

“Passing the Baton: encouraging successful business transfers” Report by the Small Business Service

1. Introduction

In the Budget 2004 the Chancellor, Gordon Brown made the following announcement:

“Effective transition of business ownership has the potential to drive productivity benefits through improved innovation, investment and skills. However, ensuring a smooth succession of ownership can be especially challenging for small businesses who may not know how to get appropriate advice and who may face barriers in raising finance to fund the transition...”

“The SBS will lead a cross-departmental review of the hurdles that businesses face when their ownership changes and what more can be done to ease the process...”

In December 2004 the SBS (see below) produced its report, which makes very interesting reading for those interested in exit planning for small business in the UK.

2. Headline Proposals

The report’s headline proposals are as follows:

“The SBS should work with Devolved Administrations, the Regional Development agencies and with advisers to small to medium-sized enterprises (SMEs) to:

- Raise awareness with SMEs of the vital importance of succession
- Encourage owners to address succession at an early stage
- Promote greater awareness of all the succession options, including employee buy-outs
- Improve the quality and availability of advice for owners on how to understand their succession situation and plan appropriately”

“The SBS should also take the following measures:

- Consider producing a ‘No Nonsense Guide’ to the options for business sellers and buyers
- Work with advisers to SMEs to provide business owners with information, training, advice and support on business transfer.”

Further details of the report are as follows:

3. Definitions

The report defines *business succession* as: “The transfer of a SME that results from the owner’s wish to retire, or to leave the business for some other reason. The succession can involve transfer to members of the owner’s family, or to the business’s employees, or to external buyers.”

Succession failure: is defined as where: " ... the business either closed or is diminished owing to a poorly handled succession."

Satisfactory succession is: "Where the transfer of ownership maintains or improves the performance of a stable or growing business, or positively turns around a poorly performing business – through better organisation, investment, innovation, or leadership, for example."

4. Overview of the exit planning market

The report says:

" The main business transfer issues that come out of this review are:

- While considerable support is provided for business start-ups and growth, the succession process is not given the same attention
- Succession support is becoming more critical – because family members are less willing to join family businesses; demographic changes mean there is a growing number of older owners and entrepreneurs; and because there is a trend towards earlier retirement
- Lack of succession planning can impede growth and make it harder for businesses to get new ideas and energies they need for future success
- Succession failure can damage local economies through loss of enterprises, jobs, knowledge and expertise"

5. Raising awareness of exit planning

The report states:

"One of the principal problems with business transfer is that planning tends to occur too late and only at crises points. Many UK businesses have no succession plan and there is a tendency for owner-managers to defer formulating such a plan in favour of carrying out day-to-day tasks."

Research in the UK, USA, Australia and Europe indicates that around two-thirds of business owners have no formal plans for succession or exit. The report proposes that working with agencies and SME advisers the SBS should:

"Endeavour to ensure that a greater proportion of businesses are engaged in planning for transfer by:

- Making all owners aware of the need to address succession at an early stage
- Helping owners understand their succession situation and identify appropriate exit routes"

6. Exit planning support for business

The report states:

"Government should recognise ownership succession as an important life-cycle event and support opportunity. The knowledge and expertise should be available within the support system to assist all SME owners to exit and retire leaving viable businesses intact."

The policy proposals are:

“The SBS should work with agencies to consider how support for business transfer is embedded in publicly funded business support and advice services, for example by:

- Developing centres of knowledge and expertise to support SME ownership succession
- Providing Diagnostic Tools that enable owners to understand their particular succession situation
- Supporting owners emotionally ... through good practice models of succession planning
- Addressing specific succession related issues in rural economies, economically deprived localities and other areas with particular local needs”

It goes on to say:

“SBS should work with advisers to SMEs to provide relevant information, diagnosis and referral to specialist providers of training, advice and business support. This should be aimed at:

- Helping owners make their businesses ‘exit ready’
- Facilitating restructuring of otherwise saleable businesses
- Raising awareness of employee-buyouts
- Using succession as an opportunity to introduce new thinking, to innovate and to help businesses respond to meet challenges of the knowledge-based economy”

7. Conclusion

It is obvious from Gordon Brown’s remarks to the conclusions of the report that there is a need for a great deal of work to be done to educate the owners of SMEs in the UK about the wisdom of undertaking rigorous and effective exit planning. It will be interesting to see how Businesslink and other government agencies follow this through.

Who is the Small Business Service?

The Small Business Service (SBS) is an agency of the Department of Trade and Industry. The SBS manages Business Link, a network of advice centres run by local providers for small business around England. It also partners similar organisations throughout the rest of the UK. The Business Link operator network provides independent and impartial business advice, information and other services to help small business and start-ups throughout England.

The SBS’s web site is: www.sbs.gov.uk