Opinion of the European Economic and Social Committee on Business transfers as promoters of sustainable recovery growth in the SME sector

(own-initiative opinion)

(2022/C 486/02)

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(for/against/abstentions)	143/0/0

1. Conclusions and recommendations

1.1. Business transfers (BT) are an important strategic process ensuring the continuity of businesses and safeguarding employment. Therefore, the European Economic and Social Committee (EESC) suggests that European Union (EU) and Member State (MS) recovery and growth policies give business transfer promotion a strong role.

1.2. Business transfers safeguard the social fabric of rural areas where MSMEs (micro, small and medium-sized enterprises) have a strong presence. Developing well-functioning business transfer ecosystems and support services is essential in preserving the livelihood and economies of rural and mono-industrial areas. The EESC believes that this should be recognised in the implementation of the EU's long-term vision for rural areas and in the Rural Action Plan.

1.3. Successful business transfers safeguard existing jobs and create new employment as well as future prospects for employees in terms of job continuity and professional development. The EESC encourages Member States to share best practices on how to promote the transfer of a firm to employees, for example in the form of a cooperative [1] and other worker-owned social economy enterprises.

1.4. The earlier entrepreneurs prepare for the transfer, the more successful transfers tend to be. Member States must increase their awareness-raising activities on business transfers and equip business and other support organisations to promote and assist MSME transfers. The EESC also calls for Member States to introduce and further develop Early Warning mechanisms [2] for MSMEs to support the resilience, viability and ultimately the transferability of the business.

1.5. Acquiring an existing business should be actively promoted as an equally attractive opportunity for first-time entrepreneurs as being a start-up entrepreneur. Know-how on buying a firm and succession should be part of entrepreneurship education, in secondary and higher education. Thus, the EESC calls for incentives to be developed for the transfer of small firms to young entrepreneurs. Such incentives could include awareness-raising, advisory services,

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[1] For instance, there is a framework in France to organise and facilitate the transfer of a company to employees and to strengthen the economic activity of the territories by facilitating the transfer of MSMEs.

[2] The Early Warning mechanism is an advice and support service to companies in financial distress that aims for an early intervention to prevent bankruptcies of viable businesses.

mentoring and access to finance. Also, young entrepreneurs' understanding of social dialogue could be further strengthened to ensure successful business transfers for all stakeholders. Equally, further incentives for BTs for female entrepreneurs should be developed, to increase the number of women entrepreneurs which is currently too low.

1.6. Funding remains an obstacle for successful business transfers and most business transfers require external funding. The EESC strongly encourages each Member State to ensure that there are financial institutions available to support MSME business transfers, for instance by assisting with bank loan collaterals.

1.7. The EESC recommends that the Member States establish national business transfer stakeholder forums that represent both public and private stakeholders. Business transfer forums offer a systematic and long-term approach to BT promotion. They also provide a space for an ongoing dialogue between national experts and constitute a more efficient use of resources.

1.8. The EESC believes that online business transfer platforms should be developed in all EU Member States, and that they should also be accessible to micro- and small firms. Interlinkages and synergies should be developed between different online platforms in the MSs and the European Commission could facilitate the interlinkage between different online marketplaces in the EU.

1.9. Data on business transfers is often fragmented, insufficient, outdated, and non-comparable across the EU Member States. The EESC therefore recommends that the Commission and MS continue to improve the business transfer database.

1.10. A regular review of the situation of business transfers in Europe should be developed, for instance in the form of an EU-wide business transfer barometer that would also provide input for evidence-based policy making. The annual EU SME Assembly should be utilised as a regular discussion and experience sharing forum for MSME transfers. Lastly, different awareness-raising initiatives should be considered, such as establishing a national and/or European business transfer week.

2. **Introduction**

2.1. Increasing the number of successful business transfers would have immediate benefits for employment, business continuity and the European economy as a whole. In line with the proposals of Conference on the Future of Europe ([3]), business transfers contribute to more resilient and cohesive societies.

2.2. Business transfers form an increasingly significant and natural part of the strategic development, renewal, and growth of MSMEs. As Europe's population ages and the number of entrepreneurs planning to withdraw from business increases, successful business transfers are becoming even more crucial for the European MSME economy.

2.3. Approximately 450 000 firms with 2 million employees are being transferred each year across Europe. It is estimated that every year, around 150 000 businesses risk not being transferred successfully, endangering around 600 000 jobs. The smallest businesses are the most vulnerable to failed transfers ([4]).

