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Success Factors for Swiss SMEs

Company Succession in Practice

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Editorial

Every fourth company in Switzerland faces generation change over the coming five years. Indeed a majority of them plan to hand over management of the business within the next couple of years. These figures illustrate the huge importance of this issue, quite apart from the emotional factors involved. Company succession is a matter of the heart: For many Swiss entrepreneurs, their business is their own life's work. Succession arrangements affect not only business owners and the company itself but also have a significant impact on the family. Our survey confirms that the bulk of SMEs give a great deal of thought to making the right succession arrangements.

We are pleased to present the second edition in a series of studies entitled «Success Factors for Swiss SMEs» – this time focusing on company succession. Numerous small and medium-sized enterprises (SMEs) from all Swiss regions and sectors have once again provided us with an insight into their long-term prospects. We wish to express our profound gratitude to all those who participated.

In the first part of the study, the various companies assess the overall framework conditions in Switzerland. What expectations do SMEs have in relation to the defined success factors? What changes can be identified versus last year? Assessments and analysis of these can be found following an overview of the survey.

The second part of the study sheds light on the number of companies and jobs affected, the favored solutions, as well as the most important reasons for handing over or taking on a business. We then seek to bridge the gap between desire and reality – in other words, whether Swiss SMEs can actually make the planned succession arrangements a reality. Based on selected aspects of the handover process, we show how SMEs address the issue of company succession and what precautions they take. The corresponding survey results are incorporated into the subject areas, while specific recommendations for action derived from the findings obtained round off the focal theme from your perspective.

I hope this study will help and inspire you in terms of actively shaping your future, and also that we may be of assistance to you on this journey.

I wish you an interesting and informative read!

Urs Gauch
Head of SME Business Switzerland

Management Summary

Achieving success and competitiveness requires constant effort – on the part of individual companies as well as the Swiss economy as a whole. This study, which is based on a representative survey of more than 2,000 Swiss SMEs, contributes to the debate on Switzerland's sustainable success as an economic center and examines the current political direction from an SME perspective. As part of this year's focal theme of company succession, we additionally examine how SMEs pass on their businesses and successful formulas to the upcoming generation of entrepreneurs and look at which factors play an important role in ensuring that the handover goes as smoothly as possible in practice.

Success Factors for Swiss SMEs

Switzerland Gets Good Marks from SMEs – But There Are Warning Signs Too
(Success Factors for Swiss SMEs, pp. 9-17)

In most cases, the assessment of success factors by Switzerland's SMEs was once again positive in 2013. Overall, their verdict is only marginally poorer than last year. However, this year's survey shows that Swiss SMEs perceive a deterioration in the situation with regard to two key factors: infrastructure and the research environment. That is not entirely surprising. Rapid population growth means that the existing infrastructure is nearing its capacity limits. There is evidence of capacity bottlenecks in the transportation sector, while on the real estate market heavy demand has caused prices to soar. Infrastructure nevertheless remains the factor with the most positive influence on business success. The research environment also continues to have a distinctly positive impact on the success of SMEs. The reasons for the perceived deterioration in this area are less obvious. Looking ahead to the next three to five years, SMEs are nonetheless largely optimistic both about infrastructure and the research environment. A deterioration is primarily expected in relation to the regulatory framework and economic environment. This is alarming given the major significance of these two factors – especially the regulatory framework, where a lot of the potential to influence lies in the hands of government.

Company Succession in Practice

Succession Issue a Top Priority
(Stock-Taking, pp. 18-24)

The subject of company succession is a particularly pertinent issue for SMEs. 22% of Swiss SMEs plan to transfer ownership of their business in the next five years, and almost 16% within the next two years. If profitable businesses fail as a result of the handover process, this affects not only the company in question but also the economy as a whole in the form of a loss of jobs, value creation, and tax receipts. Company successions also affect business partners. According to our survey, however, just 14% of SMEs have prepared a strategy for the failure of the succession process at a partner firm. Micro firms are more likely than small and medium-sized enterprises to report difficulties in achieving the desired succession solution. They are also more likely to opt for closure or liquidation.

Family Firms Affected by Succession in Very Distinct Ways
(Family Firms, pp. 24-26)

78% of Swiss SMEs are family firms. Given the entrepreneur's particularly strong financial and personal bonds with the company, they are affected by the issue of company succession in very distinct ways. Company handovers therefore differ from those of non-family companies in various respects. On average, family entrepreneurs transfer their business slightly later than non-family firms; in addition, the handover period is typically very much longer in the case of family firms.

Succession Planning: Reality Doesn't Always Match Desire
(Succession Planning: Desire and Reality, pp. 26-31)

Almost half of family entrepreneurs plan to pass on their business within the family. By contrast, non-family companies are most likely to want to transfer the business to employees. These desires are not always fulfilled in each case. However, there is evidence that the reality does not differ significantly from the originally desire in overall terms. Around 40% of businesses are handed over within the family (family buyout), 40% outside the family (management buyin), and 20% to non-family members within the company (management buyout). The management buyin in particular occurs more frequently than planned in practice, since many entrepreneurs who have no concrete plans regarding their successors ultimately pass the business on to someone from outside the company. The management buyout occurs less frequently than planned. Although employees often express an interest in principle, it is evidently not unusual for them to be put off by the (financial) responsibility.

Family Businesses Passed on Particularly Cheaply
(Pricing and Financing, pp. 37-38)

There is also evidence that employees are unable to acquire companies more cheaply than persons from outside the company. The average discount to the market price for employees is 26%, and for persons outside the company it is 22-30%. On the other hand, family purchasers on average receive a 42% discount to the market price. As many as 20% get to take over the business for free. Closer analysis of external takeovers shows that only around half constitute the classic management buyin. It is frequently the case that the successor was a friend or acquaintance or – in slightly fewer cases – had a business connection (customer, supplier, for example) with the previous entrepreneur prior to the acquisition.

Entrepreneurship Seen as Privilege

The opportunity for self-fulfillment is the primary motivation for taking over a company, and is far more important than the financial attractiveness. This is a typical observation for a country like Switzerland, with its functioning labor markets, social stability, as well as a consumption and leisure-oriented society. Many entrepreneurs also seem to achieve this self-fulfillment in practice. They are happy to be entrepreneurs, and the vast majority of them would recommend entrepreneurship to others. Therefore, retirement normally occurs for health or age reasons. A company handover reduces the age of the chief executive by 24 years on average.

Potential for Improving Handover Process
(Handover Process, pp. 31-38)

Analysis of handover processes shows that the strategic decision to hand over the business does not always lie with the board of directors. At family firms in particular, the board has less influence and there are often no alternative candidates from which to choose an «heir or heiress apparent». In the case of non-family handovers too, however, other external candidates exist in just a quarter of cases. Surprisingly, SMEs fail to produce a criteria catalog for the successor in 46% of handovers. There is also no training plan for developing skills and competencies in 50% of SME handovers. Due diligence (systematic assessment of strengths/weaknesses, as well as value of the business), on the other hand, is commonplace. 80% of SMEs conduct such an audit in connection with a company handover. On the other hand, fewer than 60% of SMEs have a plan/strategy for communicating the handover both internally and externally. In view of the significance of the handover to employees and business partners, there is room for improvement in this area. Only 60% of SMEs have a contract on the conduct of the previous owner's relationship with the company in the post-succession phase.

Family Handovers Function in Slightly Different Way

In many respects, family handovers proceed in a different way than external handovers. A criteria catalog for the successor is less common, as are due diligence and rules for the post-succession phase. The senior boss frequently retains a strong presence within the firm even after the transfer. Many maintain an office in the company for years following the handover, and have a relatively big say in how the firm operates. Although a large majority of successors feel they get support and encouragement from their predecessor, the senior person's strong presence often harbors the potential for conflict.

External Successors Look for Potential Rather Than Asset Base
(Assessment of Company Performance, pp. 38-39)

Differences between the family buyout and other types of succession are evident in perceptions of the economic attractiveness of the business acquired. External successors frequently rate the firms they acquire as low-performers. The perceptions of family purchasers are more positive in this regard, but also characterized by social pressure and social responsibility. The differing performance assessments converge following the takeover. Thus the type of succession arrangement does not allow any conclusions to be drawn about the attractiveness of the business.

Information on the Survey

SME Survey 2013

The Credit Suisse 2013 SME survey is based on two sets of statistics. 2,063 small and medium-sized enterprises (SMEs) took part in the basic survey. They completed the basic questionnaire on Switzerland's success factors as a business location, as well as general issues regarding company succession. In addition, 523 SME entrepreneurs who took over their business in the last 10 years answered an additional questionnaire containing specific questions on company succession. The number of responses to each question varies to some extent. Therefore, the number of survey participants is indicated for each illustration based on the survey.

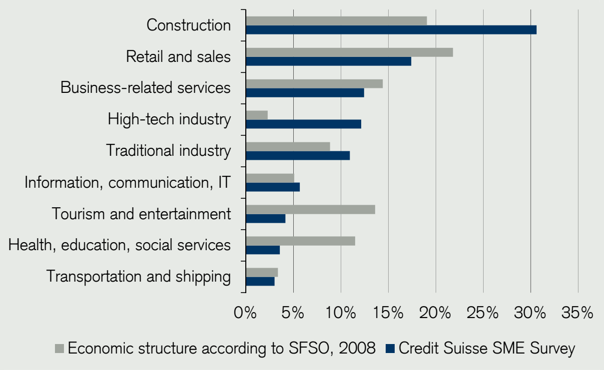
The survey was conducted by an independent polling organization on an anonymous basis in January and February 2013. The anonymous data was collated and analyzed by the University of St. Gallen and Credit Suisse Global Research.

The distribution of the responses corresponds only roughly to sector and size structure based on the latest business census conducted by the Swiss Federal Statistical Office (SFSO), in 2008. In the survey, industrial and construction firms are overrepresented versus most service sectors (figure 1). In addition, the survey provides greater coverage of medium-sized companies than micro firms (figure 2). However, these discrepancies do not limit the survey's validity in any way. For the calculations in «Success Factors for Swiss SMEs,» the responses were weighted based on the 2008 business census using the number of full-time equivalent employed persons in accordance with size category and sector. This ensures that comparisons are more representative over time.

Figure 1

Sector Distribution

Share of companies, N=2063

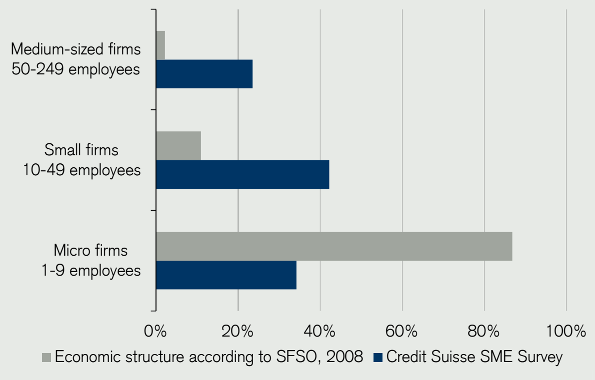


Source: Credit Suisse SME Survey 2013, Swiss Federal Statistical Office

Figure 2

Company Size

Share of companies, N=2063



Source: Credit Suisse SME Survey 2013, Swiss Federal Statistical Office

Sector Distribution

High-tech industry

e.g. chemicals, pharmaceuticals, mechanical engineering, vehicle manufacturers, electrical engineering, plastic goods, measuring and control instruments, watches

Traditional industry

e.g. foodstuffs, furniture, paper, textiles, metal, glass, printing industry, wood processing, toys, jewelry making

Construction

e.g. construction/civil engineering, extensions, building installations

Retail and sales

e.g. retail/wholesale trade, automotive sector

Transportation and shipping

e.g. personal and goods transport, storage, logistics, postal and courier services, travel agencies

Tourism and entertainment

e.g. hotels, restaurants, cultural event management, personal services (e.g. hairdressing/beauty salons, linen service)

Health, education, social services:

e.g. doctors, therapists, hospitals, homes, day nurseries, labs, schools

Business-related services

e.g. corporate consulting, auditing, advertising, market research, services to buildings, mediation, research and development

Information, communication, IT (ICT)

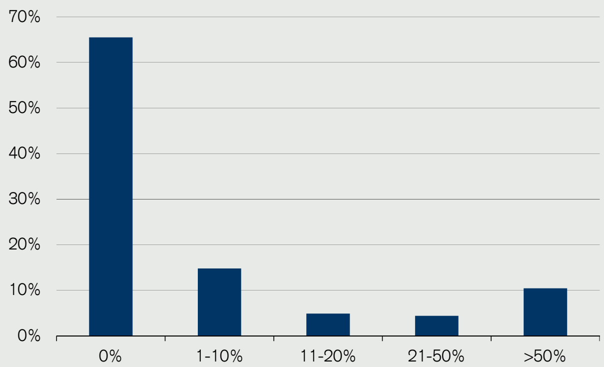
e.g. publishing, information services, communication, telecommunications, IT

Source: Credit Suisse

Figure 3

Exports As Share of Sales

Share of companies, N=2063

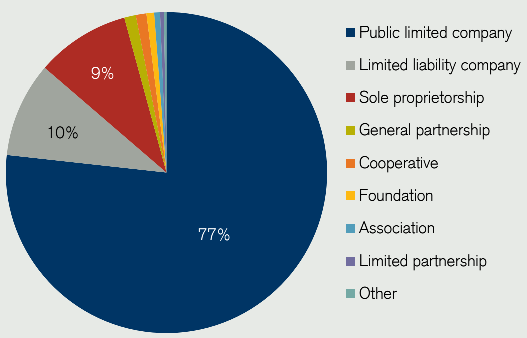


Source: Credit Suisse SME Survey 2013

Figure 4

Legal Form

Share of companies, N=2063



Source: Credit Suisse SME Survey 2013

Figure 5

Additional Structural Data

	Average	Range	Median
Employees (FTE*)	39	0–500	16
Turnover (in CHF million)	14	0–1,450	4
Year founded	1967	1688–2012	1980

Source: Credit Suisse SME Survey 2013; * FTE = full-time equivalents

Success Factors for Swiss SMEs

Success Factors and Framework Conditions

Internal and External Factors Determine Company Success

A company's success or failure depends more than anything on the decisions and capabilities of the entrepreneur. However, SMEs do not operate in a vacuum and are closely intertwined with the macroeconomic, political, and social environment. Good framework conditions make it easier for entrepreneurs to operate. If the environment is right, entrepreneurs are more able to dedicate themselves to their products and customers – their core business, in other words – by losing less time and resources due to unnecessary red tape, difficult financing conditions, unqualified employees, and inadequate infrastructure. An individual SME has only limited opportunities to influence external success factors. Companies must nevertheless respond to such circumstances, and can in no way remain passive. They should use positive external conditions to their own advantage, and mitigate negative influences as far as possible through appropriate measures.

Nine Macroeconomic Success Factors for SMEs

As part of the «Success Factors for Swiss SMEs» series of studies, we ask around 2,000 SMEs annually about the influence and significance of Switzerland's nine most important success factors as a business location. The SMEs rate the success factors on the basis of their relevance and influence today and in future (figure 6).[1] The aim is to show which factors are especially significant for Swiss SMEs, and which overall conditions impact especially positively or negatively on an entrepreneur's activity.

