

# Executive Summary

## Entrepreneurial behaviour in the course of business succession

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## **Executive Summary**

The present study examines the entrepreneurial behaviour of business owners before and after business succession to maintain or increase competitiveness. Thereby, the study refers to two hypotheses claiming that there is a reduction in investments before the succession, while successors tend to induce company growth. The results are based on data of the IAB-establishment panel provided by the Institute for Employment Research.

### **No coherent picture on the implementation of entrepreneurial measures prior to succession**

In terms of operational measures, there is no uniform pattern prior to succession. As expected, investment activities decrease, the closer the date of succession approaches. Nonetheless, only one measure, i.e. the continuous training of employees, reflects this pattern. Generally speaking, there is no universal influence of the upcoming planned succession on all other (analysed) investment activities, including research and development, innovation, corporate reorganisation and apprenticeship training. Differences, however, can be detected depending on the type of succession: Companies which are to be sold, take reorganisation measures less frequently and are increasingly less active in research and development, the closer the succession date approaches.

### **... and after the change in ownership**

A change in ownership entails significant behavioural modifications only in a few business areas. Participation in apprenticeship training, for instance, tends to increase with the passing of time since the change in ownership. Process innovations, however, tend to be introduced – if at all – particularly in the year of succession; and they are less likely to occur in the subsequent years. Overall, it can be stated that the succession itself only rarely provides immediate impulses to change entrepreneurial behaviour.

### **There is no single blueprint for the successful transfer of businesses**

Prior to succession, companies tend to show declining sales but constant employment. While a change in ownership does not seem to affect sales, it positively impacts on employment. Therefore, the hypothesis claiming that successors tend to induce company growth can be confirmed only partially. In fact, no consistent evidence can be found for a specific entrepreneurial behaviour of successors which would serve to increase the companies' competitiveness. In

other words: There are no general activities or specific sets of measures that ensure the success of successions – neither prior to nor after the succession.

### **Entrepreneurs' restrained behaviour is economically rational**

Therefore, the entrepreneurial behaviour in the course of business succession is predominantly determined by the prevailing company-specific conditions and less by the (upcoming) incident of business transfer itself. In this context, entrepreneurs also reduce activities if they cannot be sure to benefit from an adequate added value. A cautious behaviour can indeed be economically rational and must not necessarily have negative effects on the success of the company and/or succession. In particular, the generated results on investment behaviour reveal that successors seem to be quite aware of (potential) investment backlogs. Thus, investment backlogs do not necessarily represent principal obstacles for successful enterprise transfers. But they have to be surmountable.

### **Due to the absence of a single blueprint, individual advice and consultancy are of high relevance**

For all participants involved, the succession process is marked by high complexity and low transparency. Its outcome is jointly determined by the former and the new owner. Generally, the succession process is a unique event for both of them and can be a challenge in the business as well as in the personal sense. Therefore, it is important to reduce lack of information and – associated therewith – prevailing uncertainties, and also to increase the predecessor's readiness to plan the succession. This is where the existing initiatives of economic policy makers step in and offer support. When necessary, company-specific consultancy on financial and non-financial support measures can assist both actor groups in successfully planning and implementing the succession process.