([3]) Conference on the Future of Europe, Report on the Final Outcome, May 2022
([4]) European Commission: Business Dynamics: Start-ups, business transfers and bankruptcy, 2011.

2.4. Business transfers can be a complex process due to financial, managerial, regulatory, administrative or market challenges, such as matching sellers with buyers. At the same time, most of all business transfers occur in micro-businesses with limited resources. A transfer is often more difficult for small businesses where the incumbent owner plays a dominant role ([5]).

2.5. A well-functioning business transfer ecosystem is essential for successful transfers and helps to build dynamic BT markets. Business transfer ecosystems comprise various public and private stakeholders: buyers, sellers, predecessors, successors, business advisors such as business brokers, accountants, lawyers and consultants, mediators, financial institutions, business support organisations, policymakers, and academics. Awareness-raising activities that aim to increase preparedness for BTs are an important part of the ecosystem. Still today, the business transfer landscape varies substantially between Member States and between regions within a MS, leaving room for mutual learning and improvement for business transfer ecosystems throughout Europe. However, the final responsibility for the transfer always lies with the entrepreneur.

2.6. A successful change of ownership can result in a more resilient, innovative, and competitive business. When businesses with new owners adopt more green and digital business models, business transfers also contribute to the green and digital transition of the MSME sector.

2.7. The COVID-19 pandemic has also highlighted the need to strengthen the resilience of European businesses and ensure better preparedness planning. The firm and its business model should be healthy and resilient to external shocks for the transfer to be successful. Financial health and resilience increase the chances of a successful transfer.

3. **Background**

3.1. Business transfers have been a part of EU entrepreneurship policy since the early 1990s. In 1994 the European Commission drafted a Recommendation ([6]) to improve the framework conditions in the Member States for BTs. This recommendation proposed a series of measures for MSs to improve the situation for businesses preparing for a transfer. These measures include awareness and preparedness-raising activities, improving the financial environment for BTs, opening up legal paths for restructuring, providing the legal means for ensuring partnership continuity in the event of a partner's or owner's death, ensuring that inheritance or gift taxes do not stand in the way of transfers and facilitating the transfer of businesses to third parties via appropriate tax rules.

3.2. Since then, the EC reviewed the Recommendation in 2006 and published the Communication ([7]) *Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses — Continuity through a new beginning*. The review highlighted that the implementation of the 1994 Recommendation still required further efforts. In addition to calling for implementation of the 1994 Recommendation, the 2006 Communication made further recommendations for BT promotion such as increasing the political attention given to business transfers, providing specialised support and mentoring, organising transparent transfer markets, and implementing national, regional, and local support infrastructure to foster transfers.

3.3. In 2013 the EC evaluated the progress of the 2006 recommendations. The general conclusion was that not enough progress had been made in implementing measures to improve the framework for BTs since the 2006 Communication. The shortcomings listed in the evaluation were in areas such tax arrangements for third parties or employees or in the provision of dedicated support and finance initiatives. The evaluation also pointed out that business transfers were not given sufficient policy attention at EU or at MS level, in contrast to start-up policy.

([5]) European Commission Communication: Implementing the Lisbon Community Programme for Growth and Jobs Transfer of Businesses Continuity through a new beginning, 2006, COM(2006) 117 final, p. 4.

([6]) Commission Recommendation of 7 December 1994 on the transfer of small and medium-sized enterprises (94/1069/EC).

([7]) EC Communication, Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses — Continuity through a new beginning, 2006, COM(2006) 117 final.

3.4. In 2020 the EC published an EU SME Strategy ([8]) reconfirming its commitment to continue to work on making business transfers easier and to support MSs in their efforts of establishing a transfer-friendly business environment. Recently, the EC has focused on improving the evidence base of business transfers, publishing a report in 2021 ([9]). EC's actions and EU-funded good practices can be followed on EC website ([10]).

3.5. The EESC has also recognised the importance of MSME transfers and is calling for swift measures to facilitate and streamline them at reasonable cost ([11]). In its opinion on the EU SME Strategy, the EESC is also calling for special attention to be given to cross-border MSME transfers to address the high costs associated with these transactions and the substantial differences between national regulations ([12]). The EESC follow-up opinion on the EU SME Strategy ([13]) illustrates the potential of successful business transfers to make a business more digital and sustainable, in line with the EU's twin transition goals.

