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NOT SMALL AND MEDIUM-SIZED ENTERPRISES, BUT FAMILY AND TRADITIONAL ENTERPRISES IN BULGARIA. SUCCESSION AND TRANSFER OF BUSINESS

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SMALL AND MEDIUM-SIZED ENTERPRISES

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Usually we say that **SMEs** are the **backbone** of the economy and usually make **up over 90%** of the total number of companies (**for Bulgaria** in the period **2008-2017** they increase from 0.1 percentage point to **99.8%**) (*"BULGARIA 2030", analysis*)

On the other hand, SMEs are an **extremely heterogeneous category**, which means that **special efforts** are needed to properly cover the different **sub-groups** and especially **small family and traditional enterprises**.

The EC **encourages the support** of small family and traditional businesses as they are a key element in **creating new activities** and generating **income in resource-poor areas**. They bring added value to the process of regional development, especially in less developed regions, as they have deep roots in the local economy, where they invest and contribute to **maintaining employment**.

According to Klein (2000) a firm can be considered as a family firm, when the sum of the family's share in equity, in government and management board is equal to or larger than 1.

At most, a family can fully control all three elements. Family influence then amounts to 3 (SFI = 3).

In analytical terms this can be written as follows:

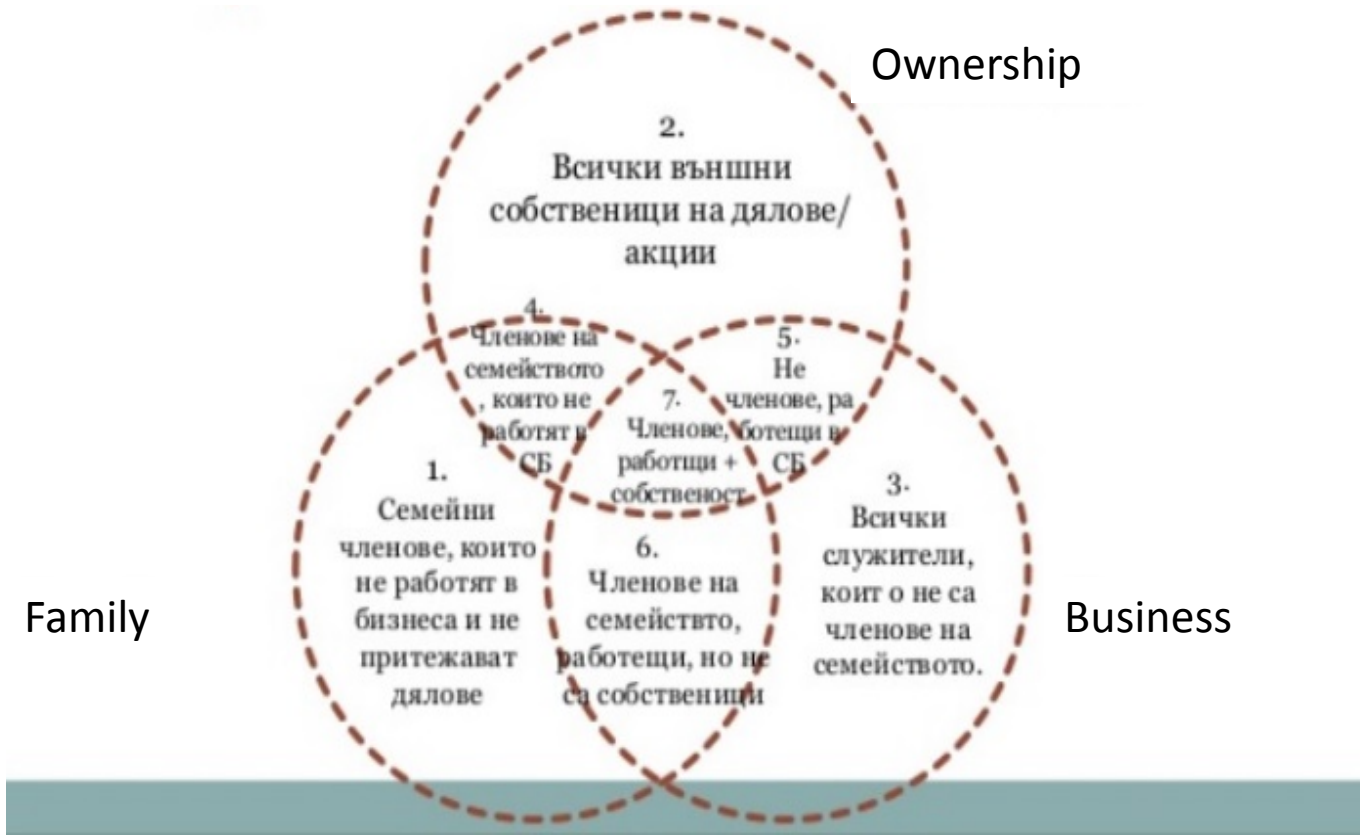
If $S_{Fam} > 0$

$$SFI: \left(\frac{S_{Fam}}{S_{Total}} \right) + \left(\frac{MoSB_{Fam}}{MoSB_{Total}} \right) + \left(\frac{MoMB_{Fam}}{MoMB_{Total}} \right) \geq 1,$$

where

| | |
|--------|-------------------------------|
| S = | Stock; |
| SFI = | Substantial Family Influence; |
| MoMB = | Members of management board; |
| MoSB = | Members of supervisory board; |
| Fam = | Family |

The three systems of family business





FAMILY COMPANIES (FC) - BULGARIA

In 2015 **active FC are 25%** of all active enterprises in the country. (NSI survey).

The **value added** of the FC to **GDP** (gross domestic product) is **10.5%**.

Employment in the FC is **16.23%** of the total employment in the country.

The share of **turnover** of family-owned companies in relation to the total turnover of all companies in the country is **12.42%**.

Each business is part of a **business ecosystem**. It develops its activity by connecting with other participants in the economic environment in **vertical and horizontal connections**. Like any ecosystem, if a business is experiencing difficulties or failing, it will inevitably affect everyone else.

=> **Sustainability of the sector...**



FAMILY COMPANIES - BULGARIA

HOW IS IT WORLDWIDE?

Family business is the oldest and most widespread form of business in the world. This unique way of doing business is distinguished by its succession, reconciling business and family relationships, business value, family culture, rapid decision-making, flexibility and inheritance/succession..

