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Unsuccessful SME Business Transfers

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Abstract

Business transfers are linked to both the beginning and the end of entrepreneurial processes. A person can become an entrepreneur by acquiring an existing business instead of starting one, and exit from entrepreneurship can occur through selling the business. Business transfers are gradually becoming more common among small businesses, largely due to entrepreneurs' aging, and thus deserve attention from entrepreneurship scholars. In particular, the issue of why and how business transfer negotiations fail without achieving a transfer has received little research attention. The purpose of this paper is to explore this phenomenon from potential buyers' and sellers' perspectives. The findings are based on a sample of 156 responses. The results suggest that the problems occurring in unfinished business transfers are quite numerous and the gaps between the views of the two negotiating parties are wider than in cases where business transfer negotiations are concluded successfully, indicating that the initial negotiation positions can be crucial. This research proposes some key elements to consider when planning an exit by business transfer and highlight the importance of unfinished small business transfers as an essential element of a dynamic business transfer

market; a substantial proportion of the potential buyers and sellers are satisfied with the outcome even though the transfer did not occur.

Keywords: entrepreneur, business transfer, merger, acquisition, buyer, seller, SME

Introduction

Starting a new firm from the beginning is not the only way to go into business. Existing firms can be taken over by individuals or other companies (Parker and Van Praag 2012; Block et al. 2013; Bastié et al. 2013). In fact, transferred businesses often outperform start-ups according to some evidence (Meijaard 2007). Buying another business is also a well-recognized growth-strategy (e.g. Penrose 2009). At the other end of the entrepreneurial continuum, selling a business provides an exit from entrepreneurship: selling the business provides an opportunity to realize accrued value for the entrepreneur, and is emotionally more satisfying than closing down operations. There is a growing number of entrepreneurs interested in selling their firm after they withdraw from the business. Business transfers are becoming gradually more common among small businesses, largely due to entrepreneurs aging (Länsiluoto, Varamäki, Laitinen, Viljamaa & Tall, 2016).

Earlier research has presented evidence on both successful (e.g., Tall, 2014; Varamäki, Heikkilä, Tall, Viljamaa, & Länsiluoto, 2013; Teerikangas, 2012; Seth, Song, & Pettit, 2002; Aiello & Watkins, 2000) and unsuccessful (e.g., Baker, Butta, Saadi, & Zhu 2012; Chatterjee, 2009; KPMG, 2006; Langford & Brown, 2004; Dyer, Kale, & Singh, 2004; Seth, Song, & Pettit, 2002; Marks & Mirvis, 2001) business transfer moves. There are fewer family business successions projected to transfer the firm to the next generation inside the family, meaning business transfers outside of the family are likely to become more numerous in the future

(Alpeza, Tall & Mezulic Juric, 2018). In our paper, a business transfer is defined as a change of controlling ownership of any firm or business to another person or firm outside the family. Business transfers deserve attention also at the macroeconomic level. In Europe, roughly 450,000 companies are transferred annually and approximately 600 000 jobs disappear due to failures in the business transfer process (European Commission, 2011). Existing business transfer research, however, tends to focus on mergers and acquisitions of publicly traded large firms.

Failure in a business transfer can mean either failure before or after the actual business transfer. In the first case, the transfer is completed but the outcome is not successful from the buyer's perspective. In the latter case, the potential transfer fails to take place despite the parties embarking on negotiations to achieve a transfer. Previous research has largely focused on how the integration after the transfer succeeds, how new owners are able to achieve their objectives, and how well the integrated firm performs under new ownership (e.g., Marks & Mirvis, 2011; Very & Schweiger, 2001; Bastié, Cieply & Cussy, 2017). Business transfer negotiations that fail, i.e. transfers that fail to take place, have received little attention among researchers. Yet they have a significant impact on a growing number of entrepreneurs: failed transfer negotiations mean a failed exit for one party and a lost growth opportunity or entry for the other party. Each failed transfer that results in a loss of a wholly or partly viable business is also a loss for the economy in general.