4. **General comments**

4.1. Business transfers are an increasingly important topic for MSMEs due to European demographics and ageing entrepreneurs. Approximately 90 % of business transfers take place in micro-firms ([14]).

4.2. Increasing the number of successful business transfers has immediate benefits for the European economy. Compared to start-ups, successfully transferred businesses perform better in terms of survival, turnover, profit, innovativeness and employment ([15]). According to the European Commission, existing firms conserve on average five jobs whereas a start-up only generates two jobs on average ([16]). Promoting BTs is thus the best possible promotion of entrepreneurial growth.

4.3. Business transfers safeguard the social fabric of rural areas where there is a strong MSME presence; it is estimated that at least one third of European MSMEs are in rural areas. They ensure the economic and social cohesion of these areas through their services to citizens, consumers and local economic activities as well as through the employment they provide ([17]). Business transfers help to avoid the loss of local crafts expertise. Often, the local crafts and retail sector contribute positively to diverse consumer choice in the market, offering an alternative to uniform retail chains. For consumers, a successful transfer means continued and often improved services and products. Developing well-functioning BT ecosystems and support services is essential in preserving the livelihood and economies of mono-industrial and rural areas, having specific importance especially for the agri and food processing sector. Successful transfers also offer a pathway to speed up the twin transition in rural areas via a transformation initiated through a change of ownership. The EESC believes that developing BT ecosystems and support services should be part of the implementation of the EU's long-term vision for rural areas and of the Rural action plan.

([8]) EC Communication, An SME Strategy for a sustainable and digital Europe, 2020, COM(2020) 103 final.
([9]) EC, Executive Agency for Small and Medium-sized Enterprises, Improving the evidence base on transfer of business in Europe: final report, Publications Office, 2021.
([10]) ec.europa.eu/growth/smes/supporting-entrepreneurship/transfer-businesses_en
([11]) OJ C 197, 8.6.2018, p. 1.
([12]) OJ C 429, 11.12.2020, p. 210.
([13]) OJ C 194, 12.5.2022, p. 7.
([14]) EC, EASME, Improving the evidence base on transfer of business in Europe: executive summary, Publications Office, 2021
([15]) Tall, Varamäki & Viljamaa: Business Transfer Promotion in European Countries, Seinäjoki 2021, p. 8.
([16]) Commission of the European Communities (2006), Transfer of Businesses: Continuity through a new beginning, Brussels, p. 3.
([17]) SMEunited, Position on long-term vision for the EU's rural area, April 2022.

4.4. Business transfer promotion is also beneficial for employees as it preserves jobs and business continuity. In MSMEs in particular, employees are the most valuable asset that is transferred to the new ownership. Therefore, it is important to ensure the well-being of employees in the event of BTs. Often, new owners approach the transfer with enthusiasm to develop and grow the business. This also means better future perspectives for employees in terms of job continuity and professional development. The EESC encourages MSs to share best practices regarding transfers where employees can continue to work and develop the activities by taking over their enterprise, for example in the form of a cooperative and other forms of enterprise in the social economy owned by workers ([18]) that have demonstrated their resistance to crisis situations. Also, promoting social dialogue and information upstream facilitates employee buy-outs. This is in line with EESC opinion INT/925 ([19]) highlighting employee buy-outs as good practice for re-launching firms in crisis and transferring SMEs whose owners have no successors.

4.5. Business transfer promotion must be given a strong role in EU and Member State recovery and growth policies. The EESC endorses the long-standing and strategic effort made by the Commission as well as business transfer promotion organisations such as Transeo ([20]) to create a more transfer friendly environment in Europe. However, there is still room for improvement. The level of attention, the current overall functionality of the business transfer ecosystem and the extent of BT promotion measures vary significantly between Member States. In a fast-developing business environment, entrepreneurs need to embrace opportunities for growth, both in-house and through acquisitions. All kinds of ownership transfers should be considered, including family successions, management buy-ins and buy-outs, strategic acquisitions, and employee buy-outs.

4.6. For Europe's transition to the digital and green economy to succeed, MSMEs need to be taken on board. Business transfers are a natural way to transform an MSME business model into a greener and more digital one, supporting their digital and green transition. A successful change of ownership can result in a more resilient, innovative, and competitive business. Also, from a resource perspective purchasing an existing firm with its production assets is often more environmentally friendly than purchasing new ones.