Figure 6

Success Factors for Swiss SMEs

Infrastructure
e.g. transport, telecommunications and housing infrastructure
Resources and the environment
e.g. access to raw materials and prices; energy supply and prices, management of natural disasters
Regulatory framework conditions
e.g. taxes, regulations, collaboration with the authorities, federalism
Economic environment
e.g. demand trends, salary level, intensity of competition, price stability
International ties
e.g. a large proportion of imports and exports in the Swiss economy, international involvement of Switzerland, exchange rates, neutrality
Values and society
e.g. multiculturalism, entrepreneurial spirit, attitude towards success, risk acceptance, participation culture
Research environment
e.g. innovation promotion, cooperation with universities, protection of intellectual property, technological progress
Employees and qualifications
e.g. quality of the education system, availability of qualified employees, female unemployment rate, mobility, morale
Financing terms and conditions
e.g. capital market access, interest rates, insurance options, bank account, asset know-how

Source: Credit Suisse

1 Companies answer the following four questions: «How do the following factors influence the success of your company today in Switzerland?» (positively to negatively), «How great is the significance of the following factors for your company's success today in Switzerland?» (very big to very small), «How will this influence on your company change in the coming 3-5 years?» (becoming more positive/negative), and «Will the significance for your company increase or decrease over the next 3-5 years?» (increase/decrease).

Current Significance and Influence of Success Factors

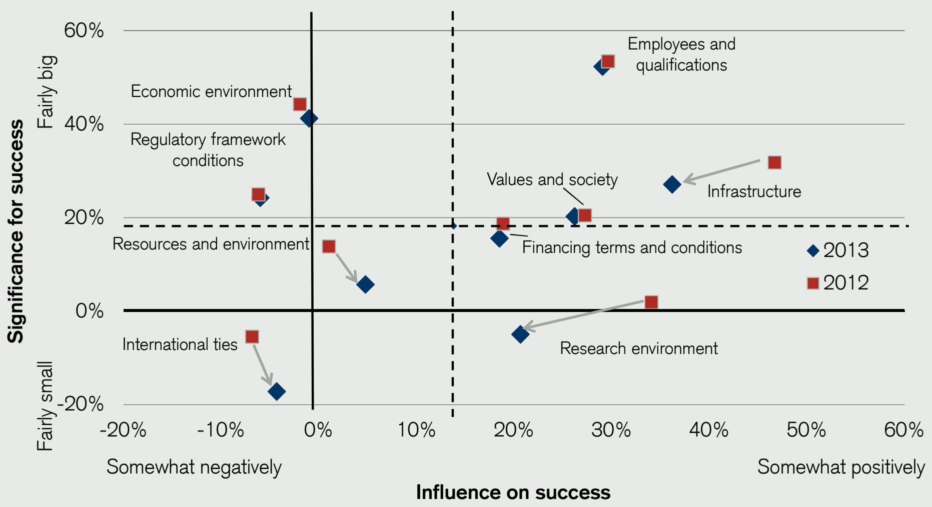
Framework Conditions Have Positive Influence on Business Success

Views given by Swiss SMEs on a large number of success factors in 2013 were by and large similar to those of the previous year (figure 7).[2] This is unsurprising given that framework conditions generally impact on the success of individual companies in the medium to long term and very seldom change abruptly. As in the previous year, Swiss SMEs rated infrastructure the most positive factor; this was followed by employees and qualifications, and values and society. Compared with last year, their views on the research environment and infrastructure are significantly less positive. On balance, however, these factors still make a greater-than-average, positive contribution to success. As in the previous year, the regulatory framework conditions and international ties have a negative influence. The negative stance on international ties is likely to be shaped by the persistently strong Swiss franc and uncertain prospects in Europe. In 2013 as in 2012, Swiss SMEs believe the economic environment has a neutral influence on their business success.

Figure 7

Importance and Impact of Success Factors As Seen by Swiss SMEs

Balance of weighted positive and negative responses; dotted line: average of all success factors in 2013; red squares are 2012 figures (N=1897), blue rhombuses 2013 figures (N=2063)



Source: Credit Suisse SME Survey 2012 and 2013

The «Credit Suisse SME Locational Indicator»: Good Marks for Swiss SME Location

Putting the assessments for all nine success factors together into a single figure gives us the «Credit Suisse SME Locational Indicator».[3] This indicator reflects the overall verdict of SMEs on the framework conditions in Switzerland as a business location. The index enables Switzerland's locational attractiveness to SMEs to be compared over time. It is possible to draw conclusions about the country's relative attractiveness to different sectors. On a scale of 1 («very poor overall framework») to 5 («perfect overall framework»), the index reached a figure of 3.29 in 2013 compared with 3.33 in 2012. A figure above 3 signals that the framework conditions impact positively on the business success of the SMEs in overall terms, while a figure below 3 indicates a negative impact. Overall conditions accordingly deteriorated in Switzerland compared with the previous year, though on balance they still have a positive influence on the success of SMEs. The positive overall assessment reflects Switzerland's high level of competitiveness. In the World Competitiveness Report 2012/2013 produced by the World Economic Forum, for example, Switzerland once again took first place among the most competitive countries.

2 The statements are based on the balance of weighted positive and negative responses, e.g. the proportion of SMEs attaching major significance or positive influence to the success factor less the proportion of SMEs perceiving the success factors as fairly insignificant or negative. Weightings are based on the intensity of the stated view. Weakly held views (for example, «fairly small» or «somewhat positively») are accorded half as much weight as strongly held views («very small» or «positively»).

3 For each success factor, the average figure for the question «Influence on success» is weighted with the significance accorded by SMEs to this factor.

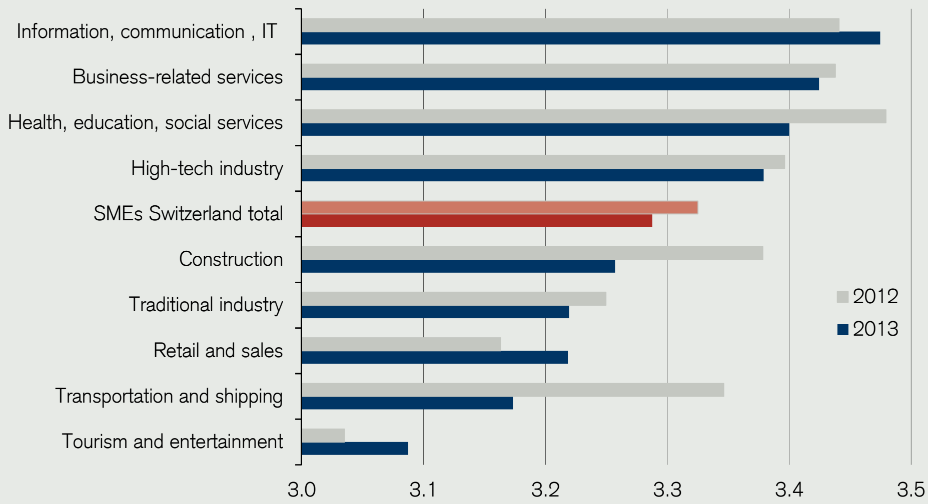
Major Sector Differences

Views on framework conditions vary from sector to sector (figure 8). The «Credit Suisse SME Locational Indicator» achieves above-average figures for the information, communication, IT (ICT) sector, business-related services, health, education, social services, as well as high-tech industry. The tourism and entertainment sector, as well as the transportation and shipping industry, can be found at the other end of the scale. The pattern is clear: Switzerland offers good framework conditions, particularly for SMEs from knowledge-intensive industries.

Figure 8

Credit Suisse SME Locational Indicator by Sector

Weighted average of responses (1 = negative; 5 = positive) across all nine success factors, N=2063*



*N 2012=1897

Source: Credit Suisse SME Surveys 2012 and 2013

Employees and Qualifications Most Important Success Factor

Among the factors contributing positively to Switzerland's framework conditions in the eyes of SMEs in 2013 was once again the employees and qualifications factor. No other factor is so important to SMEs and impacts – infrastructure aside – to such a positive extent on business success. Companies in all sectors ascribe a positive influence to this factor, and it is the most significant of all factors. With a balance of 41%, this factor is viewed as the most positive one by business-related service providers, SMEs from health, education, social services, as well as the ICT sector. The factor is of greatest significance for SMEs in health, education, social services, the high-tech industry, and the ICT sector.

Many Reasons for Positive Assessment of Employees Factor

This positive assessment once again confirms the commonly held view that Swiss labor is highly qualified and has a strong work ethic. The SMEs' verdict also evidences the generally high degree of trust between employer and employee – an assessment that is also shared by the Global Competitiveness Report published by the WEF[4]. According to the WEF study, the employer/employee relationship is more cooperative in Switzerland than in any other country in the world. Various comparative studies also conclude that no country is as attractive to highly qualified workers as Switzerland. Assessment of the employees and qualification factor can also – with some reservations – be interpreted as a vote of confidence in the Swiss education system. Last year's Credit Suisse SME survey nevertheless showed that 72% of all SMEs wanted the education system to be more closely geared to the needs of the labor market.[5] This result should not be misinterpreted, however: SMEs are not suggesting that the Swiss education system is poorly geared toward the labor market. The Swiss education system gets outstanding marks in international comparisons. Against a backdrop of high youth unemployment, the entire world envies the country's dual system of education with its high-quality (by international standards), vocationally oriented apprenticeships. Instead, the result expresses the view that there is

4 World Economic Forum (2012): The Global Competitiveness Report 2012-2013.

5 Credit Suisse (2012): Success Factors for Swiss SMEs – Addressing Macroeconomic Risk.

potential for optimization – if at a high level. The shortage of skilled staff continues to represent an additional problem for some sectors. Thus in last year's edition of the study SMEs considered the shortage of qualified personnel to be one of the biggest risks to the wider economy.

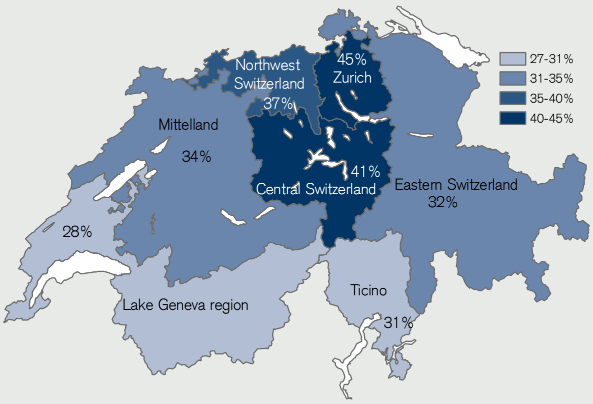
Infrastructure Has the Most Positive Influence…

Infrastructure continues to exert a slightly more positive influence on the business success of Swiss SMEs than the employee factor. On a cross-sector basis, however, it is of less significance. With a balance of 49%, SMEs from the ICT sector are the most positive on this factor. This is not entirely surprising given that the Swiss ICT infrastructure is regarded as very good by international standards. The verdict of SMEs in the tourism and entertainment sector is likewise very positive. The public transportation infrastructure is seen in international terms as an important competitive advantage for the Swiss tourist industry. In the case of this success factor, differences between the regions are greater than the sector differences (figure 9). The infrastructure is viewed significantly more positively in central Switzerland and Zurich, and in Ticino and the Lake Geneva region as significantly less positively, than in Switzerland's other regions.

Figure 9

Influence of Infrastructure: Regional Differences

Balance of weighted positive and negative responses, N=2063

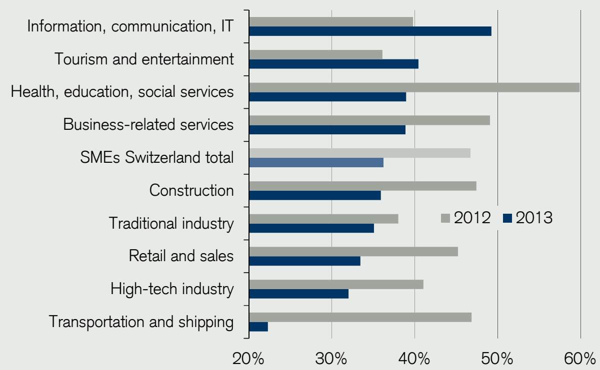


Source: Credit Suisse SME Survey 2013

Figure 10

Influence of Infrastructure: Sector Differences

Balance of weighted positive and negative responses, N=2063*



Source: Credit Suisse SME Survey 2012 and 2013; *N 2012=1897

… But Is Slowly Hitting Capacity Limits

SME views on the infrastructure deteriorated markedly in 2013 compared with the previous year. The decline was evidenced across all size categories and in most sectors (figure 10). Although the downgrade had been expected, it was surprising in its scale. Back in 2011, the Lausanne-based IMD institution had warned that Switzerland's transportation infrastructure would increasingly hit its capacity limits over the coming years a result of strong population growth.[6] Although practically all rankings for Swiss infrastructure remain among the best in the world, without additional investment the country's infrastructure will likely see a continuous deterioration in the years ahead. According to a study by the Swiss National Science Foundation, clear funding gaps exist today – particularly for the replacement of rail and road infrastructure.[7] There are systematically measurable indications of overload in the national road network, for example. In just two years, between 2009 and 2011, annual hours of congestion due to system overload doubled after being more or less stable between 2003 and 2008. Given the almost unlimited increase in total motor vehicles, the congestion situation is also likely to have worsened in 2012. Added to that, the increasingly public debate on the subject of immigration and infrastructure is also likely to have raised public awareness of the issue.

International Ties Have the Least (direct) Significance for Most SMEs…

As in 2012, most SMEs accord least significance to the international ties factor; indeed in 2013 the factor was rated as slightly less important than in the previous year. This reflects the healthy level of domestic economic activity, which is reducing dependence on the export industry. It must be assumed that the proportion of exports – and therefore the significance of international

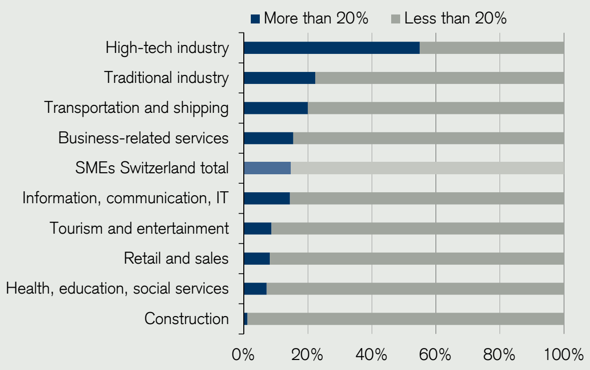
6 IMD (2011): IMD World Competitiveness Yearbook.
7 Hans-Rudolf Schalcher et al. (2011): Was kostet das Bauwerk Schweiz in Zukunft – und wer bezahlt dafür? Focus study as part of National Research Program 54.

ties – is lower for SMEs than the average figure for the economy as a whole. However, it would be incorrect to conclude from this that external trade issues such as the strong Swiss franc have little bearing on SMEs. First, in the high-tech sector in particular there are many SMEs with a relatively large export share (figure 11). Second, many SMEs are suppliers to major export-led firms. Against the backdrop of a strong Swiss franc, a number of SMEs that are at first glance purely domestically driven therefore lost orders from internationally exposed major firms to foreign rivals.