More than 60% of the world's business is owned by families. In Europe, the ***family business employs over 5 million people***, with a ***turnover of over 1 trillion. euro*** per year, data from the European Federation of Family Business (EFFB)

The family business accounts for ***9% of EU gross domestic product***, with only EFFB companies.



SUSTAINABILITY OF THE SECTOR

Age structure of entrepreneurs in the SME sector:

- ✓ Up to 29 years – 5%
- ✓ 30 - 39 years – 22%
- ✓ **40 - 49 years – 45%**
- ✓ **50 - 59 years – 24%**
- ✓ 60 - 69 years – 14%
- ✓ Над 70 years - 0%

Source: 2012, SME Survey, NOEMA

Most of the half of Bulgarian SME entrepreneurs are aged 46 and over. This structure signals potential risks to the sustainability of the sector: in the short term (up to 5 years), 15% of SMEs will need to solve problems related to the transfer of business from retiring to younger managers; and in the medium to long term (up to 15 years), over 38% of enterprises (or every two out of five enterprises) will face these problems in total.



SUCCESSION / TRANSFER

What is transfer and inheritance of business?

The transfer of a business is understood as the ***transfer of the ownership*** of an enterprise to another person or firm, which guarantees the continued existence and commercial activity of the enterprise. This can be accomplished within the family ***through "management buy-in"*** (transfer to current management/employees) and ***sales to outsiders or existing companies***, including acquisitions and mergers. In most micro, small (SMEs) and many medium-sized companies, the ***transfer of ownership goes hand in hand with the transfer of management functions***. In the case of private limited liability companies (LLC), the transfer of ***51% of the shares*** may also be considered a business transfer.



SUCCESSION / TRANSFER

This is a **long process** (an average of 8 years in the family business and about 2 years in the case of a third party transfer). So the sooner one begins to analyze one's situation, the better one can plan and act.

Therefore, **questions** such as: "**when**", "**how**," "**to whom**," "**under what conditions**," and "**how much it would cost**," are all part of the strategic management of a company.

It is important that this happens **without any turmoil for both the company itself and its employees**.

Inheritance/succession and business transfer issues are an important part of managing change and are difficult to digitize.



SUCCESSION / TRANSFER

Almost **70%** of Bulgarian family businesses are ***still managed by their founder***. In about **12%** of family firms ***succession has already taken place***; **8.6%** of companies ***plan to transfer*** the management of a successor in the ***near future*** (1-2 yr.). And about **11%** plan to do so ***in the medium term (3-5 yr.)***. Over **61%** of companies will transfer the management of a successor in the ***next 10 years*** and nearly **12%** of companies planned transfer of management control to take place ***after 6-10 years***.

