

An international conference on the current research related to transfer of ownership and the impact of measures such as taxation.

Stockholm, Sweden, 25th – 26th March 2010

Transfer of Ownership in Private Businesses – European Experiences

www.ownershiptransfer2010.org

Conference Newsletter November 2009



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process, approaches open to the next generation in connection with transfers, and the impact of a transfer on the enterprise. Policymakers, researchers, and business owners will engage in dialogue on current conditions in EU countries and the identified factors in successful transfers of ownership.

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For more information, you are invited to contact

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Ownership Makes a Difference

Family businesses are vital. In times of economic crisis, the difference becomes apparent between anonymous shareholders and owners of flesh and blood. The latter are the practitioners of personal ownership, the people who take responsibility and are committed to ensuring long-term investment performance. Nevertheless, there is a serious need to improve understanding of the significance of ownership. We know family businesses are crucial to economic growth and job creation. According to the Family Business Network, family businesses provide more than 60 percent of all private-sector jobs in Sweden.



We also know that a large percentage of these enterprises are facing a change of generation in the next few years. This was one of the reasons Swedish policymakers so wisely eliminated three onerous barriers to transfers of ownership in family businesses: inheritance tax, gift tax and wealth tax. Last summer, the Confederation of Swedish Enterprise presented the conclusions of its Tax Committee, which during the course of a year had met with more than 1,000 entrepreneurs nationwide. One of the impressions that has stuck with me from all of these meetings with business owners is made up of the personal stories about the impact of these reforms on facilitating business transfers and generating optimism.

On that basis, and in order to highlight the value of ownership and discuss success factors in transfers of ownership, the Confederation of Swedish Enterprise has taken a joint initiative with the Jönköping International Business School to present Transfer of Ownership in Private Businesses – European Experiences. On the 25th-26th of March 2010, researchers, experts, entrepreneurs, and policymakers will meet at this international conference in Stockholm to share knowledge and experience and take the best ideas home with them. From the Swedish horizon, we can offer scholarly research and case studies that explore the favourable effects of the repeal of inheritance, gift, and wealth taxes.

Welcome to Stockholm!

Urban Bäckström
Director General, Confederation of Swedish Enterprise

NEW RESEARCH STUDY

Tax reform an ignition spark for transfers of ownership

Marcela Ramirez-Pasillas has described the impacts of taxes on transfers of ownership in a new study from CeFEO, the Centre for Family Enterprise and Ownership at the Jönköping International Business School. The study is presented in the book *Ägarskifte i familjeföretag och slojade skatter* ["Transfer of Ownership in Family Businesses and Repealed Taxes"; the book is not available in translation] and is part of a series of reports to be presented at the international conference on transfer of ownership in private businesses in Stockholm on the 25th-26th of March next year.

"The study shows that in the enterprises we studied, the family owners had begun transfer processes, but the repeal of the inheritance, gift, and wealth taxes became the igniting spark for carrying out the transfer of ownership. Tax issues had formerly demanded a great deal of time and energy from business owners, and affected the families' conditions for creating financial security in connection with the transfer of ownership," says Marcela Ramirez-Pasillas.

The new study was performed in two phases. In the first, a pilot study was performed via phone interviews with about 30 entrepreneurs in various lines of business. In the second phase, interviews were held with representatives of five enterprises and their advisers. These enterprises are active in the metal goods, building, and transport industries, and the agricultural and service sectors.

For many years, transfer of ownership in Swedish businesses was defined by problems related to inheritance, gift, and wealth taxes. The taxes were an obstacle to natural, successive transition, since business owners, their children, and their advisers had to plan who would pay the taxes and how the enterprises should manage administrative expenses, etc.

"Repeal of the taxes gave business owners more room to manoeuvre and more time and energy to discuss and think about their options and solutions for transfer of ownership," says Ramirez-Pasillas.

The study also found that transfer of ownership and new management are closely linked: they are complex, inter-

woven processes in generational change. We have relatively good understanding of the implications of new management, but the same cannot be said about transfers of ownership. When the next generation takes over, ownership and management of the enterprise both change. Thus, lawmakers must take into account that new management and transfers of ownership are linked, and we must acquire greater understanding in order to facilitate generational change.

Ägarskifte i familjeföretag och slopade skatter also contains practical advice for business owners and advisers preparing for a business transfer. There are many issues that must be resolved in order to successfully carry out the transfer of ownership. Thanks to the repeal of Swedish inheritance, gift, and wealth taxes, business owners can now devote their energies entirely to these matters instead of tax planning.

The study was performed by Marcela Ramirez-Pasillas under the direction of Professor Leif Melin at CeFEO, Centre for Family Enterprise and Ownership at the Jönköping International Business School. The study was sponsored by the Confederation of Swedish Enterprise. Dr Ramirez-Pasillas (PhD Business Administration) is an associate professor of business administration at EGADE Zona Centro, Tecnoló-



gico de Monterrey, Mexico City. Her past research includes studies of how SME's cooperate in personal networks to spread ideas found at trade shows in order to stimulate new product development.