Figure 11

Export Share

Proportion of companies with export share of more/less than 20%, N=2063

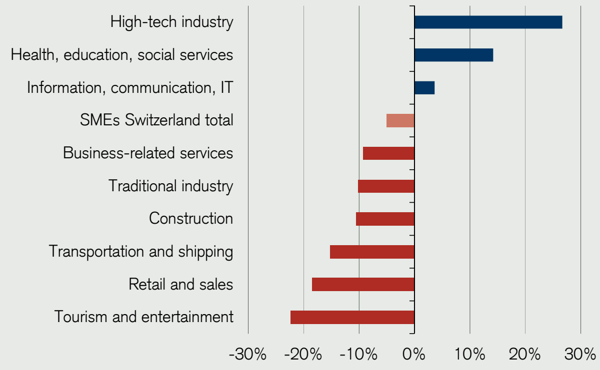


Source: Credit Suisse SME Survey 2013

Figure 12

Significance of Research Environment

Balance of weighted positive and negative responses in percent, N=2063



Source: Credit Suisse SME Survey 2013

… and Are Rated Comparatively Poorly

Aside from regulatory framework conditions, Swiss SMEs are more negative on international ties than on any other success factor. Despite the calmer situation on the exchange-rate front, the verdict of SMEs showed only marginal improvement versus 2012. This negative view reflects the persistent strength of the Swiss franc, as well as major uncertainty on the global economy and the European debt crisis; however, it is also likely to mirror the increasing external political pressures on Switzerland on a range of issues. This factor is rated especially negatively by SMEs from traditional industry, retail, and tourism. All three sectors are suffering from the loss of price competition associated with the strong Swiss franc.

Low Significance of Research Environment Is Deceptive

As in 2012, Swiss SMEs rated the research environment as only moderately important. However, views on this factor do not allow us to conclude that innovation is immaterial for Swiss SMEs. Innovation at most SMEs is nevertheless generated internally by well-trained employees, and is not due to collaboration with universities or based on an innovation development program.[8] Firms do not benefit directly from Switzerland's first-class research environment in international terms, although they most likely do profit in indirect terms – primarily via the university education of their employees. In our survey, the education factor is above all encapsulated in the employees and qualification success factor. For individual SME sectors, however, the research environment also has a direct, material significance on business success (figure 12). Companies in the high-tech industry in particular attribute a comparatively high degree of significance to this factor.

Positive Stimuli from Research Environment

Despite the rather modest (direct) significance of the research environment, SMEs across the board believe it has a positive influence on business success. The positive verdict is especially pronounced in those sectors that also ascribe greater significance to the research environment. This leads us to conclude that those SMEs that collaborate with universities perceive this cooperation to be fruitful. In the case of this success factor too, Swiss SMEs therefore confirm the results of various international comparative studies. The IMD World Competitiveness Yearbook

8 See also Credit Suisse (2011): Megatrends – Opportunities and Risks for SMEs. Feature article 2011: Innovation.

2012, for example, finds that Switzerland has the world's most highly developed system of knowledge transfer between universities and business.

But Verdict on Research Environment Shows Deterioration

It is surprising to note that Swiss SMEs across the board are significantly less positive on the influence of the research environment in 2013 than in 2012 (+21% versus +34%). This change of opinion is difficult to explain. It is possible that the view reflects growing skepticism among SMEs with regard to the academization of professional training. There is anecdotal evidence to suggest that young motivated employees, following an apprenticeship at an SME, attend a university of applied sciences where they are quite often lured away by a large firm. As a result, SMEs are constantly losing human capital.

Society's Fundamentally Entrepreneurial Attitude Is a Positive Influence

The values and society success factor exerts a relatively significant and fundamentally positive influence on business success. It is relatively broadly-based, and constitutes an umbrella terms for factors such as multiculturalism, entrepreneurial spirit, attitude to success, risk acceptance, and participatory culture. It therefore constitutes a sort of yardstick as to how «entrepreneurial» SMEs rate Swiss society. The fact that according to our survey around 90% of Swiss SME entrepreneurs would encourage their children and friends to become entrepreneurs themselves corroborates this opinion (see «Seller's Perspective»).

Sector-Specific, Regional Differences in Views on Regulation

In the eyes of SMEs, regulatory framework conditions in Switzerland in 2013 once again tend to be an obstacle rather than an aid to business success (balance of influence: –6%). However, this does not necessarily mean that Switzerland has a poor regulatory environment in international terms. Most comparative studies conclude that Switzerland has a relatively business-friendly regulatory environment. It is the case that government intervention in the economy – however justified from a social standpoint – is viewed cautiously by entrepreneurs. However, views on the regulation factor vary from sector to sector. For companies in the ICT sector, regulatory framework conditions actually have a positive influence on business activity (balance of influence: +14%). The factor receives its worst rating from the tourism and entertainment sector (balance of influence: –25%). At a regional level, even after taking sector differences into account, SMEs in Ticino and Central Switzerland in particular rate regulatory framework conditions more highly than companies from the other regions. Companies in the Mittelland and Lake Geneva regions, on the other hand, have slightly more negative views on this factor.

Expected Development and Selected Recommendations for Action

SMEs Tend to Expect Deterioration in Framework Conditions

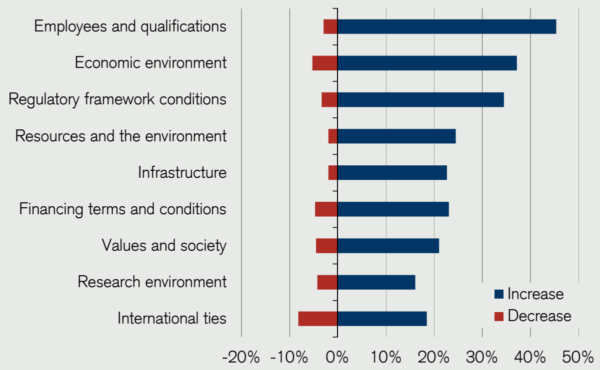
Looking ahead, Swiss SMEs expect overall a deterioration in framework conditions in the next 3-5 years. As with the assessment of current framework conditions by the «Credit Suisse SME Locational Indicator», we express the future expectations of SMEs in a single figure.[9] On a scale of –100% (*all* SMEs expect a more negative influence from *all* success factors) to +100% (*all* SMEs expect a more positive influence from *all* success factors), this indicator reaches a figure of –9% in 2013; this puts it marginally above the previous year's figure of –11%. Swiss entrepreneurs are therefore pessimistic with regard to Switzerland's future development as a business location for SMEs in 2013, though slightly less so than in 2012. As in the previous year, SMEs in principle expect all success factors to have a greater influence on their business success compared with today (figure 13). SMEs expect better framework conditions with regard to the research environment, infrastructure, values and society, as well as employees and qualifications. A deterioration is expected above all in relation to the economic environment and regulatory framework conditions (figure 14). The improvement over 2012 was partly due to slightly less negative expectations regarding the future economic environment as well as international ties.

9 For each success factor, the balance of the expected change in influence is weighted with the balance of its expected growth in significance. Figure 13 therefore shows that four times more consideration is given to the employees and qualifications factor, for example, than to the research environment.

Figure 13

Expected Change in Significance, 2013-2018

Share of responses (positive/negative) in percent ranked by balance, N=2063

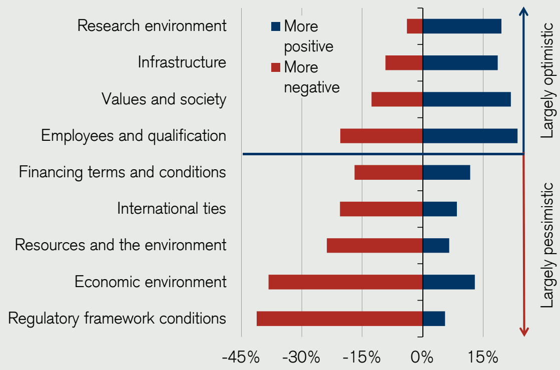


Source: Credit Suisse SME Survey 2013

Figure 14

Expected Change in Influence, 2013-2018

Share of responses (positive/negative) in percent ranked by balance, N=2063



Source: Credit Suisse SME Survey 2013

Only ICT Sector Expects No Deterioration in Framework Conditions

Certain differences with regard to future expectations can be identified from sector to sector. With an indicator figure of 0%, SMEs from the ICT sector are the «most optimistic». On average, therefore, SMEs from this sector assume that locational conditions in Switzerland will neither deteriorate nor improve in the medium term. The ICT companies are followed by SMEs from health, education, social services, as well as high-tech industry, with a figure of –4%. The most pessimistic are traditional industry (–14%) and retailing (–13%). These differences are no accident: Health is regarded as the next major megatrend. Technical innovations are constantly creating new opportunities in this area. At the same time, the health factor is becoming increasingly significant for society and individual lives. Therefore, SMEs from the healthcare sector are also optimistic regarding the research environment as well as the values and society factor.

Employees and Qualifications Remain Pillar of Success

Human capital is the success factor whose significance is expected to grow most, according to SMEs. Entrepreneurs also expect a more positive influence on business success in future compared with today (balance: +3%). The result sends a clear signal to entrepreneurs and politicians: The human capital factor is crucial to Switzerland's future as a business location for SMEs. Companies first need to exploit the current excellent framework conditions as much as possible. To secure qualified employees, they must offer attractive monetary and above all non-monetary working conditions. Second, out of lasting self-interest companies need to nurture the success factor of employees themselves by offering apprenticeships and internships and supporting their workforce in relation to continuing professional development as much as possible. Nor can politicians afford to rest on their laurels. The Swiss education system is high-caliber, but has room for improvement – for example with regard to efficiency: From the viewpoint of SMEs, education needs to better geared toward the needs of the labor market. SMEs in particular count on the dual system of education, and are unlikely to be interested in any extensive academization of professional training. Immigration by foreign workers meets with only limited acceptance from SME entrepreneurs:[10] «Grow your own» is the SME message to politicians.

Optimism Despite Increasing Burden on Infrastructure

Although Swiss SMEs were slightly less positive on infrastructure in 2013 compared with 2012, they are cautiously optimistic about the future on a cross-sector basis (balance: +9%). A majority of SMEs are apparently of a view that the problems evident in recent years can be overcome. However, efforts will be needed in order to be able to guarantee the outstanding quality of Swiss infrastructure in future too. The population will likely show continued strong growth over the coming years, thus further exacerbating the pressures on the transportation infrastructure, the urban sprawl issue, as well as pressures on housing in the urban centers. This firstly requires greater use of resources for the transportation infrastructure. Second, a series of measures could be deployed to alleviate the issue with comparatively limited use of resources. A key start-

10 See also: Credit Suisse (2012): Success Factors for Swiss SMEs – Addressing Macroeconomic Risk.

ing point is the containment of urban sprawl. In March 2013, voters sent out a signal in this regard with their «yes» vote on amending the Spatial Planning Act. Yet this on its own is scarcely likely to be enough. One of the most effective measures is high-density construction: Given an increasingly overloaded transportation infrastructure and housing pressures, increasingly tall buildings need to be constructed in Swiss cities in future – while at the same time respecting the cityscape and preserving the quality of life.[11]

SMEs Fear Deterioration in Regulatory Environment

Swiss SMEs were more pessimistic on prospects for the economic environment than any other success factor at the start of 2012. In 2013, regulatory framework conditions took bottom place instead – a sign that SMEs are exceptionally skeptical about the constant juridification of business and society. There are also likely to be some fears that the tax situation will deteriorate in future. The SME message to government is therefore that a cautious approach should be taken with regard to additional taxes and regulation.

Continued Pessimism Regarding Economic Environment and International Ties

Although SMEs are slightly less pessimistic on the economic environment in year-on-year terms, they continue to expect the situation to deteriorate. Similarly, their persistently pessimistic if slightly brighter stance on international ties indicates that SMEs do not expect a rapid solution to the euro crisis. This pessimism can be found in all sectors, although it is most apparent in construction and traditional industry.

Discussion Topic: Success Factors and Company Characteristics

Company Characteristics Influence Assessment of Framework Conditions

Success factors can have a varying influence on individual companies. In previous sections, we showed that SMEs assess success factors in systematically different ways depending on their sector. Besides sector, however, other possible company characteristics can have an influence on how framework conditions affect business success. Below we explore two such characteristics: Company size and the difference between founder and non-founder companies.

Larger SMEs Assign Greater Importance to Success Factors

Our survey shows clearly that company size has a significant influence on the assessment of success factors. As the size of firm increases, there is a clear rise in the significance of all success factors (figure 15). At smaller firms, success is often more dependent on individual decisions of the entrepreneur than at major firms. The bigger a company, the more strongly it is embedded in various systems that are external to the company and therefore less flexible. Or, to put it metaphorically: The bigger the steamer, the slower it is to change course in changeable weather.

Smaller SMEs Less Positive on Success Factors

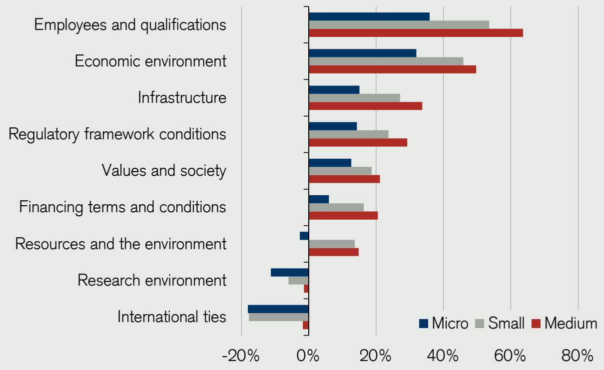
As well as ascribing greater emphasis to the success factors, larger SMEs also believe their influence is more positive than smaller firms (figure 16). This applies to infrastructure, values and society, the research environment, employees and qualifications, as well as financing terms and conditions. Despite that, micro firms are also positive on balance with regard to all the success factors cited. A slightly surprising finding is the fact that, among SMEs at least, the size of company has no measurable impact on how firms assess the regulatory environment. This to some extent contradicts the commonly held view that regulation affects small firms to a greater extent than their larger counterparts due to the administrative cost. However, it should be noted that the regulatory framework conditions factor defined here not only covers regulation in the strict sense but also the tax system, cooperation with the authorities, and federalism.

11 A detailed discussion on this can be found in the current real estate study produced by Credit Suisse. Credit Suisse (2013): Real Estate Market 2013 – Structures and Prospects.

Figure 15

Significance by Company Size

Significance to business success (small/big); balance, N=2063

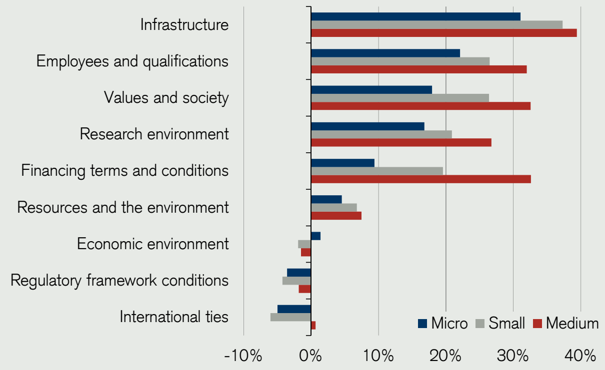


Source: Credit Suisse SME Survey 2013

Figure 16

Influence by Company Size

Influence on business success (negative/positive); balance, N=2063



Source: Credit Suisse SME Survey 2013

Founder Companies Tend to Be More Optimistic…

The focal theme of this study is company succession. Within this context, we are concerned with the question of whether founder entrepreneurs view Switzerland's success factors as a business location in a different way than non-founder entrepreneurs. Indeed there are certain differences in this regard, even if they are only statistically significant in the case of a few success factors. Company founders are less negative on the influence of international ties and less positive on financing terms and conditions than non-founder companies – even after differences with regard to sector, size, and age of firm are taken into account. Company founders view the economic environment and employees factor as slightly less significant, but the research environment as more important, than non-founder companies. In terms of future influence, founders are slightly more optimistic/less pessimistic than non-founders on all success factors; however, this pattern is only statistically significant in the case of the economic environment.