Planning for succession in the Bulgarian family firms:

- ✓ 17% - ***unwritten plan*** for transferring the management control over the business to the heir/successor (heirs);
- ✓ 30% - the ***list of potential business successors***;
- ✓ 42% - ***training of potential successors*** for their future role in business;
- ✓ 14% - ***business plan after transfer*** of management control to the heir (s);
- ✓ 25% - ***decision*** how the property will be distributed ***after the transfer*** of management control over the business to the heir (s).



REGIONAL ASPECTS - BULGARIA

In Bulgaria, we have ***centralized policies*** on promoting entrepreneurial activity and providing an appropriate regulatory and administrative framework for SMEs.

The ***National Strategy for the Promotion of Small and Medium-Sized Enterprises 2014-2020***, as a policy document, is implemented through ***Operational Program "Innovation and Competitiveness" 2014-2020*** (OPIC) and Operational Program "Initiative for Small and Medium-Sized Enterprises".

For three years now, we have had the opportunity to explore best practices on the topic of business transfer and inheritance from partner countries under the ***STOB regions project*** - Business Continuity and Transfer in the INTERREG Europe program regions, funded by INTERREG EUROPE.



PARTNERSHIP

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IHK-Projektgesellschaft mbH (DE)

Regional Development Agency with Business Support Centre for Small and Medium-sized Enterprises **(BG)**

