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SUCCESS ROAD

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

SECOND HALF OF 2020 FOR EU FAMILY BUSINESSES: TIME FOR BEING MORE PREPARED AND AGILE.

Despite the challenges of the COVID-19 pandemic, the consortium of the Success Road Interreg Europe project continued maximising efforts to facilitate the family businesses' succession during this third project semester. In this way, project partners met regularly online to discuss the possible solutions to smooth the business transfer and were given insights to companies experiences by interviewing their representatives.

Family businesses, recently founded or long-established, can be considered naturally resilient. Older ones have the experience of getting through history. Newer ones bring innovative ideas that help them survive economic crises and other contemporary challenges. The COVID-19 pandemic is surely another test for the competitiveness of family businesses. The motivation to continue, the will to pass on the heritage in a better state than you received it to another generation and prepare for the "new normal" are the most important aspects for to the future of a family business. The current pandemic has shown the need for accelerating succession related decisions. Families, that usually take their time in making decisions impacting their businesses, are now urged to act quickly on drafting their future path and be more agile.

IN THIS EDITION:

Today, it might be the right time to rethink the strategy in managing your business, your family wealth, and your succession plan.

Success Road Interreg Europe would like to make the work easier for you and is gathering the necessary resources, studies, success stories and information on its project website.

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TIMING, PLANNING AND SUPPORT FROM SOCIAL PARTNERS: ESSENTIAL ELEMENTS FOR A SUCCESSFUL TRANSFER.

In October 2020, the project consortium met virtually with Spanish public and private stakeholders to debate on the role of social partners in facilitating the transfer process of EU family businesses. During this online workshop, legal and fiscal experts shared their expertise in an attempt to guide European policy makers at regional and national level.

> *"Before anything else, preparation is the key to success!"*
> A.G. Bell

The experts agreed that timing and preparation are key for a successful transfer. Many companies would have survived if their succession was planned well in advance. Transferring a business, a family legacy, was a complex step, and families often postponed this moment until it was too late. An early planning, the involvement of the next generation in the company workflow, the establishment of a governance structure and working with specialists on legal and fiscal issues could make a difference, avoid conflicts, and ensure a successful transfer. During their transfer process, family businesses could receive relevant moral support (i.e., coaching, motivation, conflict mediation) and guidance from social partners.

The situation might be worrisome considering that the STEP 2019 Global Family Business Survey[1] involving over 1800 family businesses from 33 countries around the world revealed that 70% of current family business leaders admit to not having a succession plan in place. A formal plan shows that family business leaders have become aware of the importance of preparing for the succession process in advance, and that this process can be developed through reasoned criteria and in a professional manner. Furthermore, when asked if the company had an emergency plan in case of an unexpected event, 47% of current family business leaders reported having indeed an emergency plan.

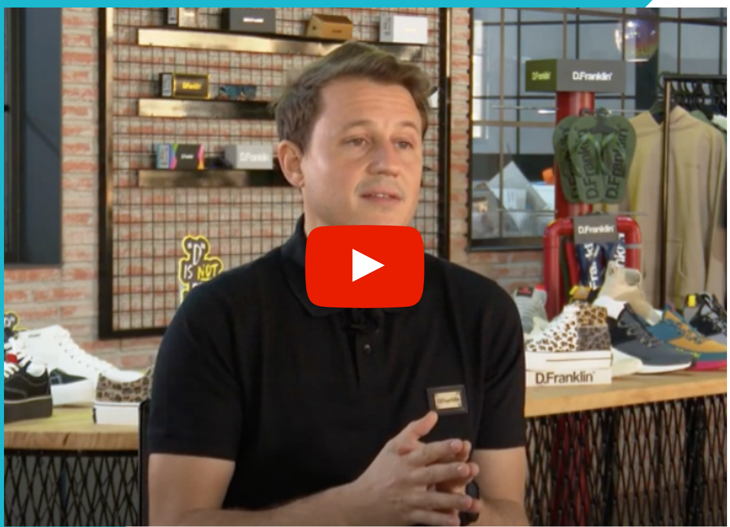
TRANSFER OF FAMILY BUSINESSES: THE FISCAL PERSPECTIVE.