… As They Are Closer to Technology Trends

Founder companies are presumably more optimistic about the future economic environment because they tend to occupy an innovative or technologically pioneering role within their submarket, and are therefore slightly better protected from competition. This argument is underscored by the greater significance of the research environment to this type of company.

Company Succession in Practice

Stock-Taking

Macroeconomic Relevance

Issue of Macroeconomic and Individual Relevance

Safeguarding their future existence and the search for suitable succession arrangements pose real challenges for any firm. Favorable framework conditions create the basis for the success of Swiss SMEs (see «Success Factors»). The micro environment and internal company factors are equally important. However, if a company cannot find a successor even a successful company operating in a favorable environment will go under. As well as being a crucial event for the companies affected, the issue of company succession is of major importance to the wider economy.

A Failed Succession Destroys Value

The failure of a profitable business as a result of the handover process leads to a destruction of economic value as jobs are lost and business partners, customers, and suppliers are forced to readjust. The reasons behind a closure or liquidation may not always be clear-cut, and the boundaries between inadequate business potential and lack of successor are fluid. However, there is a risk of economic value being lost in the course of failed company successions. In the literature, the assumption is that up to 30% of companies are not transferred and consequently disappear.

2013 SME Survey Leads to New Conclusions

The information obtained in the context of this year's SME survey allows us to quantify the macroeconomic significance of company succession and present new findings on the company succession process. Back in 2009, the Center for Family Business at the University of St. Gallen explored this subject in collaboration with Credit Suisse.[12] This study builds on those results and updates them, illustrates new developments, and further deepens knowledge of the issues.

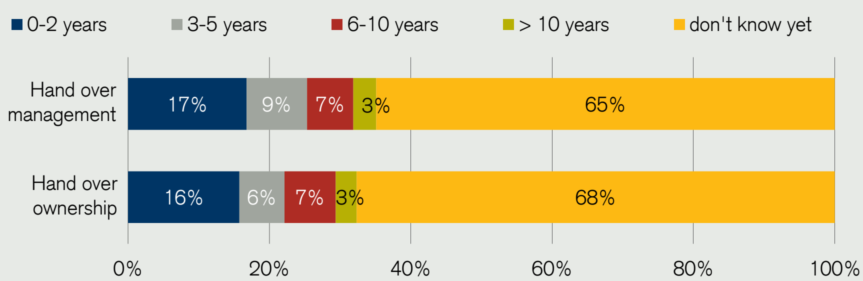
22% of SMEs Planning Succession by 2018

According to the survey we conducted this year, 22% of Swiss SMEs plan to hand on ownership of their company in the next five years (figure 17). Almost 16% plan to do this as early as the next couple of years. Slightly more SMEs wish to hand over company *management*: 25% within the next five years, and 17% within the next couple of years. Significantly more companies – namely 73% – indicate that they have at least begun to think about their own succession arrangements (figure 19).

Figure 17

Company Succession Plans

When do you want to hand over ownership/management of your company? Share of responses, N=2063



Source: Credit Suisse SME Survey 2013

Around Hald a Million Jobs Affected

Extrapolated across the economy as a whole, this means in absolute figures that 466,000 jobs at nearly 71,000 companies are likely to be affected by an ownership handover over the next

12 Credit Suisse (2009): Effective Succession Management. A Study of Emotional and Financial Aspects in SMEs.

five years, and around 534,000 employees at 81,000 companies by a management handover (figure 18).

Figure 18

Significance of Company Successions up to 2018

Extrapolation

	Economy		Ownership transfer			Management transfer		
Company size	SMEs	Employees (FTE)	Succession < 5 years	SMEs	Employees (FTE)	Succession < 5 years	SMEs	Employees (FTE)
0–9	277'100	714'841	18%	51'000	131'700	20%	55'100	142'000
10–49	35'700	699'054	25%	9'000	175'700	28%	10'000	194'800
50–249	7'400	691'081	23%	1'700	160'300	31%	2'300	213'700
Total	**320'200**	**2'104'976**	**22%**	**70'900**	**466'000**	**25%**	**81'200**	**533'700**

Source: Swiss Federal Statistical Office, Credit Suisse SME Survey 2013

Babyboomers and Inheritance Tax Fears Influence Succession Rate

Compared with the last study, in 2009, the share of companies with more or less concrete succession plans for the next five years has fallen by four percentage points. At that time, 26% of SMEs intended to hand over company ownership within five years. However, the current succession rate[13] of 22% is still above the 18.5% rate arrived at by a comparable study in 2005.[14] The fluctuations with regard to takeover plans are likely to be explained mainly by the demographic and regulatory situation. The fact that the oldest sections of the babyboomer generation are currently approaching retirement age could explain the higher handover rate compared with 2005, although the decline seen since 2009 comes as no surprise. Regulatory changes might provide a plausible explanation in this regard: The inheritance tax initiative – in particular the announcement of a retroactive introduction to the start of 2012, should it be accepted – is likely to have prompted some entrepreneurs to formulate regulations for the handover of ownership early and bring forward company handovers. Conversely, it is known that uncertainties in connection with the 2004 ruling of the Federal Supreme Court (BGE 2A.331/2003)[15] resulted in a postponement of succession arrangements and reduced the succession rate in 2005. Effects caused by the way in which the survey is structured cannot be ruled out entirely either.

Bigger Firms More Likely to Have Handover Plans…

Larger companies are significantly more likely than small firms to have concrete handover plans (figure 19). In particular, micro firms indicate on an above-average basis that they do not yet know when they wish to hand over the business or have not yet given any thought to succession arrangements. Company handovers present greater difficulties for micro firms than for small and medium-sized enterprises. At 5.7%, the share of micro companies that are unable to achieve the desired solution is greater compared with small or medium-sized companies (4.4% and 2.6% respectively). Micro firms are also more likely (8%) to opt for a company liquidation than small and medium-sized firms (2% and 0% respectively). This is probably due firstly to the fact that their fate is more directly linked to the personality of the entrepreneur and second because micro firms frequently operate at the limits of their profitability – making a company handover more difficult.

… and More Likely to Separate Transfer of Management and Ownership

The bigger the company, the greater the difference between management and ownership handover plans (figure 18). The proportion of companies with plans to hand over management is generally slightly higher than those with plans to hand over ownership. However, the differences increase the bigger the company. The proportion of companies with management handover plans exceeds the proportion with ownership handover plans by 7.7% in the case of companies with 50-250 employees; this compares with a difference of just 1.5% in the case of micro firms (19.9% vs. 18.4%). With small firms, the difference lies in the middle at 2.8%. The

13 **Succession rate**: The proportion of companies facing succession issues in the next few years.

14 PwC (2005): Nachfolger gesucht! Empirische Erkenntnisse und Handlungsempfehlungen für die Schweiz.

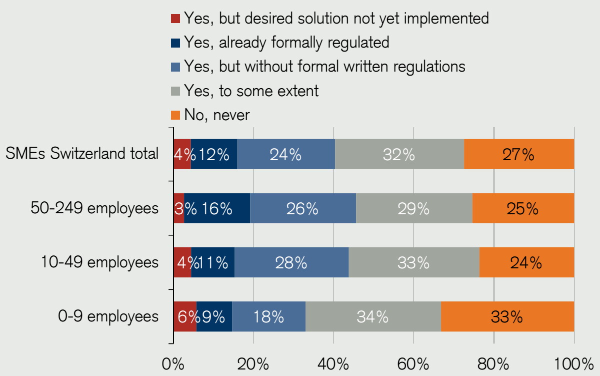
15 The then reinterpretation of «indirect partial liquidation» by the Federal Supreme Court would have meant that if the portion of the transfer/acquisition financed not by equity but by debt (including co-financing by the vendor via loans or advance inheritance) would have been taxable and indeed directly upon the sale of the share in the business. For family companies, this would have meant in an extreme scenario that the entire value created within a generation of entrepreneurs would have been taxed in full.

bigger the company, the more significant the management aspect seems to become compared with the ownership aspect. This is firstly due to large firms' greater capital stock and the consequently higher hurdles involved in financing an acquisition. Second, owners of larger firms are also more likely to view company ownership as an investment and therefore wish to transfer management separately from ownership. This is especially attractive at a time of low interest rates and capital market returns.

Figure 19

Have you already considered your own succession planning?

Share of companies, N=2063

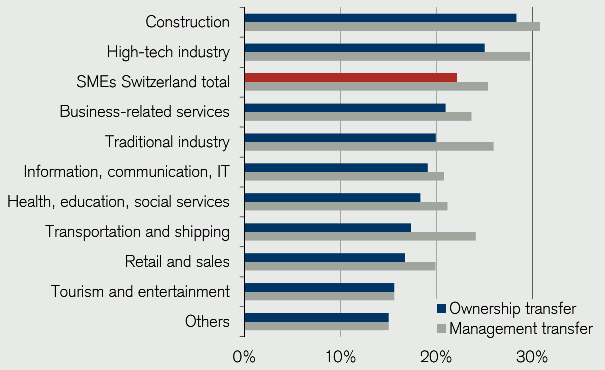


Source: Credit Suisse SME Survey 2013

Figure 20

Succession Rate by Sector

Share of companies with handover plans for next five years, N=2063



Source: Credit Suisse SME Survey 2013

Construction and Industrial Entrepreneurs More Likely to Have Succession Plans

The succession rate varies sharply from sector to sector (figure 20). Construction firms are especially likely to want to hand over their business in the coming years. Here, succession rates for ownership and management are more than one-fifth higher compared with the economy as a whole. Companies from the tourism and entertainment sector, on the other hand, are only just over half as likely as the average SME to have succession plans. To some extent, these significant differences are explained by entrepreneur demographics (see «Entrepreneur Demographics»). However, the economic cycle in various sectors is also likely to play a role. The construction sector is undergoing a form of super-cycle: It keeps on growing, but so too do the worries about it overheating. Many entrepreneurs are therefore likely to think about cashing in the value of their business. In the tourism sector, on the other hand, the unfavorable situation makes selling appear a less lucrative option.

Succession Arrangements Also Affect Business Partners

From a macroeconomic perspective, the following needs to be considered in addition to the succession rate: A company succession affects not only the company itself but also impacts on its business relationships (clients, suppliers, etc.). Our survey confirms that the bulk of SMEs give some thought to the company succession of business partners. Only 30% of SMEs indicate that they do not give the matter any thought (figure 21). These are primarily SMEs that have never given any thought to their own succession either. However, many SMEs actively obtain information about the state of play at their business partners (32%) and/or attempt to contact possible successors (38%). In general, therefore, companies wish to continue the existing business relationship in the same form as previously. Only 13% attempt to formalize the existing relationship, and to protect themselves in writing and in contractual terms. 13% of SMEs say they develop contingency plans to cope with the potential succession failure at their business partners. It is therefore clear that company successions tie up resources well beyond the company itself.

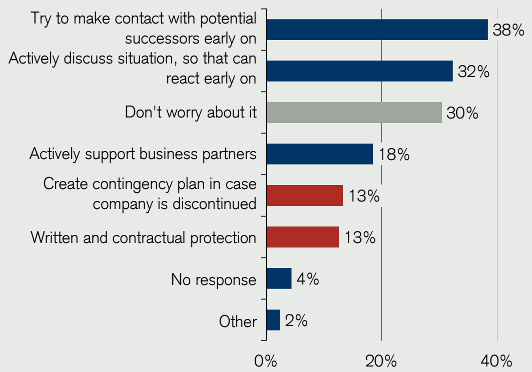
Tax Breaks Would Simplify Succession Considerably

That obstacles are not unnecessarily placed in the way of company successions is of interest to the wider economy. As part of our survey, we therefore asked entrepreneurs who took over a company in the last 10 years about which non-company or government measures could ease company succession (figure 22). A large number indicated that tax breaks in particular would simplify the handover. Insufficient information, absence of a market for successors, and inadequate support with conflict resolution are deemed an obstacle in significantly fewer instances.

Figure 21

How do you handle the successions of your business partners?

N=2063 (multiple answers possible)

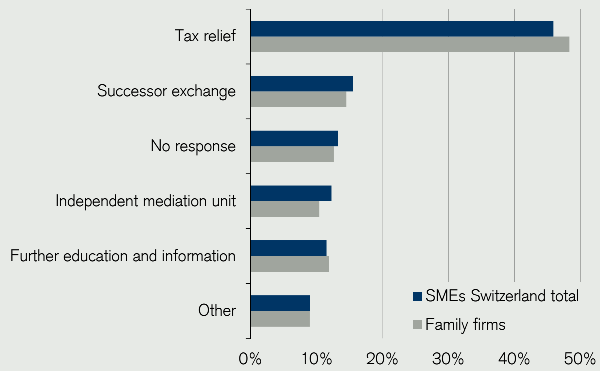


Source: Credit Suisse SME Survey 2013

Figure 22

In your opinion, which measures would most simplify the company succession?

N=523* (multiple answers possible)



Source: Credit Suisse SME Survey 2013; *only answered if company acquisition/handover took place in last 10 years

Taxes a Particular Obstacle for Family Companies

Family entrepreneurs are significantly more likely than non-family entrepreneurs to express a desire for tax relief. The successfully submitted inheritance tax initiative has taken over from «indirect partial liquidation» as a source of uncertainty and anger for family firms. Inheritance tax has thus far been organized at cantonal level, and in most cantons is non-existent. This gives Switzerland a locational advantage that should not be underestimated in international terms. Were the initiative to be voted in, estates of CHF 2 million upwards would be taxed retrospectively at a rate of 20%. The retroactive enforcement is disconcerting, as it calls into question legal and therefore planning certainty in general terms. In terms of company succession arrangements, the initiative results in a restriction of entrepreneurial freedom of action and decision. Company assets do usually constitute illiquid family assets. In practice, based on rules in countries that operate inheritance tax such as Germany, tax breaks including allowances and valuation discounts, or the possibility of tax holidays, including exemptions if the business is continued for a certain period of time, should therefore be discussed

Relevance from an Entrepreneur's Perspective

Age and Health Main Reasons for Company Handover

For the overwhelming majority of entrepreneurs, the main reasons for withdrawing from a firm are age and health (figure 23). Other reasons, such as the desire for more leisure time or existence of a suitable successor, follow some way behind. What is striking is the extensive similarity of succession motives regardless of company size. The desire for more leisure is cited slightly more frequently in proportionate terms by entrepreneurs with 10-49 employees. However, the differences are insignificant. The evidence is that many Swiss entrepreneurs regard the business as their life's work. It is where they created their job for life, and where they wish to stay.

Relevance of Company Succession Peaks between 60 and 65

There are a number of young entrepreneurs who view the subject of company succession as relevant to them. However, succession only acquires major relevance for those aged 50 or above (figure 24). The greatest significance (on balance) based on our survey lies in the 60-65 age group. A total of 44% of SMEs view the subject as relevant to highly relevant, while 40% see it as not relevant to not at all relevant. 73% of firms have at least begun to address the subject.