4.7. Especially when the business is being transferred from an ageing entrepreneur to a younger one, it is likely that the young entrepreneur is better equipped to integrate new technologies, production methods and sustainable business models into the acquired business. Thus, the EESC calls for further incentives, such as awareness-raising, advisory services, mentoring and access to finance to be developed for the transfer of MSMEs to young entrepreneurs. Also, young entrepreneurs' understanding of social dialogue could be further strengthened for example through modules of social dialogue in entrepreneurship training Starting as an entrepreneur by acquiring an existing business should be actively promoted as an opportunity that is equally attractive as becoming a start-up entrepreneur. Equally, further incentives for BTs for female entrepreneurs should be developed, to increase the number of women entrepreneurs which is currently too low.

4.8. In the vast majority of business transfers external funding is needed. Due to increasing regulatory requirements in the financial sector, there are two key financial instruments to highlight to promote BTs. Firstly, the need for collaterals to finance business transfer packages is obvious. However, the growing share of business assets are immaterial, and the banking sector is required to comply with ever tighter rules. Each MS needs an operator or organisation that provides collateral for bank loans. Secondly, the development of the EU regulatory framework increases the demand for equity funding. There are several buyers, who would be qualified to run the target business but are short of equity funding. The EESC strongly encourages the EC to take a proactive role in promoting the development of both these financial instruments in the MSs.

([18]) For example, worker-owned societies ('sociedades laborales') in Spain.

([19]) OJ C 286, 16.7.2021, p. 13.

([20]) Transeo is an international non-profit association bringing together experts in transfers and acquisitions of small and medium-sized businesses from Europe & beyond.

4.9. A growing number of family owned MSMEs will, in the future, be transferred to third parties. To attract third party buyers, the business needs to be in a viable and economically sound and attractive state. The earlier entrepreneurs prepare for the transfer, the more successful the transfer tends to be. Member States must increase their awareness-raising activities on business transfers and equip the business and other support organisations to promote and assist MSME transfers. Early Warning support offered to a business in financial distress can also be important in helping an entrepreneur to lead the business back onto a financially viable path and prepare it for a transfer. Therefore, the EESC calls for MSs to introduce and further develop Early Warning support mechanisms for MSMEs.

A recent study on Business Transfer Promotion in European Countries ([21]) showcases BT promotion practices in the Member States that could be replicated in other countries. The EESC supports the study's recommendation for the MSs to establish national business transfer stakeholder forums, representing both public and private stakeholders. Stakeholder cooperation is needed at all levels: regional, national and international. Business transfer forums offer — through an ongoing dialogue between national experts — a systematic and long-term approach to BT promotion and constitute a more efficient use of resources. Eventually, a cross-border dialogue, promoted by the European Commission, could be established between different national forums to exchange best practices in BT promotion in the MSs.

4.10. The EESC recommends that the Member States make full use of digital technologies in promoting business transfers. Online BT platforms, which in most cases are owned and managed by private stakeholders, should be developed in all Member States, and they should also be accessible to micro and small firms. Interlinkages and synergies should be developed between different online platforms in the MSs and the EC could facilitate access to different online marketplaces in the Member States. Furthermore, the number of cross-border business transfers among small businesses is increasing. Improved cooperation between national online platforms would be a cost-effective way to enable small businesses to explore potential target owners in other MSs.

4.11. Successful European policy making on business transfers requires improved data collection. Still today, the data on BTs is fragmented and non-comparable. The EESC recommends that the Commission and Member States take the suggested steps to improve the business transfer database. These steps were outlined in the recent report *Improving the evidence base on transfer of business in Europe* ([22]). The EESC also recommends developing an EU-wide BT barometer, reporting once every four years, to provide input for evidence-based policy making based on improved data. Also, different awareness-raising initiatives should be considered, such as establishing a national and/or European business transfer week.

4.12. The EESC suggests that, in addition to developing better data collection, the Commission should regularly review the situation with business transfers in Europe. The annual EU SME Assembly should be utilised as a regular discussion and experience sharing forum for MSME business transfers.

Brussels, 21 September 2022.

The President
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([21]) Tall, Varamäki & Viljamaa: Business Transfer Promotion in European Countries, Seinäjoki 2021, p. 8.
([22]) European Commission, Executive Agency for Small and Medium-sized Enterprises, Improving the evidence base on transfer of business in Europe: final report, Publications Office, 2021.