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Abstract:

The aim of this paper is to compare successions and business transfers on farms and other SMEs, particularly from the perspective of business development. To address the need for continuous change in the business environment, entrepreneurs can only apply foresight, and develop and renew their businesses. Farms are now coming to resemble other traditional businesses; and their numbers are decreasing. The study highlights what the two groups of businesses can learn from each other, and that rural regions need entrepreneurs who develop and expand their businesses.

The study was conducted by utilizing a multiple case study method with themed interviews. The study consists of 12 cases; six farms, three firms with fewer than five employees, and three firms with over 20 employees. The case studies reveal the details of nine successions and three asset deals. Most of the interviews were conducted in person (23 interviews) but a few had to be conducted by telephone (3 interviews). The data were analyzed using content analysis methods.

There are a few key similarities in terms of business transfers between farms and other SMEs. First, the negotiation process is likely to require somewhere between a few months and two years, with a period of around a year apparently being quite typical. Second, in some cases, the transferor and successor agree on the succession funding between themselves without resorting to external funding. Third, knowledge transfer is often a long process that begins years before the business transfer and will continue for many years afterward. However, in the case of asset deals, there is no more than minimal need for knowledge transfer and often a few meetings are sufficient. Fourth, gradual business renewal and development are an essential part of daily management activities after the business transfer.

There are also some key differences in the area of business transfers between farms and other SMEs. Families on farms prepare themselves for succession perhaps decades before actual implementation, whereas in other SMEs, any preparation period is considerably shorter. Second, on farms liability for the transferor's debts is often assumed by the successors. In the case of other SMEs, the firm's bank and perhaps a government enterprise development organization often play a key role in financing successors. Third, external experts often have a key role in farm business transfers, while in other SMEs, the role of an expert varies far more, and external experts may not be used at all.

Taxation and subsidy policy play a vitally important role in successions of farm businesses. Delivering business profits takes hard work and the business margins are slim. The majority of SME business transfers are successful. Common success factors in business transfers are business renewal and business development after the business transfer. They also represent key challenges for management, which also include the management of the firm's everyday operations. In addition, the gradual development of the firm is important during business transfer negotiations. The use of external expertise in business transfer negotiations is a key success factor as well. There are two key recommendations in this study. First, a business transfer should be an exit option considered even when starting the business: Second, it is worth developing the business even while negotiating a business transfer.
1 Objectives of the study

The current research is motivated by the need to improve the understanding of SME businesses transfers in rural regions. The aim is to compare successions and business transfers on farms and in SMEs, particularly from the perspective of the management. In this study, the term business transfer includes both acquisitions and successions. In the case of an acquisition, the buyer comes from outside of the seller’s family and the transfer takes place when more than 50 % of the ownership changes hands. In a succession, the firm owner hands over the controlling ownership of the firm to one or more children and possibly their spouses. From the perspective of the economic development dynamic, it is very important that resources in existing firms are utilized, even if the current entrepreneur leaves the firm, and that existing firms find successors and buyers. Those buyers may be either new entrepreneurs, who can thus jumpstart their entrepreneurial careers, or already established firms that can grow faster by acquisitions than by organic growth. The growth in entrepreneurship is important to societies because of the associated job creation. The role of small firms as vital employers has increased since the turn of the millennium.

The recent trend is for the number of farms to decline and the size of farms to increase (e.g., Väre, 2007, p. 5). One consequence of the trend is that the larger farms of the future will buy more services than farms used to do. In rural regions, there will be new firms that specialize in certain activities, such as harvesting or in cleaning and maintaining production facilities. However, the number of industrial jobs will reduce in rural regions, and consequently those regions need entrepreneurs who will develop their businesses. An individual firm can have a critical role in supporting a local economy and services. There is a direct link between business transfers and the viability of rural regions (Henderson, 2002, p. 57), because if a firm disappears, it is not as likely that a new firm will arise to replace it as that is in an urban or industrial environment. From the perspective of the development dynamics in a rural economy, it is very important that resources in existing rural firms are utilized even if the current entrepreneur himself exit the firm. From the perspective of continuation of the services, it is important that existing firms will find successors and buyers. These buyers may be either new entrepreneurs, who can thus jumpstart their career as entrepreneurs, or already established firms that can grow faster by acquisitions than organic growth allows. In addition, particularly farms and nearly a third of other rural firms will at some point acquire new owners through a succession.