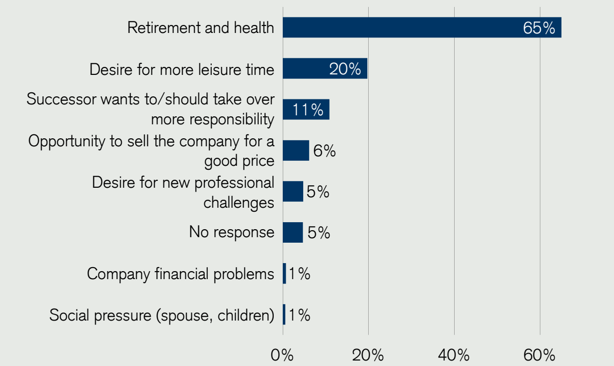
Retirement Provision Prompts Firms to Address Succession Issue

Family firms are more likely than non-family firms to address the subject of company succession. This is partly explained by the fact that in the case of family firms the company is often a significant element of retirement provision. Entrepreneurs whose firm forms part of their retirement provision are more likely to address the issue of succession. Based on our survey, the business forms part of retirement provision for nearly half of entrepreneurs. Interestingly, the proportion of entrepreneurs whose business forms part of their retirement provision is significantly higher among founders than among non-founders.

Figure 23

What is the main reason why you are withdrawing from the company?

Share of SMEs per size category; N=1507*

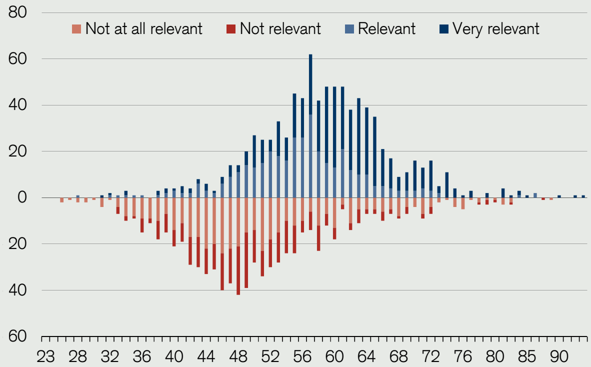


Source: Credit Suisse SME survey 2013; *only answered if entrepreneur has already addressed succession planning

Figure 24

Relevance of Succession and Age

Number of responses (y-axis), age (x-axis), N=2063



Source: Credit Suisse SME Survey 2013

Entrepreneur Demographics

Average Age of Swiss Entrepreneurs Is 55

This year's SME survey allows us to take a closer look at Swiss entrepreneur and company demographics in general. The average age of the chief executive of Swiss SMEs is currently 55. Thus chief executives of Swiss SMEs are practically the same age on average as their colleagues at Switzerland's 100 largest companies. The age profile of Swiss small and medium-sized entrepreneurs shows that the move into entrepreneurship occurs continuously (figure 25). and the proportion of entrepreneurs rises constantly up to an age of approximately 50. The withdrawal phase then begins at roughly 57 years of age. It essentially mirrors the entry phase, and lasts only marginally longer. In terms of type of firm, evidence shows that family entrepreneurs tend to be slightly older than non-family entrepreneurs (figure 26). This means that family entrepreneurs tend to hand over their company slightly later, or in the case of non-family companies there is a tendency to opt for a takeover of the business at an earlier stage.

Working Population 11 Years Younger Than Entrepreneurs

Comparison with the demographics of the working population also shows a number of interesting correlations: The average age of the labor force is 10 years less than that of entrepreneurs, and in 2009 was 44 years of age. Work and entrepreneurial activity span a similar length of time, but are spread over different periods. Entrepreneurs remain at work for considerably longer. Entrepreneurs state that the reaching of retirement age is much less of a reason for them to give up work than is the case of the working population at large.

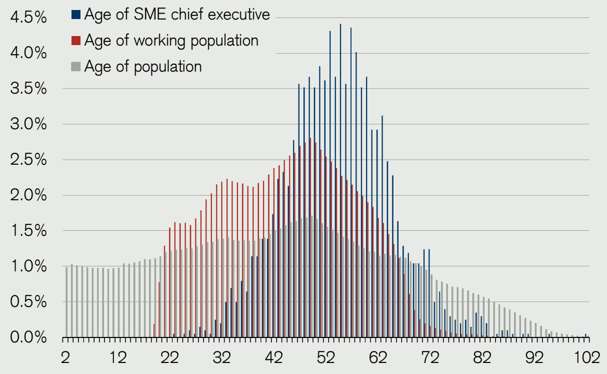
Handover Reduces Age by 24 Years

Company succession generally results in a reduction in the age of the chief executive (figure 27). In just 4% of cases does the age of the successor exceed that of their predecessor. The average age difference between successor and predecessor is 24 years. Succession therefore results in companies changing hands by less than a generation.

Figure 25

Demographics of Entrepreneurs and Working Pop.

Age of SME entrepreneurs in years, N=2063; working population (FTE) 2009, permanent population 2011

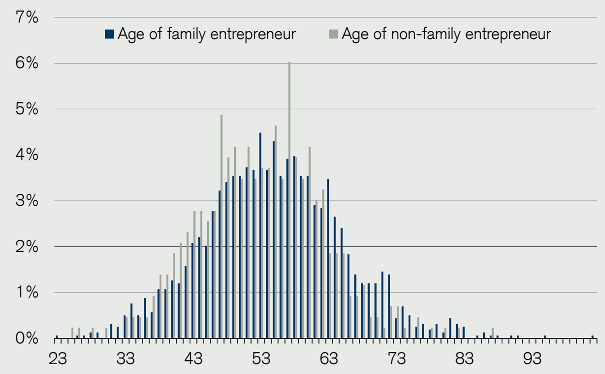


Source: Credit Suisse SME Survey 2013, Swiss Federal Statistical Office

Figure 26

Age of Family and Non-Family Entrepreneurs

Age of chief executive in years; N=1582 (family firms), N=431 (non-family firms)



Source: Credit Suisse SME Survey 2013

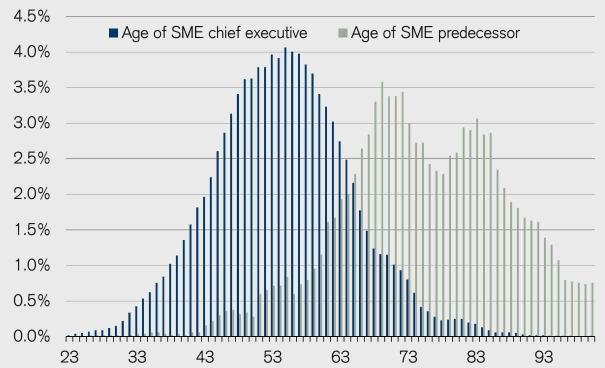
Management Age Shows Virtually No Sector Differences; Company Age Does, However

The age of the chief executive differs only marginally from sector to sector. Company age, however, shows significant differences. The average SME was established in 1968. The oldest SMEs tend to be those in traditional industry (average year established 1950) (figure 28). Companies in the ICT sector are the youngest (average year founded 1988). There are obviously several reasons for this: Some technologies are simply newer. For example, there were virtually no ICT firms prior to 1980. Prospects of success and therefore bankruptcy rates also show a varied picture from sector to sector; in addition, company handovers to the next generation of the family are not as frequent in some sectors as in others. Our survey shows, for example, that SMEs in the traditional industrial sector are more likely to be in the hands of the second or third generation than is the case with companies in the tourism and entertainment sector.

Figure 27

Age of Chief Executive and Predecessor

Age in years, N=2018 (chief executive), N=1006 (predecessor), 5-yr. moving average

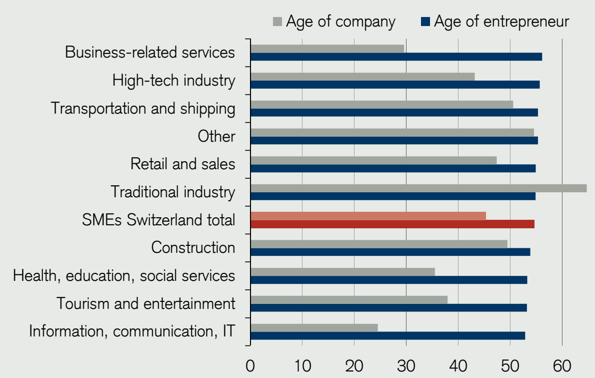


Source: Credit Suisse SME Survey 2013

Figure 28

SME Demographics by Sector

Average age of chief executive and SME by sector; N=2063



Source: Credit Suisse SME Survey 2013

Family Firms

Family Firms Particularly Affected by Succession

Family firms are affected by succession in very distinct ways. In the case of family firms, the two worlds of work and family are particularly closely connected. When the entrepreneur withdraws, the firm and therefore the family have to redefine themselves independently of one another. The difficulties are compounded by the fact that the financial ties between family and business are frequently very significant in the case of family firms. The company is a key part of the family's wealth and, based on our survey, significantly more likely to be part of the retirement provision than in the case of non-family companies.

78% of Today's Swiss SMEs Are Family Firms

Worldwide, the proportion of family firms is estimated at around 60-90%. In Switzerland's case, the figure was put at 88% in 2004.[16] Our survey shows that today the proportion of family firms – using the same definition of a family firm that is generally established in the literature[17] – is significantly lower at 78%. Indeed, when asked directly, only 70% of SMEs would describe themselves as family firms.

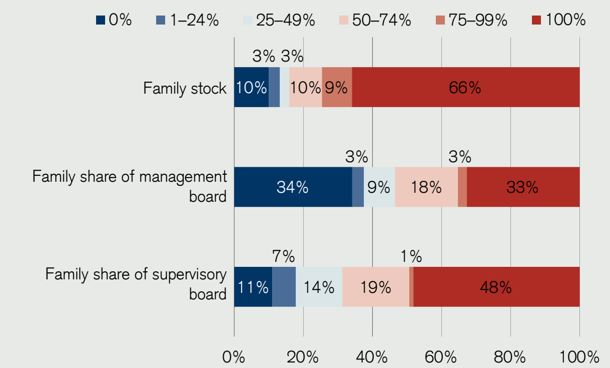
Operational and Strategic Influence Subjectively Perceived As More Important Than Ownership

The typical indications that a business is a family business include a major share of ownership in family hands as well as the presence of family members on the supervisory body (board of directors) and/or executive board. A detailed examination of these three factors shows that families play a dominant role, particularly in the case of business ownership. More than 65% of businesses are entirely in family hands, with 75% of firms more than 75% family-owned (figure 29). More than 50% of the company's operational management is in family hands in slightly more than two-thirds of cases; at 54% of SMEs, family members account for more than 50% of the business's strategic management. In the case of SMEs that subjectively perceive themselves to be family firms, ownership is more than 75% in family hands in 88% of cases; there is a family majority on the supervisory body in the case of more than 60% and a family majority on the management board in the case of more than 74% of firms. Thus a very dominant family role in the ownership of the business as well as a major influence on the executive board appear to be the key criteria from the entrepreneur's perspective.

Figure 29

Family Significance in Company Ownership, Strategic and Operational Management of the Business

Proportion of companies, N=2063

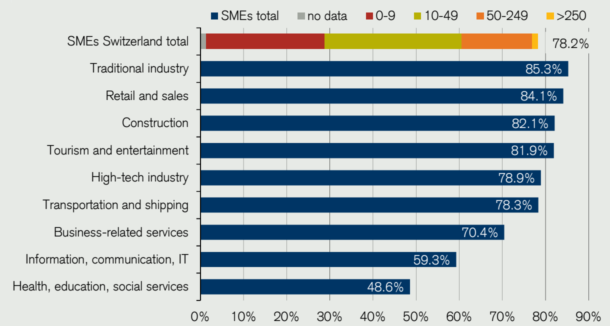


Source: Credit Suisse SME Survey 2013

Figure 30

Proportion of Family Companies by Sector*

Number of responses, N=2063



Source: Credit Suisse SME Survey 2013; *based on «Substantial Family Influence» see footnote 17

Marked Decline In Last Nine Years

The significant decline in the percentage of family businesses in less than 10 years is somewhat surprising. This is not least likely to be due to the falling number of businesses sold or transferred to family members. Indeed the proportion of family firms is significantly higher among founder businesses than it is among non-founder firms. Analysis of the companies based on the period in which they are founded also shows that the percentage of family-owned firms is always subject to a degree of fluctuation. Therefore, it cannot be assumed that the percentage of fa-

16 Frey, Halter, Zellweger (2004): Bedeutung und Struktur von Familienunternehmen in der Schweiz.

17 We describe family firms as companies in which there is «Substantial Family Influence». We consider there to be a substantial family influence if the sum of the family's percentage of total equity, percentage of seats on the management board, and percentage of seats on the supervisory body of the family is greater than 100% (see Halter/Schröder 2010). In the case of companies that cannot be clearly identified as family or non-family firms owing to a lack of data, we use the subjective assessment of companies that was also requested in the survey.

mily firms will decrease further in the future – quite the contrary. The typical characteristics of the traditional family-firm business model – focus on the long term, strong emphasis on quality, employee-friendly corporate culture, as well as the importance of sustainable business management – have recently become increasingly attractive, as shown in a study produced by Credit Suisse Research Institute.[18]

Family Firms Strongly Represented in All Industries and Size Categories

Aside from the similar business model, family firms are as varied as the economy itself. Although the proportion of family businesses falls the bigger the size of company, even among major listed companies there are numerous family businesses. In terms of sector distribution, the evidence shows that family businesses are comparatively strongly represented, particularly in traditional industry, retail and sales, construction, as well as tourism and entertainment (figure 30). Business-related service providers, ICT firms, and companies in the health, education and social services sectors are significantly less likely to be in family hands.

Strong Desire to Hand Over to Family

As far as company succession is concerned, family firms around the world have one thing in common: A strong desire to pass the firm on to the next generation of the family.[19] As a source of financial resources, the family frequently plays an exceptionally important role in getting the business off the ground. The family returns to the fore when it comes to company succession. However, passing on the business within the family harbors considerable potential risks and conflict: Disputes about the distribution of power, fears of a loss of power, unsuitability of successors, growing lethargy and disunity about the (new) strategic direction. It is not uncommon for the family to run the risk of collapsing or disintegrating over the company succession. This makes systematic, early succession planning vital.

Stock-Taking: Findings and Recommendations for Practice

- Company succession is a strategic task for company and family. Specific time needs to be set aside, as a failed succession will destroy value.
- 22% of all Swiss SMEs face the same issue – you are not alone, and are not an isolated example. Exchange views with your colleagues.
- A willingness to pass on the business is the number-one prerequisite for a successful succession.
- A company's suitability for acquisition (e.g. sector, owner strategy) is the second important prerequisite for a successful succession.
- Business partners will want to know whether the firm will remain a valuable partner in future too. It is a good idea to inform business partners, and introduce them to the successor.
- Age and health are the two primary reasons for company succession. The risk of unpredictable events rises with age. It is wise to think about and prepare a contingency scenario.
- Tax optimization and retirement provision are not short-term issues. They need to be coordinated and planned at an early stage.

18 Credit Suisse Research Institute (2012). Family Businesses: Sustaining Performance.
19 Credit Suisse Research Institute (2012). Family Businesses: Sustaining Performance.

Succession Planning: Desire and Reality

Seller's Perspective

Family Firms Wish to Hand Over to Family; Non-Family Firms to Employees

The particular format of the survey – with a survey of SMEs in general on the one hand and company successors on the other – allows us to compare entrepreneurs' succession plans and desires with the reality. When asked who should one day take over their firm, Swiss entrepreneurs respond as follows: Family firms in principle prefer a family buy-out (FBO), [20] while non-family firms prefer to pass the business on to their employees (management buy-out,[21] MBO) (figure 31). *Management* of the company in particular should remain within the family or company if possible.