Taxes are another major factor for families to consider when transferring their business, and the current fiscal changes might impact their strategies. The 2020 KPMG Private Enterprise Global family business tax monitor presented the wide discrepancies in tax treatment of family businesses around the world in a comparative manner[2], and highlighted the fiscal changes and inconsistencies that a family deals with when transferring a business. According to the report, the largest economies in Europe are not always having the highest taxes on family business transfer. France, Netherlands, Spain, and Ireland seem having the highest tax for transfer on death before exemptions and the highest taxes for gift transfers. However, the effective tax rates drop noticeably after exemptions.
When drafting the succession plan, the owner-managers should consider that a planned succession would certainly bring important advantages compared to an unplanned one that can lead to a possible loss of inheritance and gift tax benefits. The benefits that a family business can acquire with proper planning are best illustrated in France. While the tax rate is relatively high (45-50%), the allowances and incentives offered can reduce the tax rate to 15-25%. Furthermore, Italy has among the lowest tax burdens in Europe for business transfers, whereas the tax liability in Germany is reduced to zero after exemptions for intra-family transfers of a EUR10 million business by inheritance or by gift.

INSPIRATIONAL SUCCESS STORIES: YOUR FAMILY BUSINESS CAN ALSO PROSPER!

Workshop participants had the opportunity to listen to transfer stories from three Spanish companies Actiu (furniture), Wonders and Grupo Illice (footwear). All successors agreed that they felt high motivation and responsibility in improving the legacy they have received for their next generation. Keeping up with the new technologies, constantly brainstorming on new strategies (i.e., e-commerce, internationalisation) and following the latest trends were just some of the aspects that a family business could addressed without touching the core of its heritage.

Thanks to the Success Road Interreg Europe project, **family businesses representatives have also shared their stories in motivating interviews, available here.**



Interview with Enrique Esquitino, CMO and Head of Commerce, IBG Illice Brands Group

Interview with Carmen Berbegal, ACTIU company & Alicante Family Business Association

SPANISH FAMILY BUSINESSES ENVIRONMENT

It is commonly known that family businesses are the backbone of Spanish economy. In 2015, there were more than 1 000 000 family-owned enterprises in Spain that accounted for 88.8% of all enterprises in the country, represented 60% of the Gross value added, and 70% of private employment[3]. 81.6% of the Spanish family businesses are in the manufacturing industry[4]. 91% of the enterprises in the Valencian region are family businesses.
A survey, analysed in the framework of the 2015 Study conducted by the Institute for Family Business in Spain[5], was carried out on more than 500 Spanish family enterprises to identity their main challenges. The results revealed that the biggest concerns were the economic situation (78.1%), the survival of the business (77.9%), and the increase in size (73.3%). In addition, more than the 60% of respondents expected to pass their business to the next family generation, although less than the half anticipating a change on the property said that they had consulted with external advisors or consultants on the succession planning. Almost a 60% of the respondents admitted that they had not anticipated the change of ownership in their enterprises and, therefore, they did not give to the succession planning the deserve importance, or they postponed it.

VALENCIAN POLICY INSTRUMENT: EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF) OPERATIONAL PROGRAMME (OP) 2014-2020 FOR THE VALENCIAN REGION[6]

Before the economic crisis of 2008, the Valencian economy had registered relevant growth and the region became one of the most developed regions in Spain. However, despite the positive effects in terms of production and employment registered, the negative consequences of the crisis were reflected in its economic model, which required a new strategy: the concentration of resources in those sectors of greater value added for the region (i.a. the footwear sector) by promoting smart growth and development and by enhancing those activities in which the region was specialised, while considering the territory as a factor of competitiveness.

The ERDF OP aimed to boost economic growth in the Valencian Region, and to contribute to achieving the Europe 2020 targets for smart, sustainable and inclusive growth. It had to create jobs and boost productivity, particularly in SMEs. EU funding had to be targeted according to the unique strengths and development needs of the region. Among others, the funding priority focused on "enhancing SMEs Competitiveness" was expected to boost exports of almost 7000 regional SMEs.
Considering the regional strategy and the ERDF OP's objectives, the elaboration of specific tools focusing on business succession procedures in the manufacturing sector would promote regional competitiveness' growth. Policy guidelines developed in the framework of the Success Road Interreg Europe project and through interregional learning exchanges, will contribute to the development of the business succession models in the Valencian Region adapted to the contemporary context.

The urge to improve the OP in the next financing period with the sustainable dimension of existing companies through successful succession models is also reflected in the specific priority of the ERDF OP for the Valencian Region addressing the "promotion of entrepreneurship, in particular by facilitating the economic exploitation of new ideas and promoting the creation of new companies, also through business incubators".

THE PROJECT CONSORTIUM

Leader

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European Footwear Confederation

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[6] European Commission website, dedicated page

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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