There are two main contributions in this study. First, a business transfer should be one exit option already when starting the business. This objective promotes long-term development measures of the firm. Novice entrepreneurs should consider business transfer as one exit option, whenever this time comes up. Second, it is worth developing the business even during business transfer negotiation. The duration of such a transfer is difficult to forecast, but one year is common. This is a long break in terms of development, and attention will also be diverted by any unfinished business in the transfer negotiations. Business owners who can maintain progress on development measures, even as they contemplate an exit, will ensure their business is more valuable to potential buyers. This study highlights the importance of implementing activities that can raise business transfer awareness. Entrepreneurs planning to conduct a business transfer can also develop their business by taking a long-term view. This builds a foundation for business development after the business transfer.

2 Literature review

Business transfers

The success rate of SME business transfers is over 80 % according to the buyers (Varamäki et al., 2013a, pp. 70–71). Several factors influence success. In general, the process management of the business transfer and takeover are key to making a business transfer successful. The majority of business transfers occur in micro-sized firms and are usually very local (Varamäki et al., 2013a, pp. 69–70). Most commonly, the buyer and the seller are from the same or a neighboring locality. In addition, paying attention to customers and employees is very important to successful business transfers (Tall et al., 2015b, p. 66). According to an earlier study, the importance of staff as a key resource is well known, and this factor will be taken carefully into account even
during the acquisition negotiations and in particular in the post-acquisition phase (Tall, 2014, pp. 179–180). Although the information about the business transfer often comes as a surprise to the employees of the acquirer and the target business, they usually have a positive attitude toward the business transfer (Tall et al., 2015b, p. 69). Earlier studies also highlight the importance of the communication with customers in successful business transfers (e.g., Anderson, Havila and Salmi, 2001, p. 585; Öberg, 2014, p. 275; Triplett, 2014, p. 13). Managers can improve the chances of a successful outcome of the acquisition by paying attention not only to the target firm but also to its customers (Anderson, Havila and Salmi, 2001, p. 585).

Business transfers are closely related to growth entrepreneurship. As managers, entrepreneurs decide when to be innovative, what innovations to adopt, and how to acquire and bundle resources to initiate change and development (Henderson, 2002, pp. 40–41). One feature typical among buyers is the pursuit of growth (Tall et al., 2015b, p. 71; Arvanitis and Stucki, 2015, p. 764), and growth entrepreneurs commonly focus on obtaining the necessary resources to fuel growth (Henderson, 2002, p. 49). For existing businesses, acquisitions offer the opportunity to develop, renew, and grow. For those looking to embark on entrepreneurship, numerous practical experiences suggest buying a firm is a good way to start, and acquired businesses develop more quickly than startups (Tall et al., 2015a, p. 77). Business transfers communicate about the growth entrepreneurship.

According to one study of business growth, organic growth and acquisitive growth will require different resources and different forms of use of those resources. Organic growth focuses on utilizing entrepreneurship while acquisitive growth exploits management skills and financial resources (McKelvie, Wiklund, and Davidsson, 2006, p. 189). In a rapidly changing business environment, well-informed and knowledgeable entrepreneurs use both forms of growth when developing their businesses. In order to be able to stay in business, firms need to continually adapt, develop, learn, and mature (Westermarck, 2014, p. 21).

A key challenge in business transfers is finding a buyer. However, among aging entrepreneurs more than half did not have a buyer or successor for their businesses, had not even looked for one. Aging entrepreneurs should be prepared for the fact that finding a buyer does not happen immediately: It can take up to two years (and sometimes even longer) to implement the business transfer. Of those who have sought a buyer, more than 80% offer their business to other entrepreneurs or to competitors (Varamäki et al., 2015, pp.39-41).