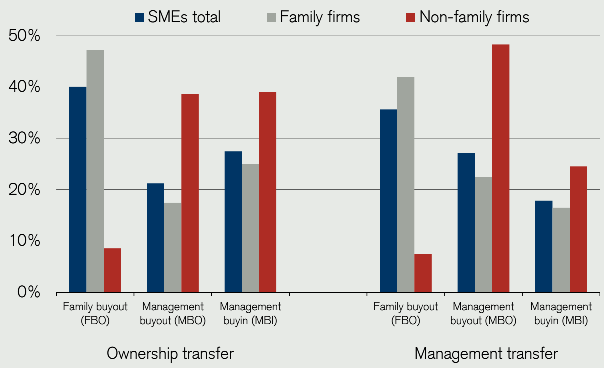
Sell Company, Retain Management

In terms of *ownership* of the company, it is clear that an external solution is significantly more popular for family as well as non-family companies than in the case of a management handover. Although family firms would also prefer to transfer ownership within the family, the second most commonly preferred solution is the management buy-in (MBI)[22], where persons from outside the firm are considered – significantly ahead of the management buy-out (MBO). The picture is similar for non-family firms: The MBI is preferred in the case of ownership handovers – if only slightly. The different preferences in relation to ownership and management transfers presumably reflect the fact that entrepreneurs are torn between, on the one hand, safeguarding continuity within the business and passing the business on to a trusted person and, on the other hand, obtaining the best possible price for their stake.

Figure 31

What should happen to the ownership/management of the company?

Share of responses, N=1507 (multiple answers possible)



Source: Credit Suisse SME Survey 2013

Figure 32

Handover of Ownership Based on Company Size Category

Share of planned succession arrangements (handover of ownership) based on size category, 2013, change versus 2009 in percentage points; N=2063 (2013), N=931 (2009)

Company size	Family buy-out		Management buy-out		Management buy-in	
0–9	47%	(+1%)	24%	(+3%)	29%	(–4%)
10–49	44%	(–1%)	27%	(–2%)	29%	(+4%)
50–249	54%	(+1%)	23%	(–5%)	23%	(+3%)

Source: Credit Suisse SME Survey 2013

General Increase in Management Buy-ins

Handover intentions are broadly similar in all company size categories (figure 32). Compared with our previous survey, a slight increase in the share of management buy-ins (MBIs) is evident in the case of small and medium-sized firms. This was largely at the expense of management buy-outs (MBOs). There may be various reasons for this: First, the opportunities for external company handovers (sales) to individuals or legal entities have increased. However, a second – and related – factor is that entrepreneurs' willingness to grant employees a corresponding discount to the firm's market value might have decreased. This second theory is underpinned by the fact that despite a growing preference for external company handovers the desire to hand over to family members has increased at the same time – at least for companies with 50 to 249

20 **Family buy-out (FBO)**: Sale of the firm to one or more family members.
21 **Management buy-out (MBO)**: Sale of the firm to one or more senior staff.
22 **Management buy-in (MBI)**: Sale of the business to an individual or legal entity with no original links to the business and its stakeholders.

employees. One possible explanation lies in the current environment of low interest rates and capital market returns, making the firm a more attractive investment – whether for the entrepreneur or for persons from outside the company. The differences are minimal, however, and sample-specific effects cannot be ruled out entirely.

Micro Firms Skeptical About External Handovers

Interestingly, the opposite trend is in evidence among micro companies. The proportion of non-family handovers has shifted away from management buy-ins (MBIs) toward management buy-outs (MBOs). The wish to hand over to family members has also risen compared with 2009.

Strong Importance Attached to Children's Freedom to Choose

The family buyout dominates the plans of entrepreneurs. However, these intentions cannot always be fulfilled. The most common reason for not being able or not wanting to hand over management to children is that the latter are unwilling (figure 34). Swiss entrepreneurs seem to respect their children's wishes, and strongly emphasize their freedom of choice. This could not least also be based on the realization that conflicts are inevitable sooner or later in the event of involuntary decisions, or where the successor is unsuitable. Indirectly, however, the children in family-owned firms very probably feel a certain pressure to take over the business, as shown by figure 37 and figure 38. Family entrepreneurs are also slightly more likely than non-family members to encourage their children or friends to become entrepreneurs.

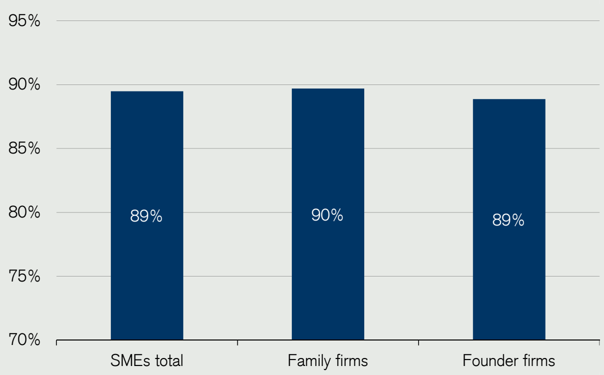
Swiss Entrepreneurs Encourage Friends and Children to Become Entrepreneurs

In general, nine out of 10 entrepreneurs would encourage friends and children to become entrepreneurs (figure 33). This reflects the fact that the overwhelming majority of entrepreneurs have a positive image of entrepreneurship. This positive image is partly likely to be conditioned by the fact that entrepreneurs can often create their job for life through their business; it is also a sign that entrepreneurship is viewed positively in Swiss society.

Figure 33

Would you encourage your children or friends to become entrepreneurs?

Share of responses, N=1507

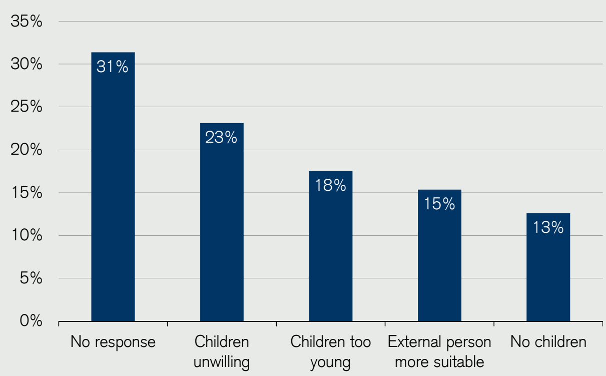


Source: Credit Suisse SME Survey 2013

Figure 34

If you do not want to hand over to your children: What is the reason for this?

Share of responses, N=1507



Source: Credit Suisse SME Survey 2013

Purchaser's Perspective

Reality Is Slightly Different

The preceding part of the study focused on company succession in general and the perspective of the person transferring the company in particular. In the following section, we primarily look at findings from the perspective of persons taking over the company and therefore at completed company successions. For this purpose, we only analyze those responses where the chief executive took the company over from their predecessor in the last 10 years. This gives a total dataset of up to 523 responses.

FBOs and MBIs Rank Equally in Terms of Completed Succession Solutions

As regards completed company successions, we first of all examine the relationship between the current chief executive and their predecessor. This shows that around 40% of entrepreneurs took the company over on a family buy-out (FBO) basis, while around 40 percent conducted a management buy-in (MBI) and only about 20% a management buy-out (MBO) (figure 35).

Internal Family Handover Stable and Judged Realisticly by SMEs

At 40%, the proportion of FBOs is virtually constant compared with the 2009 study. Thus the internal family solution is currently adopted in around 40% of succession cases. More surprising, however, is the fact that at 40% the MBI solution is adopted much more frequently; this is the case compared with the previous survey but also compared with the intentions expressed by future sellers in the preceding section (27%).

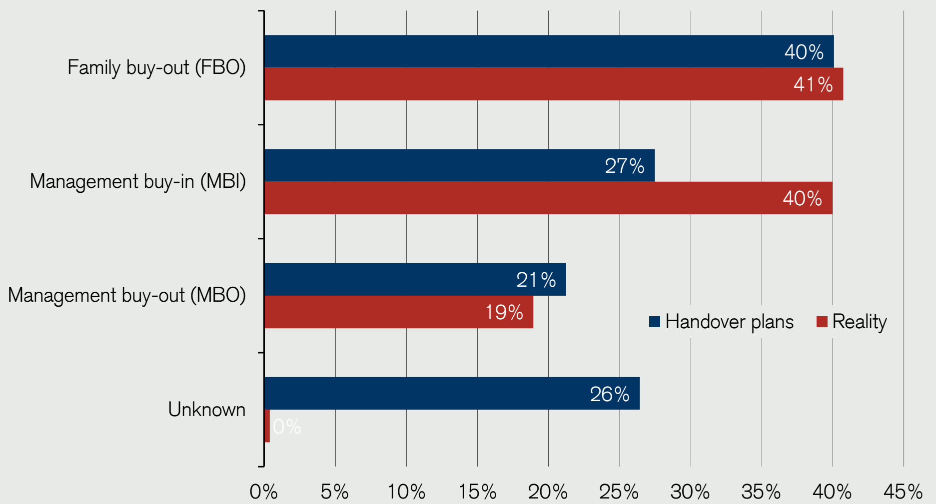
MBI in Reality Adopted More Frequently Than Planned; MBO Falls at Implementation Stage

Furthermore, it is the MBI where the discrepancy between desire and reality is greatest. Many entrepreneurs who have no specific wish regarding who should one day take over their firm end up handing it over to persons from outside the company. The MBO is the only one of the three succession types to be planned more frequently than it is realized. Practice shows that many entrepreneurs do consider their employees when there is no-one from within the family who wishes or is able to step into the entrepreneur's shoes. When approached for the first time about the takeover option, employees often express interest in principle. Often, however, they are insufficiently willing to accept the risk and actually take on the responsibility. In the end, therefore, companies often look for successors from outside the firm.

Figure 35

Completed Vs. Planned Succession Arrangements

Share of responses, N=1736 (handover plans), N=523 (reality)



Source: Credit Suisse SME Survey 2013

FBOs Give Sons a Chance

A closer look at FBOs shows that handovers from a parent to a single child account for the biggest share (83% of FBOs). The vast majority were transferred to a son, with only 15 out of 178 cases going to a daughter. Furthermore, only a fraction of the companies were taken over by a spouse (2% of FBOs).

Only Half of External Handovers Are Classic MBIs

Detailed examination of MBIs shows that the successors were friends or acquaintances with the seller prior to the handover in around 25% of cases. Another 25% of the buyers had a business relationship (e.g. as customer or supplier) with the company. The data show that the environment beyond the family and company has a big role to play in a succession context. The remaining 50% state that they did not have any of these types of relationship with the seller. This therefore constitutes the «classic» MBI case of the willing purchaser who is looking for an «acquisition target» via advertisements or mediators, for example.

Motives of Sellers Match Perceptions of Acquirers

Differing motives, desires, and goals usually lie behind an entrepreneurial commitment. In a first step, we take a look at the generation who are handing over, and in a second stage at the generation who are taking over. Regarding completed company successions, we asked the incoming generation to look back at the outgoing generation's reasons for selling the company. The picture that emerges is very similar to that of the entrepreneurs prior to the succession (see figure 36 in conjunction with figure 23). Age or health reasons were in first place in 50% of company successions. The desire for more leisure time and the company's financial problems came second and third respectively. The desire for new professional challenges, as well as social pressure, played a secondary role, however.

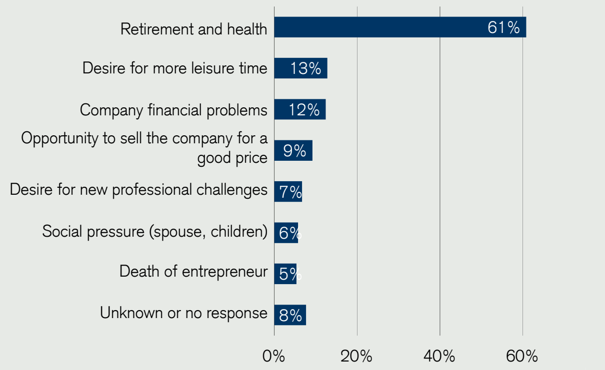
Self-Fulfillment Is Primary Motive for Taking Over

As far as the purchasers are concerned, we are first and foremost interested in their motives for taking over. The self-fulfillment option played by far the biggest role, ahead of financial incentives. This result reflects a general social trend within the developed world. In a macroeconomic environment with functioning labor markets, low unemployment and social and political stability, on the one hand, and a consumption and leisure-oriented society on the other, young people do not primarily become entrepreneurs due to the financial incentives.[23] Put simply, these days those looking to earn a fast buck do not join an SME.

Figure 36

What was the predecessor's primary motivation/reason for the handover?

Share of responses, N=523 (multiple answers possible)

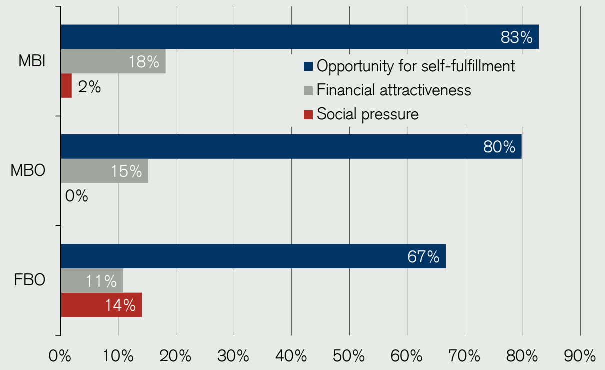


Source: Credit Suisse SME Survey 2013

Figure 37

What was your primary motivation for taking over the company?

Share of responses, N=523 (multiple answers possible)



Source: Credit Suisse SME Survey 2013

Hidden Social Pressure

Differentiating between the FBO, MBO, and MBI shows that with the MBO and MBI in particular the possibility of self-fulfillment is the central motivation (figure 37). The results are a further indication that expected financial profits are not the sole, crucial factor for the typical purchaser of an SME. As expected, it is also clear that the financial attractiveness of taking over the company are of greatest significance for MBIs and of least significance for FBOs. Even if the opportunity for self-fulfillment is central in the case of the FBO, there is no denying that there is a certain social pressure with this succession option (in the case of around one in seven firms that are handed over to younger family members). The social pressure is even more pronounced when assessing this question in qualitative terms (figure 38).

23 See also Zellweger, Sieger, Englisch (2012): Coming Home or Breaking Free?:Career Choice Intentions of the Next Generation in Family Business.

Figure 38

What was your primary motivation for taking over the company?

Qualitative assessment of open question

«Commitment to the company; continuation of the company; general determination to become an entrepreneur; the employees; the desire to safeguard the company's future; sense of duty, responsibility; tradition, calling; independence; creating jobs; professional challenge; saving the family assets; unemployment; inheritance; preventing liquidation costs; social responsibility; death of spouse; parent had stroke; managing my father's legacy»

Source: Credit Suisse SME Survey 2013

Social Responsibility a Frequent Takeover Reason

The open responses show that the continuation of tradition and of the family business often constitutes the primary motivation for the takeover. Acceptance of management duties is apparently not deemed social pressure in these cases. Instead the motivation lies in tradition, a perceived sense of duty, as well as pride. Another significant factor that emerged from the open responses is the theme of social responsibility. Several entrepreneurs indicate that they took on the management role in order either to prevent closure of the business or create more jobs. A third result of the open responses was that several entrepreneurs were fairly ill-prepared when they arrived at the firm, for example owing to the death of their predecessor. There are no significant differences as far as company size is concerned.