KEY FINDINGS OF THE STUDY

- The tax reforms were taken as confirmation that the Swedish Government intends to create better long-term conditions for family businesses in Sweden.
- Transfer of ownership is a complex process shaped over the course of several years.
- There are several reasons to transfer ownership gradually in order to minimize tax consequences, develop the children's identities as owners and managers, define new roles and activities for each member of the family, buy insurance, revitalize strategies, and create a financial foundation that compensates the people who are leaving the enterprise.
- Every transfer of ownership is unique in terms of family situation, objectives, ownership structure, and driving forces. Advisers and family members must consider all aspects in order to arrive at good solutions.
- Children earn their place as owners of the enterprise through hard work and commitment.
- Children do not have to take out loans to compensate the parents. There are other ways to manage the transfer of ownership.
- For many business owners, personal identity and the business are intertwined. Advisers must craft solutions that support and advance the processes.
- Successful transfers of ownership are dependent on specialist expertise.

The study (in Swedish only) is available for download from the conference website at www.ownershiptransfer2010.org.

New Conditions for Business Transfers

Interview with Professor Leif Melin, director of CeFEO, the Centre for Family Enterprise and Ownership at the Jönköping International Business School.

The Jönköping International Business School and the Confederation of Swedish Enterprise are arranging a conference on transfer of ownership in March 2010. Why is this conference important?

“The conference will focus on current conditions for transfer of ownership in Europe. Over the last ten years, there have been a great many transfers of ownership in private businesses in virtually all European countries – about half of all privately owned enterprises. The European Commission issued several reports on the subject at the beginning of this decade, which stressed that many Member States had taken far too few measures to facilitate transfers of ownership in small and medium size enterprises. These policy documents put pressure on Member States to take action, which they did. For instance, the Swedish Government decided in 2004 to repeal the inheritance and gift taxes. The conference in Stockholm in March 2010 aims to shed light on these types of changes and their impacts, with some emphasis on tax issues. The conference will also explore the characteristics of successful business transfers and the obstacles to successful solutions.”

From your perspective as a researcher into transfers of ownership - what are the key success factors?

“Successful transfers of ownership have to do with multiple, interrelated factors that range from the capacity of the parties to communicate openly with each other to arriving at solutions that everyone can be happy with. Transfers of ownership involve strong emotional processes that put relationships to the test and reshape the roles and (professional) identities of the main actors. When a business is sold to an external buyer, the goal is to find a buyer whose intentions for the enterprise coincide with what the seller wants and expects. When a business is transferred within the family, the goal is to arrive at a solution that is fair to all members of the inheriting generation, while making sure he or she or they who take over operations are equal to the task and have the skills, the will, and the drive to further develop the business.”

How do conditions for transfers of ownership in Sweden compare from the international perspective?

“The ‘infrastructural’ conditions for transfers of ownership are relatively good in Sweden. Awareness of the significance and complexity of business transfer processes has grown in recent years and is now relatively high among entrepreneurs who are preparing for a transfer and the advisers who are often engaged. And the tax situation in relation to transfers



of ownership has improved a great deal, firstly through the repeal of inheritance and gift taxes in 2004 and secondly through that the wealth tax has mainly been eliminated.”

We are in the midst of a generational change now that people born in the 1940s are handing over their businesses to the next generation – how can the research community contribute to facilitating all of these transfers of ownership?

“There is quite a lot of advice to be found in both our own and international research for people who are leaving and transferring or selling their businesses, as well as for the people who will be taking over and the advisers who often play key roles in business transfer processes. At CeFEO, we also arrange courses and seminars to build knowledge and preparedness among those who will be carrying out business transfers.

“We have also written a guide, ‘Transfer of businesses – What do you intend to do with your business when you choose to do something else?’ (published by Nutek in 2007), which contributes by identifying the phases of a business transfer process and presenting the key issues that should be dealt with in most transfers of ownership if they are to end well. The guide focuses on the ‘soft factors’ connected to a transfer of ownership – relationships, roles, feelings, and the like - which often encompass the knottiest issues in transfer processes.”

What are your hopes for the upcoming conference? Will it succeed in bringing the research elite to Stockholm, and what is it expected to contribute?

“I have great expectations. I hope we will be able to present a conference with a strong European perspective and prominent speakers for various stakeholders including high-level policymakers, leading representatives of business organizations, both Swedish and foreign, interesting and relevant lessons learnt, and case studies presented by the business owners themselves or professional advisers, along with internationally prominent researchers who will be presenting intriguing research findings related to business transfers.”

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