Business transfer management on farms

The building blocks of farming tradition in Finland were the ownership of fields, forests, production facilities, and residential buildings, and their solid management and preservation under family ownership (Peltomäki, 2002, p.59). Success has been based on hard work and heritage. Farmers aimed to cultivate fields around the house, have seeds in storage, and own assets to help in the bad times and to distribute to the next generation. The previous generations were honored and their work was appreciated (Katila, 2002). A candidate for succession having a "spirit for the land" was a key evaluation criterion (Lassila, 2005, pp. 148–149). The more modern and more international view is that farm management is now marked by the extensive nature of the work, the similarity of the management required to other firms, the simultaneous occurrence of a number of conflicting priorities, and difficulties in perceiving them, and also the duty to safeguard the continuity of the business (Giles and Renborg, 1990, pp.400-401).

The big picture of business transfer management on farms is built on the same basic elements as that of other firms. The duration of the business transfer process is in both groups from half a year to one and a half years (Varamäki et al., 2012, p.104; Tomnikoski, 2014, pp.38–39). In addition, the business transfer process can be divided into two sub-processes: the transfer of ownership and assuming the management of the business. However, a transfer of a farm business often involves a third sub-process: working on the farm. This process may have its own schedule, steps, and challenges. In successions, the transferor and successor can work together for a long time both before and after the succession. However, a transfer to an outside buyer can mean responsibility for operational management shifts rapidly from the seller to the buyer.

One special feature of the business transfer process for a farm is the presence of a devotion to the land and farming among families (Katila, 2002). People are willing to make sacrifices for the benefit of that devotion to farming; for instance, working long hours for an minimal wage. The freedom of work, independence, and the
opportunity to interact with nature and animals are important factors despite the low incomes. The local landscape and their devotion to the farm can have a specific meaning for farmers (Lassila, 2005, p.155). Another important value factor is continuity (e.g., Väre, 2007, p.94), which in practice often means farmers start thinking about the continuation of the farm as soon as they start farming. From the perspective of the promotion of SME business transfers, this is something that should become more common among other rural entrepreneurs.

**SME business transfer management**

According to earlier studies, management is one success factor in SME business transfers (e.g., Lakshman, 2011; Gomes et al., 2013). The business transfer process requires professional decision-making in a constantly changing situation, where new information becomes available (Haspeslagh and Jemison, 1991, pp.145–168). From the perspective of the buyer and successor, it is beneficial if caution, patience, and experience are applied throughout the process (Tall et al., 2015b, p.70). In addition, previous research encourages entrepreneurs to take advantage of external expertise (Varamäki et al., 2013b, pp.129–130). Valuation and legal expertise are essential during the business transfer negotiation phase, but are rarely found in small firms.

One of the challenges in managing SME business transfers is to transfer the seller’s knowledge of the business to the buyer. However, prior research suggests the options available to address that challenge can vary considerably (Varamäki et al., 2013a, p.70). The buyer and seller might work together for a year or even more, but there are cases where the two parties do not work together at all. From the perspectives of the buyer and successor, there is a need for both business transfer process management and operative and strategic management (Tall et al., 2015b, pp.72–73). During the pre-transfer phase, the focus should be on strategic thinking and management, while during the negotiation phase, business transfer process management is key. During the post-transfer phase, leadership is required to illustrate the focus of action and direct where the business should be going.

Almost without exception, unforeseen eventualities (both positive and negative) occur after the business transfer. This is why the takeover plan and business strategy should be updated after the business transfer (Tall et al., 2015b, p.74). In addition, previous studies have shown that takeover and integration planning and management are crucial to the success of the business transfer (Haspeslagh and Jemison, 1991, p.105; Carr et al., 2004, p.161; Stahl et al., 2011, p.594; Petäjä et al., 2015, pp.56–57). A buyer entrepreneur with past experience can use it to manage the business transfer and takeover processes professionally (Varamäki et al., 2012, p.201). Experienced buyers have tools, partners, and business models that they can exploit to kickstart business development quickly after the business transfer.

