vision to keep the family business alive and successful.

Communication problems between family members and different business expectations between the two generations could be experienced for different reasons. According to the above-mentioned report, the larger the gap, the more impediments there will be to the development and continuation of the family business. On one side, people who are aware of the digital technologies and understand the newest management principles face the resistance of parents who established and developed a business themselves. On the other side, the second generation might lack interest in running the family business. The working style and ethics of the first generation can also be different from the second and a compromised solution might be needed to avoid further conflicts between family members.

WHAT COULD BE DONE TO IMPROVE THE BUSINESS TRANSFER SUCCESS RATE?

Based on those negative factors influencing business succession, the main priority should be raising awareness among owners-managers about the need to plan and prepare for the transfer of their business in a timely and organised manner. It is also important to concentrate on training and mentoring the successor. Challenges and problems involved in transfers or takeovers do not end with the formal business transfer, but also extend into the period following the transfer and as a result, a lot of business fail after this process. In addition, a fruitful collaboration could only start if the involved parties, in this case buyers and sellers, are brought together.

In a nutshell, the **proposed actions** which could be implemented to improve existing policy instruments are:

Providing training for business owners-managers and potential business successors

Raising awareness among owners-managers with the use of physical and/or online materials

Offering financial support to prepare a business plan

Developing marketplaces for transfer of businesses

THE POLISH FAMILY BUSINESSES ENVIRONMENT

According to the Family Business Institute of Poland, 92% of total businesses in the country can be defined as family businesses[1], generating approximately 18% of the Polish GDP. More than 90% of family businesses are run by their owner or co-owner. Taurimas Valys's report explains that 40% of companies are currently managed by the second generation, 32.6% of the founders of the company are presidents, and 17% of the highest levels of authority are held by parents and their children. The oldest companies are managed by the fourth generation. Regrettably, only 8% of successors are presenting interest in taking over the family business.

In the **Mazovia Region** (Mazowieckie Voivodeship), the Polish region targeted by the project, there are currently 812,390 registered SMEs, representing 99.87% of all companies. The last five years saw an increase in the numbers of companies in the region.

According to previous research conducted under the European COSME programme by the Institute of Family Business, 36% of enterprises in Poland have a family character, and 17% in Mazovia region. Unfortunately, a research study carried out in 2017-2018 by the Institute for Sustainable Technologies, the National Research Institute in Radom, showed that the vast majority of owners of family businesses in Mazovia does not intend to carry out succession at all.

POLISH POLICY INSTRUMENT: INCREASING COMPETITIVENESS AND INNOVATION IN THE MAZOVIA REGION

The chosen policy instrument - **the Regional Innovation Strategy for Mazovia until 2020 (RIS Mazovia)** - aims at increasing the competitiveness and innovation in the region.
The project partners intend to adapt the policy instrument and its tools to the specific needs of family businesses, in particular in terms of succession. Mazovia Development Agency (MDA) plans to discover new models and explore alternative mechanisms of administrative intervention at the regional level, both through consultation with stakeholders and learning from other EU regions.

The Success Road Interreg Europe project will contribute to the improvement of the one of the RIS Mazovia strategic goals: shaping and promoting pro-innovative attitudes in the regional business environment. This will allow the creation of new tools supporting the Mazovian entrepreneurs and preparing them for a successful business transfer.

The planned activities will focus on introducing the difficulties linked to business succession to RIS3 implementation experts working in the regional public administration. Involving the regional public authorities in the project activities will facilitate the exchange of best practices and knowledge, which will ultimately trigger the creation of new regional tools supporting a successful family succession.

Furthermore, another policy instrument that would benefit from the results of the Success Road project is the Regional Development Strategy of the Mazowieckie Voivodeship of Mazovia until 2030 that sets up mid-term policy directions, and aims *inter alia* to a substantial growth of innovative manufacturing enterprises.

EU FAMILY BUSINESSES WILL HELP THE ECONOMIC RECOVERY AFTER COVID-19 PANDEMIC

It is important to underline that family businesses, and SMEs in general, are the largest employers in the EU. It is well known that they treat employees like "family" and often better than more profitable companies. They share with them the company's culture, values and expertise, and obtain in return loyalty and a longer commitment. However, many of these long-lasting relations and the family businesses as such, are currently facing or will very soon be facing ownership challenges due to their financial losses caused by the pandemic.

According to the EFB Exit Strategy and Sustainable Recovery Proposals[2], family businesses have solid and robust finances by nature, which have allowed them to survive many crises in the past. EBF calls to support the ownership model of these companies so that they can continue to fulfil their crucial and strategic role in the economy. The assistance that the EU and the Member States will provide must focus on facilitating the transfer of business, and reducing administrative and fiscal burdens. **With the appropriate funding opportunities, flexible regulatory framework and their specific dedication and motivation, family businesses can make a positive contribution to rebuild the economy after the COVID-19 and palliate its consequences.**

In the last three months, the EU has actively worked on providing the most efficient response to the pandemic. The measures started in March with the most flexible State Aid rules[3] ever adopted by the EU, allowing Member States to provide direct support to hard hit companies and small firms to avoid their closure.

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In April, the Commission launched a new initiative designed to protect jobs and workers affected by the coronavirus outbreak that will bring hope to EU family businesses: the temporary **Support mitigating Unemployment Risks in Emergency (SURE)** initiative [4]. The SURE initiative is providing financial assistance of up to €100 billion in total to Member States in the form of loans granted on favourable terms. These loans will help Member States to cover the costs of national short-time work schemes. The short-time work schemes help sustain families' incomes and preserve the productive capacity and human capital of enterprises and the overall economy. The Commission made available financing estimated to €8 billion to provide immediate **financial relief to small and medium-sized businesses** across the EU. SMEs, family businesses encouraged, will be able to apply directly to their local banks and lenders participating in the scheme, which will be listed on www.access2finance.eu.

The most ambitious measure taken by the EU, was by far the emergency **European Recovery Instrument (Next Generation EU)** amounting to EUR 750 billion and a reinforced multi-annual financial framework for 2021-2027.[5] Next Generation EU will focus, among others, on kick starting the economy and helping private investment to get moving again.

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] 2017 EFB research study, "Family Business in Poland";
[2] 2020 EFB Exit Strategy and Sustainable Recovery Proposals;
[3] Updated information on EU State Aid is available here;
[4] Proposal for a Council Regulation on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak, COM/2020/139 final;
[5] Communication from the European Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions from 27 May 2020 on "Europe's moment: Repair and Prepare for the Next Generation", COM(2020) 456 final, SWD(2020) 98 final.

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!

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