Desire and Reality: Findings and Recommendations for Practice

- It is necessary to think in terms of scenarios when considering succession options. There is no guarantee that a specific plan can be implemented.
- In Switzerland, there is no automatic assumption that your children will take over the firm.
- In the case of micro firms, it is sometimes difficult to find a buyer or successor. The systematic termination of the business can and must be a strategic option.
- The motivation behind taking over a company is very varied and multi-layered. It needs to be understood on a case-by-case basis. An understanding of the motives for a handover/takeover eases the convergence process between predecessor and successor, and therefore the handover of the company.

Handover Process

Choosing Candidates and Role of Supervisory Body

Strategic Decision to Hand Over Lies Only Partly with Supervisory Board

Supervisory bodies such as the board of directors or advisory board are important bodies for strategic decision-making. Though a statutory body in the case of a corporation, in the case of other types of company they are seen as optional in legal terms. Company succession is absolutely a key strategic issue, hence our interest in the influence of the board of directors/advisory board/supervisory body in selecting succession candidates. In overall terms, evidence shows that the supervisory body's right to be involved in decision-making is broad-based (figure 39) .Whereas it bears sole responsibility for decision-making in 40% of all cases, it had no involvement whatsoever in the decisions in another 30% of cases. As expected, a breakdown based on type of handover shows that the supervisory body plays a significantly smaller role in FBOs compared with MBOs and MBIs.

Big-Firm Governance Standards Not Directly Transferable to SMEs

The influence of the board of directors is particularly pronounced in the case of small and medium-sized enterprises, whereas it plays no role in the case of nearly half of micro firms. Interestingly, the supervisory body's influence shows virtually no difference between small and medium-sized firms. In the world of family-managed SMEs in particular, the theme of corporate governance must be treated with caution. The same standards as those of major listed companies do not apply, as ownership and management are usually in the same hands in the case of the SME. Seen in these terms, the external board of directors primarily takes on the role of sparring partner to the entrepreneur and owner. The decision-making function is significantly more limited. It can generally be assumed that owners are more able to get their way than external members of the board of directors.

Figure 39

Role of Board of Directors in Succession Decision

Share of responses, N=410

	Total	Family buy-out	Management buy-out	Management buy-in
No role	30%	37%	24%	25%
Decision with CEO	23%	21%	24%	25%
Sole decision	40%	37%	42%	43%
Unknown/no response	7%	5%	10%	7%

Source: Credit Suisse SME Survey 2013

Family Handovers Often to an «Heir/Heiress Apparent»

Not only is it interesting to find out who makes the selection decision in relation to a company succession but also whether there is more than one candidate to choose from. This question is obviously difficult for successors to answer, as they lack information. That is also the reason why no more than 60% of entrepreneurs responded to the question. The results are as follows: In 43% of FBOs, there were no other succession candidates from within the family. The sole candidates might therefore be called «heir/heiresses apparent». Only 4% of actual FBO successors indicate that they had to fight off non-family members.

Every Fourth Non-Family Successor Had to Beat Other External Candidates

In the converse scenario, 10–14% of non-family successors had to beat family candidates. In most cases, there was just one candidate from within the family. At least one-quarter of MBO successors had to beat other candidates from within the company. Among MBI successors, 16% successfully fought off candidates from within the company. In the case of MBOs and MBIs, more than one-quarter of successors also had to beat external candidates.

Networks an Important Breeding Ground for Candidates

In more than half of all cases, MBI candidates took up direct contact with their predecessor. Interestingly, intermediation via friends and relatives plays a more important role than that via professional brokers. Survey participants were also given an opportunity to state contact channels other than those predefined in the questionnaire. The most frequently cited channel was the (newspaper) ad. Accountants/auditors, suppliers, insolvency managers, trustees, and headhunters also played a role.

Duration and Organization of Handover

Time Lag between Initial Contact and Handover of Responsibility

Company succession is a project where various stages and milestones have to be planned and spread across several months or even years. What is the time lag between initial contact between vendor and buyer, and actually taking on the management of the business?

Average Handover Period between 1.6 and 6.5 Years

As shown in figure 40, there is a broad range of responses to the question of the period between initial discussion and actual handover of responsibility. As expected, this time period is longest in the case of the FBO at 6.5 years, and shortest in the case of the MBI at 1.6 years. Based on practical experience and recommendation, the time window of the transfer should be kept as small as possible. The bigger the time window, the greater the likelihood that certain basic assumptions or agreements will alter due to a changing environment – particularly in the case of an MBI.

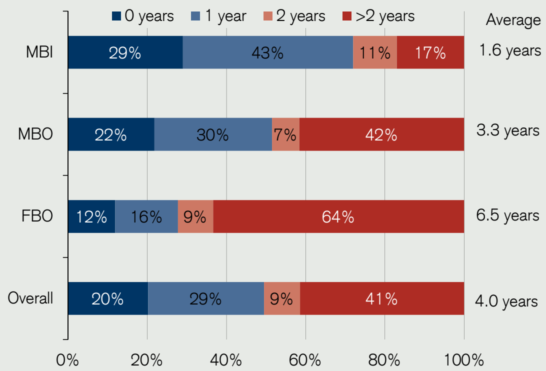
In Nearly Half of Cases, Transfer of Management and Ownership Occur Separately

With a company succession, there is a need to set out rules for management as well as ownership succession. In nearly half of all cases, ownership and management were not transferred simultaneously. Instead the successor retained a certain stake in the firm, in most cases handing over management before handing over ownership (figure 41). As expected, simultaneous handover of ownership and management is by far the most frequent outcome within the group of external company buyers. In more than one-quarter of cases it was management that was taken over first – an indication that a seller loan or similar financing concepts are available for the company handover. In terms of the MBO, it can be assumed that potential internal successors obtain a certain percentage stake in the firm at a relatively early stage; this is aimed at binding them to the company and/or giving them a stake in the success of the shared endeavor, and therefore supporting the succession financing.

Figure 40

Period between Initial Contact and Transfer of Responsibility

Share of companies per handover type, N=368

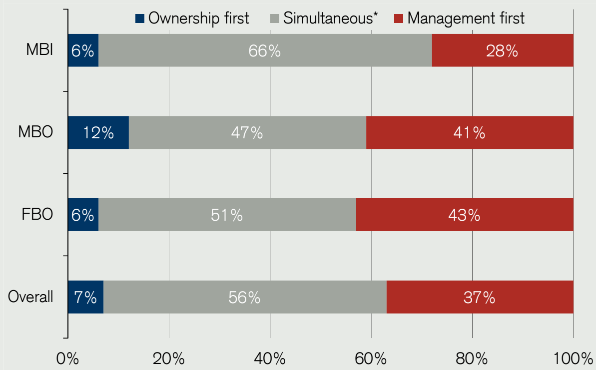


Source: Credit Suisse SME Survey 2013

Figure 41

Phased Handover of Ownership and Management

Share of companies per handover type, N=378



Source: Credit Suisse SME Survey 2013; *in same calendar year

Handover of Ownership Takes a While

In-depth analysis shows that if ownership is transferred first, this usually occurs one to two years prior to the handover of management. In the reverse case, longer time horizons can be observed. In more than one-quarter of cases in which management was handed over first, it was a decade or more before the chief executive acquired majority ownership. In the most extreme cases, 40 years passed by between the handover of management and the handover of ownership. It is likely that in these cases ownership was only handed over to the successor upon inheritance (in the case of the FBO), or that for financing purposes the predecessor retained a stake in the business until their death (in the case of the MBI). In terms of the duration of the process of handing over ownership, the evidence shows that the results are broadly spread. It is with FBOs that the greatest amount of time goes by between acquiring the initial stake and acquiring majority ownership of the company. This period is significantly shorter for MBOs and in particular MBIs.

Management Handover a Quick Process

The duration of the process from partial to full management handover is generally fairly short. In a majority of cases, admission to the executive board and acquisition of business management responsibilities occur within a few months (figure 42). However, big differences can be seen depending on the type of successor: More than 40% of family successors initially work with the management for a period of more than two years before taking over management responsibility. With MBIs, management responsibility is handed over immediately in almost 90% of cases.

Figure 42

Duration of Handover of Management Responsibility

Share of responses, N=443

	Total	Family buy-out	Management buy-out	Management buy-in
0 years	65%	48%	60%	86%
1 year	4%	4%	7%	2%
2 years	5%	7%	2%	3%
> 2 years	26%	41%	31%	9%
Average	2.2 years	3.4 years	2.8 years	0.6 years

Source: Credit Suisse SME Survey 2013

Tools in Convergence Process

Various Tools Support Convergence Process Between Seller and Buyer

The succession process can also be seen as a convergence process between seller and buyer, with the aim – based on mutual trust – of reaching an agreement. There are various steps to formalization along this road to convergence, from drawing up a criteria catalog for the successor, through due diligence and establishing a communication and training plan, to drawing up a contract on the predecessor's conduct post-transaction.

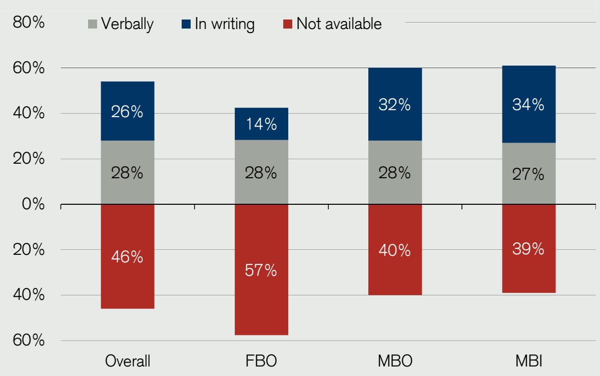
Criteria Catalog Is Not Produced Very Often

We initially examined which firms produced a criteria catalog for the successor upon handover. Nearly half of all firms did not do so (figure 43). As expected, the degree of formalization is greater for MBIs than MBOs; in turn, it is greater in both cases than it is with FBOs. The low prevalence of a criteria catalog should be seen in a critical light. In an increasingly complex, fast-moving world, the requirements placed on managers continue to mount. In such a context, we would advise business vendors to give active consideration to a possible criteria catalog for their successor. This is particularly the case if the entrepreneur is determined that their company – or life's work – will continue to prosper following the handover of power.

Figure 43

Drawing Up a Criteria Catalog

Share of companies per handover type, N=442

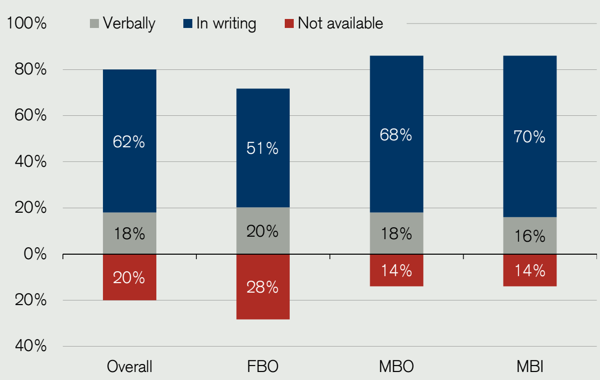


Source: Credit Suisse SME Survey 2013

Figure 44

Due Diligence

Share of companies per handover type, N=485



Source: Credit Suisse SME Survey 2013

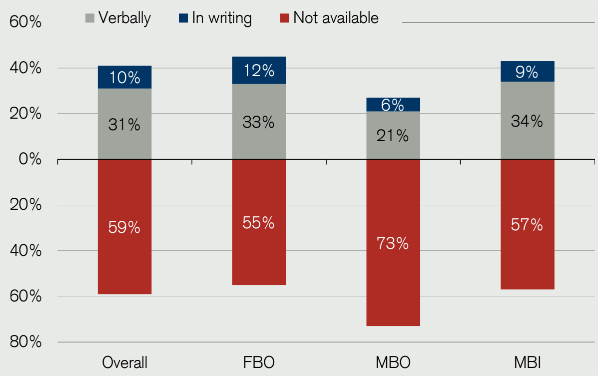
Due Diligence Established, But Often Waived for FBOs

It is customary for due diligence to take place as part of the negotiation process. As expected, this is undertaken above all in the case of MBOs and MBIs (figure 44). The asymmetry of information between vendor and successor is greatest in the case of MBIs, where the parties do not know each other beforehand.[24] Due diligence is a tool used to light the «black-box» that a company often is. FBO successors are also advised to conduct due diligence – despite the low rate at which it is applied in practice. Even where a person has grown up with the business, a systematic, detailed examination of the company frequently brings to light new findings. The objective, transparent results of the due diligence process also enable a better assessment to be made of the company's current position and development potential. It goes without saying that due diligence involves costs. However, the comparatively broad acceptance observed is a clear sign that the benefits of due diligence typically exceed the costs.

Training Plan for Successors Most Prevalent at FBOs

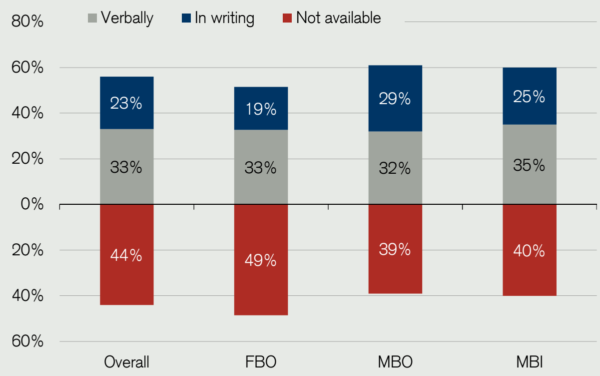
Once the parties have agreed on the basic principles, a familiarization phase can take place in practice. It is striking that the use of training plans for successors tends to be fairly rare across the sample (figure 45). Systematic training of successors is most widespread in the case of FBOs, and least widespread at MBOs. This is explained by the fact that the successors at an MBO have generally speaking worked at the firm for several years already. However, it is advisable to draw up a – role-specific – training plan in the case of MBOs too. If, for example, the former head of production takes over, they may well have gaps in their sales experience and knowledge. These shortcomings are easy to identify in the run-up to the handover, and can be rectified with the help of training. As our study shows, family successors are in many cases lined up years before the company is handed over. In such cases, it is a good idea to embed the potential successor with the firm from an early stage and use them in a wide variety of roles.

Figure 45
Training Plan for Induction and Capacity-Building
Share of companies per handover type, N=432



Source: Credit Suisse SME Survey 2013

Figure 46
Communication Plan
Share of companies per handover type, N=438



Source: Credit Suisse SME Survey 2013

No Communication Plan in 44% of Cases

As completion of the company succession draws nearer, a communication plan needs to be drawn up stating who is allowed to say what to whom and when, the specific content of communication, as well as what cannot be talked about. No such communication plan exists in the case of 44% of companies, and only in 23% of cases have they been set out in writing (figure 46). Communication plans help avoid misunderstandings and resulting uncertainties inside and outside the company. Our study shows that entrepreneurs generally give a great deal of thought to company successions in their business area. Unconfirmed rumors and erroneous information frequently lead to uncertainty among business partners. These can be avoided through a communication plan.