**3 Methodology**

The current study was conducted by utilizing a multiple case study method with themed interviews (e.g. Yin 2014; Eisenhardt 1989). There were four selection criteria for the cases. The first was restricted to the non-farm businesses and was the size of the target firm measured by the number of employees. We wanted to have to subgroups; one with firms employing fewer than five employees and another with firms employing between 20 and 49 employees. Second, the study targeted farm businesses that represented different production lines (dairy, crops, and pig farms) and other rural businesses that represent different sectors. Third, the business transfer should have been implemented between 2012 and 2014. Fourth, either the target business or the buyer should be located in the Seinäjoki region of Finland.

The study consists of 12 cases; six farms, three firms with fewer than five employees, and three firms with over 20 employees. The cases offered information on nine successions and three asset deals. The interviews were conducted in the period September 28 to December 9 in 2016. Most of the interviews took place face to face (23 interviews) and a few (3 interviews) were conducted over the phone. The interviews were recorded. These 26 interviews were conducted by two researchers, and involved 32 interviewees. The interview material amounted to a total of 20 hours and 35 minutes, and the recordings were transcribed. The data were analyzed using content analysis methods.
Most of the business transfers were successions in this study; specifically, nine of twelve cases were successions and three were asset deals. Within the farms group, each different line of production (dairy, crops, and pig farms) was represented by two cases. The SME cases represented the construction industry (two cases) and trade, retail business, the metal industry, and services. The business transfers were conducted from 2012 to 2014. All buyers and target businesses were located in the Seinäjoki region.

4 Results

In the case of farm successions, the transferor and the successor, of course, know each other. This was also the case in one asset deal. In the remaining two asset deals the buyer found the target business in the same or a neighboring municipality. We wanted to understand how difficult it is to find a buyer from the seller’s perspective. In one case, the seller contacted the best potential buyer candidate he knew, and that candidate made a deal with the seller. In the remaining two asset deals, finding a buyer was a difficult and time-consuming process. In both cases, closing the firm was also considered.

There was no dominant role for growth entrepreneurship in cases covered by the study. Among farm successions, the successor was most often motivated by a desire to see the parents’ farm continue and thrive, something that had always been assumed. Few other alternatives were even properly considered. In four out of five farm successions, the idea of continuing the family farm business had been mooted by the parents since the successor was a child. The result reflects not only the desire to continue farm operations, but also the attachment to it. The finding supports earlier research confirming the role of a devotion to the land and the farm (Katila, 2002). In one farm asset deal, the buyer was motivated by the opportunity to expand the farm. However, within a number of farms the time before succession was marked by significant investments and increases in the volume of business. In this study, the majority of farm business transfers were successions, and consequently both continuity and organic growth are highlighted in the results.

Among the SME business transfers, the variety of motives was wider. In three cases, the buyer’s motive was the desire to do something other than their current work. Other individual key motives were an unexpected opportunity, inspiration gained from education about the continuation of the parents’ firm, and one successor had always been intending to take over her parent’s firm. The findings suggest the pursuit of growth played only a slight motivating role in the business transfers covered by our cases, although in this context, it is worth remembering that most of the cases were successions. Transfer negotiations lasted from a few months to over two years. In the cases with other firms, the range was wider, varying from two months to several years. The main reason for negotiations lasting that long was that the transferor and successor worked alone on the issues involved for the bulk of the time; however, the negotiations proceeded relatively quickly after an expert was involved in the process, then the succession was completed within about a year. The results support those of earlier studies suggesting negotiations are likely to last about a year (Varamäki et al., 2012; Tormikoski, 2014).

In the case of farm successions, external experts played a central role. That role might include calculating financial measures and valuations, drafting the terms of sale, and applying to the tax authorities for preliminary taxation decisions. Among SMEs in three cases external experts were used, but in varying roles. In two cases external experts played a central role in two cases. In one asset deal, there was no need for an external expert, because the buyer and seller were sufficiently experienced in business transfers to prepare the necessary documents themselves. The respondents reported that in three successions the most common challenges they faced during transfer negotiations related to profitability and business development. In two cases, tax planning was the key challenge for the management. However, in another of these cases, profitability was an issue. On one farm, the transferor and successor jointly managed the business, which proved challenging. On one farm, the transferor continued to manage the farm even after the succession. In that case, the plan is for the successor to complete the education needed to run the farm before taking over the running of it.