Official Chamber of Commerce, Industry and Shipping of Seville **(ES)**

Berlin School of Economics and Law **(DE)**

Kainuun Etu Ltd. **(FI)**

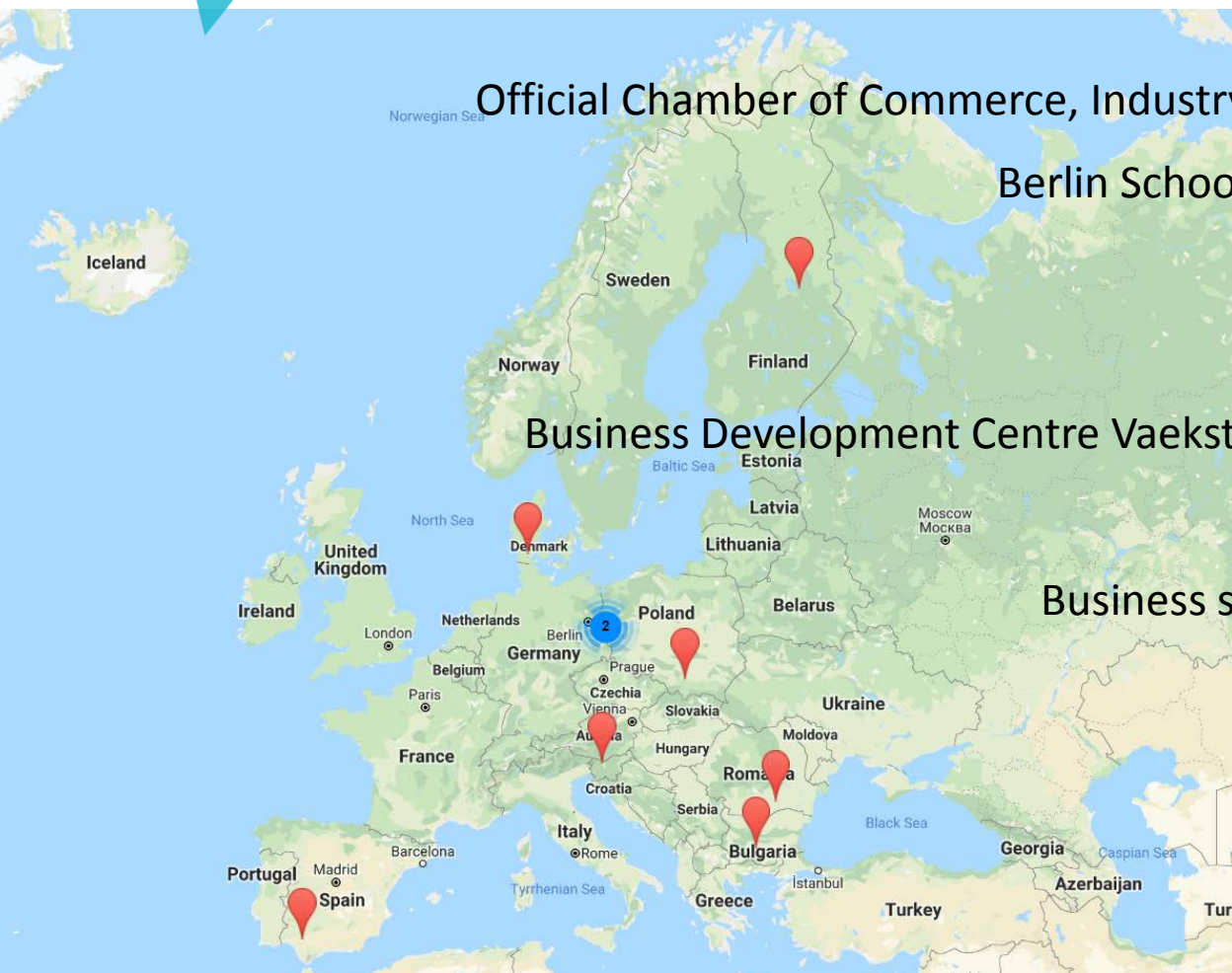
Malopolska Region **(PL)**

Business Development Centre Vaeksthus Southern Denmark **(DK)**

Ilfov County Council **(RO)**

Business support centre Ltd., Kranj **(SI)**

Glasgow City Council **(UK)**





MAIN RESULTS

9 action plans for all participating regions, improving conditions for succession and transfer of business. We are also currently developing one...

WHY SHOULD WE DO IT?

RDA BSC SMEs has been working for almost 25 years in the field of:

- ✓ regional development
- ✓ improving the economic environment
- ✓ establishment of local mechanisms for development and support to the business sector (SMEs), the administration (national, regional, local and municipal) and the non-governmental sector (NGOs)



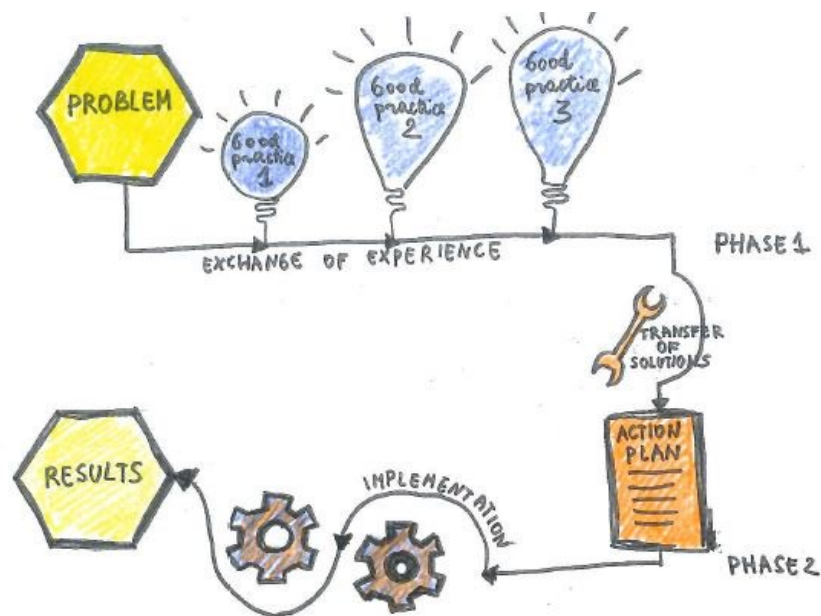
FOUNDERS AND MEMBERS

Founders and members of RDA BSC SMEs - Plovdiv are ***municipalities, associations of employers, universities, enterprises and physical persons*** such as:

- [Municipality of Plovdiv](#)
- [Municipality of Plovdiv - Central Region](#)
- [Municipality of Karlovo](#)
- [Municipality of Kaloyanovo](#)
- [Municipality of Parvomai](#)
- [Municipality of Rodopi](#)
- [Industrial Association - Plovdiv](#)
- [Chamber of Commerce and Industry – Plovdiv](#)
- [University of Food Technologies –Plovdiv](#)
- [Plovdiv University](#)
- [Technical University –Sofia– Branch Plovdiv](#)
- [Medical University – Plovdiv](#)
- [University of Security and Economics – Plovdiv](#)
- [University of Agribusiness and Rural Development - Plovdiv](#)
- [Agricultural University – Plovdiv](#) and etc.

The Action Plan in Bulgaria is a document that will detail how the lessons learned and good practices from cooperating under the STOB Regions project will be used to improve the policy instrument "National Strategy for the Promotion of Small and Medium Enterprises in Bulgaria 2014-2020" : Small Business Act ".

It defines the nature of the actions to be taken, their timeline, who the participants are, the costs and sources of funding..