More Than 50% Regulate Conduct of Predecessors

Lastly, there is the question of whether the predecessor's conduct following the handover was regulated or not during the transfer phase. According to our survey, the post-succession conduct of the predecessor was regulated in more than half the MBOs and MBIs (figure 47). Virtually no difference can be seen between MBOs and MBIs, while in the case of FBOs the

24 See Halter, Dehlen, Sieger et al (2013): Informationsasymmetrien zwischen Übergeber und Nachfolger: Herausforderungen und Lösungsmöglichkeiten am Beispiel des Management Buy Ins in Familienunternehmen.

predecessor's post-succession conduct was set out in writing much less frequently. We attribute this to the fact that the FBO handover process firstly takes longer and secondly it is relatively difficult for children to tell their parents to alter their behavior. With FBOs in particular, it is nevertheless advisable to set out the distribution of roles in writing as a preventative measure. Where post-succession conduct is not set out in writing, each of the participants will have their own expectations. Should these expectations diverge, it can result in tensions and conflicts. This may have serious repercussions for FBOs in particular, since individual members of the family also have to get along with each other privately and cannot simply walk away. The lack of such an arrangement can therefore mean that any conflicts spread from company to family.

Awareness of Significance of Post-Succession Phase

As we were able to show, regulation of the post-succession phase has a role to play. What is interesting now is the question of how this is effectively structured in practice. We are primarily interested in whether under the formal arrangements the predecessor still had an office, what number of hours they worked, and whether they continued to exert any influence on the business from the successor's perspective. Finally, we also looked at satisfaction with the whole process.

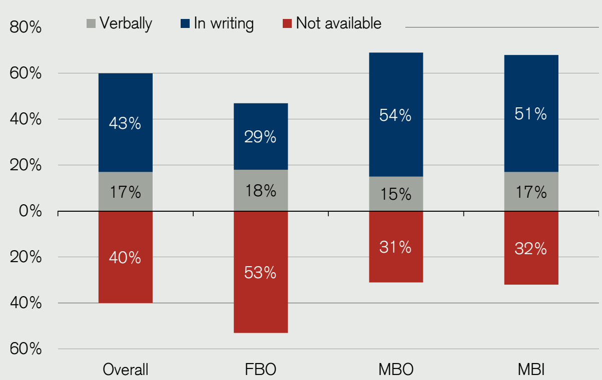
Family Entrepreneurs Stay for Longer …

An entrepreneur's office is often the focal point of activity for decades, and consequently becomes part of his/her own identity to some extent. Accordingly, former entrepreneurs are likely to be fairly reluctant to clear their office immediately following the handover. Our survey shows that predecessors continued to have an office for a further 4.2 years on average following the handing over of a company (figure 48). In the case of FBOs in particular, the predecessor retained an office for a long period. With MBIs, the predecessor generation gives up its office within a year in a majority of cases. There are no general rules regarding the optimum period in which to stay. However, the parties must be aware of the pros and cons of the predecessor's continued role within the business. In particular, they need to weigh up whether the benefits that the successor can draw from the predecessor's experience exceed the costs with regard to undesired, intrusive influence. Accordingly, there needs to be a set of rules governing aspects such as office, hours of attendance, seat on board of directors, etc.

Figure 47

Rules on Post-Succession Conduct

Share of companies per handover type, N=447

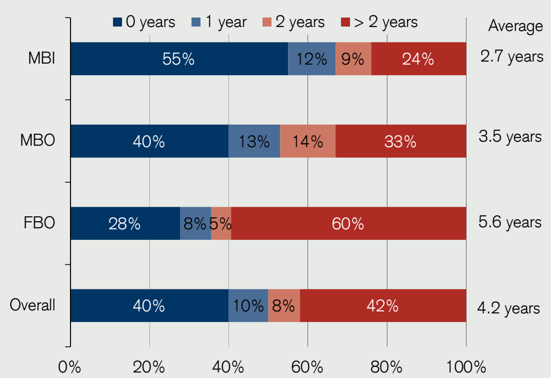


Source: Credit Suisse SME Survey 2013

Figure 48

Until when did the predecessor still have a permanent office?

Share of companies per handover type, N=369



Source: Credit Suisse SME Survey 2013;

… Working 50% Part-Time on Average

Below we measure the intensity of the predecessor's work at the company based on average weekly working hours. This too shows that handovers are not tantamount to immediate retirement. More than half of former entrepreneurs remain in the firm's office for several hours per week. What is particularly striking here is the difference between family handovers (average working week of more than 20 hours following takeover) and non-family handovers (average working week of fewer than 10 hours following takeover).

Influence of Successors, Particularly in FBOs

At the same time, successor entrepreneurs need to establish themselves within the company and develop their entrepreneurial independence. We are therefore concerned with the question of the degree to which successors felt their business activities – especially when it comes to implementing changes – were influenced by their predecessor. The results show that around 80% of entrepreneurs felt there was little or no influence, particularly following MBO and MBI takeovers (figure 49). A different picture emerges in the case of family successors: Here, more than one-third of those surveyed said that the predecessor sought to exert influence to a moderate or (very) great degree.

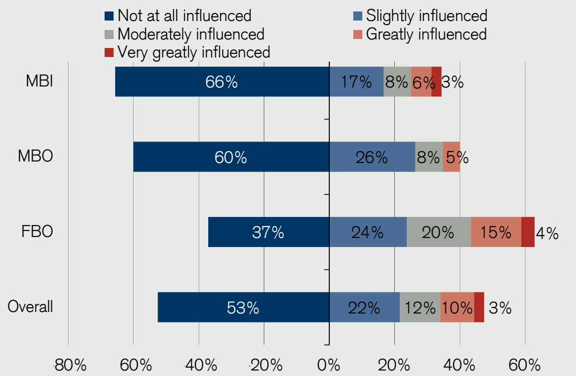
Influence of Predecessors Positive in Majority of Cases

In a second stage, we asked whether the predecessor was inhibiting or encouraging when the successor attempted to introduce changes. All in all, this shows that successors feel they get positive encouragement from their predecessor (figure 50). The figures regarding inhibiting influence are surprising: Such conduct was far more frequently identified by MBO and MBI successors than by family successors. This outcome is particularly interesting when seen in conjunction with the above results, which show that post-succession influence is greatest in the case of family handovers. This implies that continued influence by the former CEO is not recommended in the case of MBOs and MBIs – at least for the satisfaction of the successor.

Figure 49

Degree of Influence on Changes

Share of companies per handover type, N=504

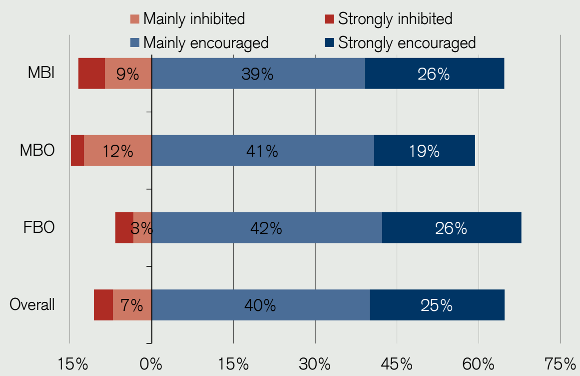


Source: Credit Suisse SME Survey 2013

Figure 50

Way in Which Influence Exerted

Share of companies per handover type*, N=445



Source: Credit Suisse SME Survey 2013; *possible answer «sometimes inhibited, sometimes encouraged» is not shown

Pricing and Financing

Pricing and Financing Should Be Kept Separate

With a company transfer, the first step is to determine the price before going on to secure the financing in the next step. Strictly speaking it is worth keeping these two steps separate, even if they are often closely connected in practice. Different methods can be used to value the company, and in general they also result in relatively big differences.

20% Acquire Family Firms for Free; Employees Obtain a Slight Discount

We have not covered valuation methods in this study; instead we assume that buyers are familiar with the firm's market price. We asked respondents about the price (as a percentage of the market value) at which they took over the company. 20% of FBO successors received the company «for free». One-third of MBI purchasers had to pay the full market price – though only one-quarter of FBO acquirers had to do so. Many successors from within the family received a generous discount of around 20-60% of the market price. The average family discount is 42% of the market price. MBO acquirers, on the other hand, frequently obtained a small discount of up to 20%.

External Friends Get Bigger Discount Than Employees

We identified the following additional differences in the case of MBIs. Figure 51 shows that where a company is transferred to a friend in the form of an MBI the discount is greater compared with an MBO or an MBI involving previously unknown persons, and even an MBI involving former business partners (e.g. suppliers, customers, competitors). We based this on the assumption that our data – and this was also borne out in practice – contains very few instances of private equity-led takeovers.

Succession Requires Solid Equity Financing

Once the price has been negotiated and agreed, the question is how can it be financed. Various forms of internal and external financing are available, although on closer inspection they are tailored – depending on the chosen form of transfer – in different ways. In all cases entrepreneurs must secure solid internal financing in the form of equity, which in practice stands at between 43% and 54% (figure 52). With FBOs, some of the equity financing is usually met by an advance withdrawal of inheritance or gift – where permitted by ideas and expectations with regard to the equal treatment of family members.

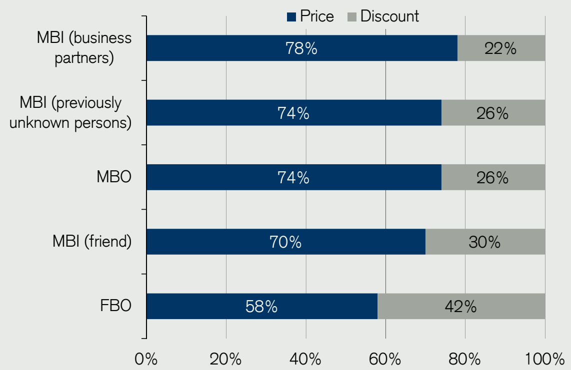
Seller Loans a Matter of Trust

Predecessor loans come into play in particular in the case of FBOs (19%) and MBOs (17%), followed by MBIs involving a friend (10%). This shows clearly that the seller loan is above all a matter of trust. The greater the personal distance between successor and predecessor, the more unlikely it is for sellers themselves to take part in financing the takeover.

Figure 51

Discount to Market Price

Average share of market price per handover type, N=455

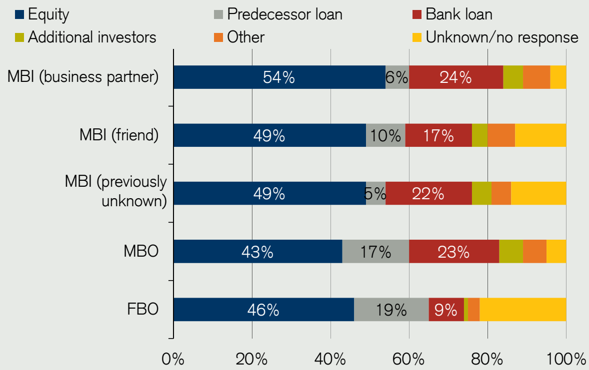


Source: Credit Suisse SME Survey 2013

Figure 52

Financing Structure of Company Succession

Average share of type of financing per handover type



Source: Credit Suisse SME Survey 2013

Bank Financing Mainly in MBOs and MBIs

At 17–24%, the traditional bank loan represents a significant share of MBO and MBI financing. The main issue here is to present the future viability of the company and the willingness and capability of the successors in a transparent manner. This is based not only on historical figures but above all on a credible business plan.

Handover Process: Findings and Recommendation for Practice

- Make sure the issue of company succession can be discussed with third parties. This can be the board of directors, advisory board, a friend, an acquaintance, an advisor, or your own bank.
- The company handover can take place in a single move or on a phased basis, with ownership and management being transferred in parallel or on a staggered basis. The organizational scope is considerable. It is important for the liability to be secured at all times.
- The longer the transfer process goes on, the more important it becomes (especially with FBOs) to regulate overall conditions and processes in order to avoid conflicts.
- The value of the business is not the same thing as the price. The vendor must know what the minimum price should be. What price discount are they willing to accept in order for the business to be continued?
- Once the price has been agreed, the next step is to secure financing. Think about how much equity is required, and how this can be supplemented with loans and other forms of borrowing.

Assessing Company Performance

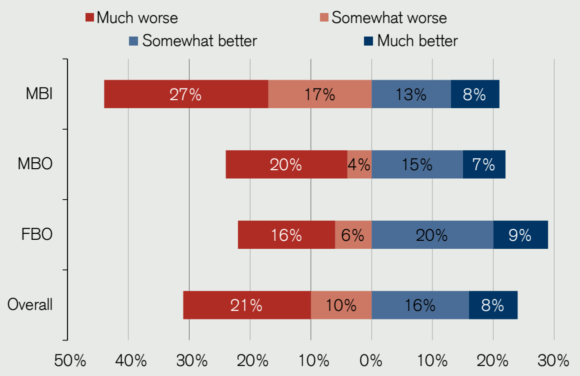
Outsiders Often Rate Companies As Low-Performers

Finally, we turn to the question of how the performance of the companies transferred is assessed. We begin by looking at how successors rate their company compared with its competitors at the time of acquisition. Figure 53 shows that on average around 30% of successors rate their company as low-performers compared with its competitors at the time of acquisition (10% much poorer; 21% slightly poorer). A look at the differences between FBOs, MBOs, and MBIs shows that MBI candidates in particular rate the companies acquired as significantly poorer performers. We therefore assume that MBI candidates view the acquisition target (itself) more critically than FBO or MBO candidates.

Figure 53

Performance Versus Competitors

Share of responses (excludes «comparable» option), N=508

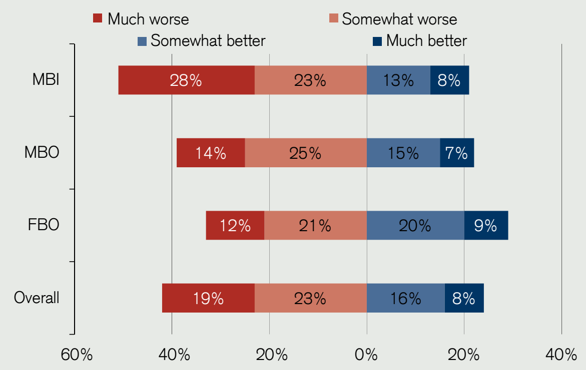


Source: Credit Suisse SME Survey 2013

Figure 54

Performance Today Versus Time of Takeover

Share of responses (excudes «comparable» option), N=514



Source: Credit Suisse SME Survey 2013

Family Members Have Positive View of Company Taken Over

Conversely, the self-image of family members is fairly positive. 29% of successors rate the company somewhat better (20%) or much better (9%) than its competitors. This could be explained by the fact that on average family successors are not required to acquire the company at full market price (see «Pricing and Financing»); nor do they question the company's success with the same rigor. In addition, the emotional ties built up with the company over the years distort any objective assessment.

Views Converge Post Acquisition

If we compare the company's current performance with that at the time of the acquisition, it is striking that MBI entrepreneurs currently rate the company much better (28% of cases) than at the time of the acquisition (figure 54). The share is lowest in the case of FBOs, at 12%. We interpret this as meaning that the lower purchase price as well as lower debt financing does not necessarily have a positive impact on company performance. One might even take the view that through the acceptance of greater owner risk the pressure on development and performance is increased.

Company Performance: Findings and Recommendation for Practice

- The company's fitness prior to succession significantly determines its succession capacity. In particular, external successors wish to capture future potential and not just acquire value.
- Clean historical data is the starting point.
- A business plan is essential.
- The faster successors can invest in the future, the better.

Further Information

- www.credit-suisse.com/succession
- www.cfb.unisg.ch/wb
- www.kmunext.ch

Company Succession
A Practical Guide

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