Among other firms, there was more variation in key management challenges during negotiations. In two cases, the focus was on business development. Other key management challenges involved valuation and assuming the operations management of the business. In one case, the key challenge was to align the successor’s expertise with the firm’s management needs. For three firms, the most important thing for the management after the business transfer was continuing to operate and restoring normal business functions. In two firms,
maintaining everyday routines was the dominant issue for the management. In the case with asset deal, the main challenge for the management was to adjust the scale of the business to align with weakened market conditions.

Employees of the target business were interviewed in five cases. The information about the business transfer came as a surprise in most cases, but a business transfer at some point was considered as a natural and expected incident, although staff could not predict the exact timing. The only customer interviewed was a long-term customer of the firm addressing a succession. The customer had learned of the succession from a newspaper. The customer reported having a neutral attitude to the succession, but expected to maintain a good relationship with the firm after the succession. Subsequently, the same customer reported that the relationship with the firm remained positive and business was good after the succession.

Our cases show successors undertook the succession without previous comparable experience. In contrast, the transferors could call on their own experience from the previous succession. In the asset deals, two of the buyers had no previous experience. One of the buyers did have previous experience and that process proceeded quickly. Nevertheless, this experienced buyer made some erroneous estimates, showing that prior experience can smooth the business transfer process, but miscalculations can occur in spite of the experience present. According to the successors and buyers, most of the surprises that occurred were positive. In two transactions, there were no surprises. Regardless of whether the respondents faced positive or negative surprises, they all had to take them into account in the course of managing the business after the business transfer to some extent or another. This result confirms previous research results, according to which it is necessary to update the business strategy when the business transfer process evolves (Tall et al., 2015b).

In all the asset deals investigated, management decisions were transferred to the buyer immediately after the deal. In the remaining five farm transfers, in three cases the responsibility for decisions and management was transferred to the successor after the deal. In two farm transfers, the transferor and successor made the decisions and managed the business jointly. An examination of knowledge transfer revealed that in the case of a farm succession, it takes place continually over several years. Business renewal has two main perspectives following a farm succession. First, in all cases profitability was one of the key challenges for the management. Second, the other key challenges for the management varied case by case. In all firm business transfers, the key challenge for the management was to guide a gradual and continuous business renewal. We also found the successors and buyers to be highly committed to the firm and its development.

On the farms, five successors considered the succession to have been successful and one thought it very successful. Among the firm cases, two successors considered the succession to have been very successful and one judged it to have been successful. In three firm cases, both successors and buyers described the business transfer as satisfactory; a result in line with the results of an earlier study (Varamäki et al., 2013a). Among the current research sample, both successors and buyers assessed the business transfers occurring in firms employing fewer than five people to be more successful than in firms employing more than 20 people. All the transferors and one seller considered the business transfer to have been successful. Among the firms, one transferor considered the succession to have been very successful, and two thought it satisfactory. One seller was very happy with the process, which proceeded quickly and delivered the desired outcome.

There are a few key similarities in business transfers between farms and other SMEs (Table 1). First, the negotiation process might stretch from a few months to two years, and is likely to take about a year. Second, in some cases, transferor and successor agree on the succession funding among themselves without a need for external funding. Third, knowledge transfer is often a long process that begins years before the business transfer and will continue for many years after. However, in the current research’s cases of asset deals, there was no more than a minimal need for knowledge transfer, and it could often be achieved in a few meetings. Fourth, gradual business renewal and development are essential elements of daily management activities after the business transfer.
Table 1. Similarities on business transfers between farms and other SMEs.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Similarity</th>
</tr>
</thead>
</table>
| Negotiation process   | • negotiation process is likely to last for about a year  
                         • duration of the negotiations most commonly varies between a few months and two years                                             |
| Funding               | • in some cases, transferor and successor agree on the succession funding without the need for external funding                          |
| Knowledge transfer    | • knowledge transfer is often a long process that begins years before succession and will continue for many years after  
                         • in asset deals, there is no more than a minimal need for knowledge transfer, and it can often be achieved in just a few meetings |
| Business development  | • gradual business renewal and development are essential elements of daily management activities after the business transfer              |