NATIONAL STRATEGY 2014 - 2020

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National Strategy for the Promotion of Small and Medium-Sized Enterprises in Bulgaria 2014-2020: Small Business Act, Has 11 Priorities
In Priority 2, "New Opportunities for Correct Entrepreneurs" - the topic of business transfer is included.

Business Transfer:

The measures are aimed at seamless administration of business transfer: public campaigns, mentoring schemes, creation of a fund with the Bulgarian Development Bank, which will finance the process of business transfer.

An Annual Program for the implementation of the Strategy should be developed.



SOME PROBLEMS

According to the Final Report on the Review of Family Business and Related Issues, made on behalf of the EC, Directorate-General for Enterprise and Industry, some problems were identified for Bulgaria:

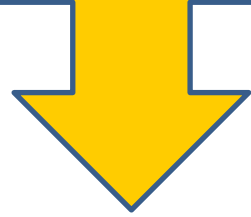
- ✓ There is ***no specific definition*** and research for small family and traditional businesses;
- ✓ There are ***no specific tools to support*** small family and traditional businesses and transfer and succession business within them;
- ✓ There are ***no organizations to support*** the process of business transfer and succession.



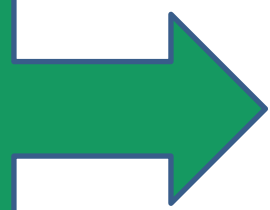
ACTION PLAN - BULGARIA



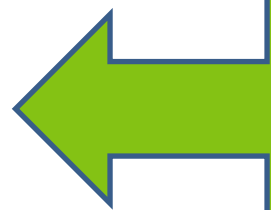
ACTION 1
*Local Network for
Owner-Managers
(successors)*



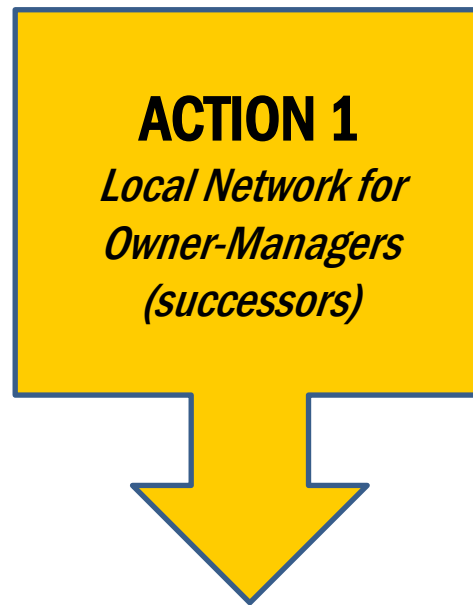
ACTION 2
*Regional Business
Transfer Platform*



ACTION PLAN



ACTION 3
*Financial Instruments /
Mentoring Schemes*



LEARNED LESSONS AND GOOD PRACTICES

DENMARK: Strategisk Generations- & Ejerskifte- Local network for next generation owner managers (successors).

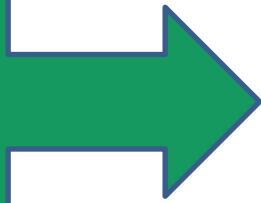
SPAIN: Andalusia Emprende - a network of more than 262 entrepreneurship centres located in Andalusia Region.



LEARNED LESSONS AND GOOD PRACTICES

ACTION 2

*Regional Business
Transfer Platform*



FINLAND: Southwest Finland Regional
Business Transfer Platform

POLAND: The Family Business Succession
Guidebook (www.sukcesja.org)



LEARNED LESSONS AND GOOD PRACTICES

POLAND: Vouchers for advisory services

EC: Final Report, Overview of Family Business Relevant Issues, This study is conducted on behalf of the European Commission, Enterprise and Industry Directorate-General





SOME CONCLUSIONS

- ✓ After the creation and growth of a business, transfer or ***inheritance/succession is the third decisive phase in its life cycle.*** This is why managing change in the transfer and succession stage of a business is critical to the success of any business.
- ✓ As much as we wish to be able to digitize and automate everything around us, there are areas where pure human relationships cannot be displaced by artificial intelligence. These are transfer issues and business succession/inheritance.



SOME CONCLUSIONS

- ✓ We should carefully and responsibly create better business and regulatory environment to allow the process to happen with the least disruption for both business ecosystem itself, and in particular the individual company and the people working in it.
- ✓ We need to do this in several ways: to properly define the different categories of businesses and businesses, focusing specifically on the correct coverage of the different subgroups, and especially small family and traditional enterprises; to create specific support and funding tools as well as to provide organizations and / or consultants who can support this strategic process.

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European Union
European Regional
Development Fund

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