There are also some key differences in business transfers between farms and other SMEs (Table 2). Families on farms prepare themselves for a succession sometimes decades before the actual implementation. For the management of SMEs, the preparation period is considerably shorter. Second, on farms the transferor’s debts are often transferred to the successors if the transferors have made a significant investment. For other SMEs, banks and governmental enterprise development organizations are often key players in financing successors. Third, external experts often have a key role in farm business transfers, while in other SMEs the role of the expert varies far more and sometimes external experts are not used at all.

Table 2. Main differences in business transfers between farms and other SMEs.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Key difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Farms</td>
</tr>
<tr>
<td>Preparing for business</td>
<td>• preparing for succession is initiated perhaps decades before actual implementation</td>
</tr>
<tr>
<td>transfer</td>
<td></td>
</tr>
<tr>
<td>Funding</td>
<td>• transferor’s debts are often transferred to successors, if transferors have made a significant investment</td>
</tr>
<tr>
<td>Using experts</td>
<td>• Experts often have a key role in calculations, terms of sale, and applications for tax authorities for preliminary taxation decisions</td>
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5 Implications
Taxation and subsidy policy play an important role in succession in farm enterprises. Generating business profits takes hard work and business margins are slim. A large amount of land and real estate are often involved in these successions, which means tax reliefs are very important in implementing successions on farms. The large
majority of SME business transfers are successful. Common success factors in business transfers are business renewal and business development after the business transfer. They also represent key challenges for management, which also include management of the firm's everyday operations. In addition, the gradual development of the firm is important during business transfer negotiations. This is the responsibility of the seller or transferor. The use of external expertise in business transfer negotiations is one success factor. Even novice entrepreneurs should consider business transfer as one exit option, whenever the time is appropriate. The key recommendations of the current study are summarized in the table below (Table 3).

Table 3. Recommendations.

<table>
<thead>
<tr>
<th>Target Group</th>
<th>Theme</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current entrepreneurs, transferors and sellers</td>
<td>Preparing for the business transfer</td>
<td>• Business transfer should be one exit option even when starting the business. This objective promotes the long-term development of the firm.</td>
</tr>
<tr>
<td></td>
<td>Business transfer experts</td>
<td>• External experts should be involved at an early stage of the business transfer process in order to help in planning and implementation.</td>
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<tr>
<td></td>
<td>Business development</td>
<td>• It pays to develop the business even during business transfer negotiations. Their duration is difficult to estimate in advance.</td>
</tr>
<tr>
<td>Potential future entrepreneurs, successors and buyers</td>
<td>Management know-how and skills</td>
<td>• Business management skills are needed on the farm, and in addition to management skills in production and in subsidies.</td>
</tr>
<tr>
<td></td>
<td>Management after the business transfer</td>
<td>• The management focus should be on everyday operations and the gradual renewal of the business.</td>
</tr>
</tbody>
</table>

There are two key recommendations in this study. First, a business transfer should be considered as an exit option even when starting the business. This objective can promote long-term development measures in the firm. In addition, novice entrepreneurs should consider business transfer as an exit option, whenever the time is appropriate. Second, it is worth developing the business even during business transfer negotiations, because their duration is difficult to estimate in advance; however, one year is common, and that is a long period over which to suspend development measures. The challenge can be exacerbated if there are also ongoing business transfer negotiations. By keeping up with development measures, the target business is more valuable for the next potential buyer. This study highlights the importance of implementing activities that raise the awareness of business transfers. Entrepreneurs planning to undertake a business transfer also develop their business by adopting a long-term approach. This builds a foundation for the business development following the business transfer. After the succession, the transferor may have either or both of two kinds of role. A transferor may support business development measures after the business transfer, or the transferor might value the past way of doing business. A limitation of the current research is that it is based on interview data derived from 12 cases; a survey of a similar kind of target group would be able to contribute more information about this interesting phenomenon.

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References