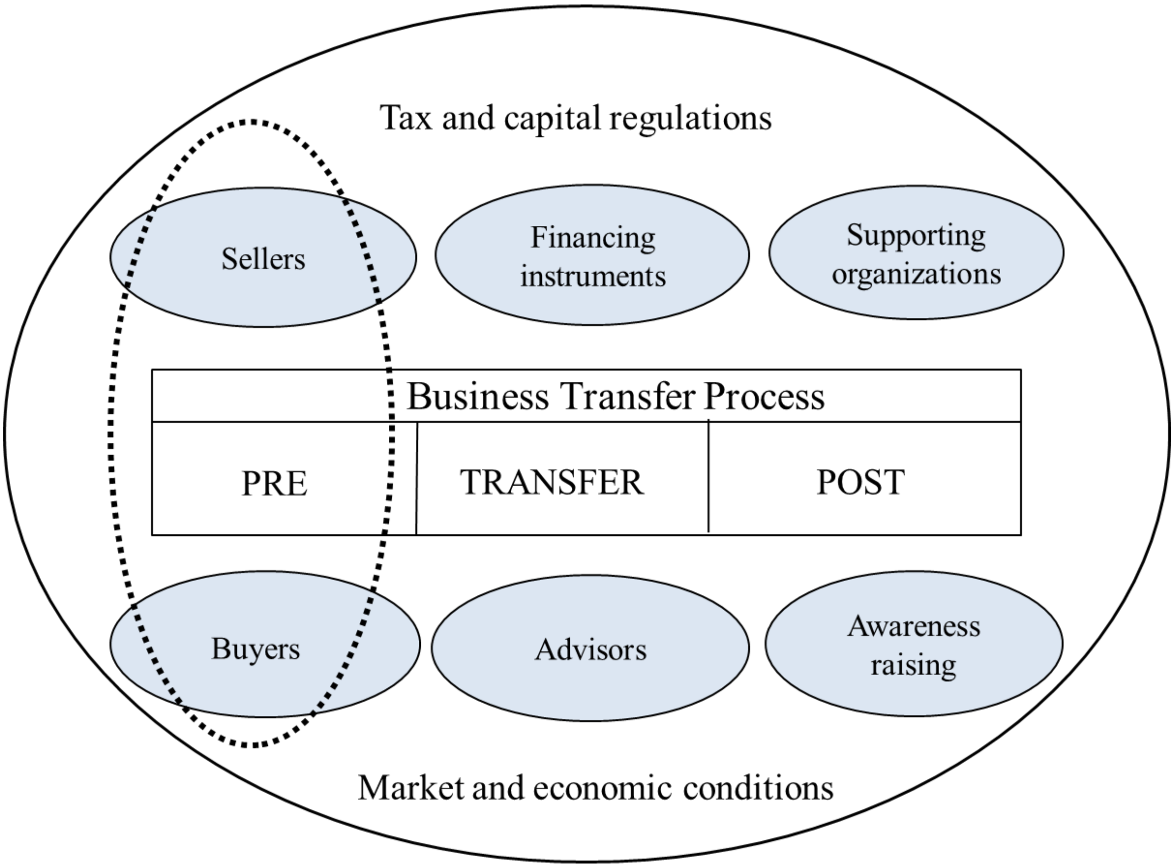
A dynamic economy must unavoidably include business closures as well as business start-ups and transfers. However, if there are avoidable problems that contribute to unnecessary losses in the process, discovering them would help both entrepreneurs looking for exit and the economy in general. In order to promote and support the quantitative and qualitative success of business transfers, it is important we understand why some business transfers fail during the negotiation phase. Therefore, the purpose of this paper is to explore, from the buyers' and sellers' perspectives, the reasons business transfers fail at the negotiation phase.

Five research questions guide the study. 1) What is the profile of the target firms in unfinished business transfers? 2) Which issues had the parties agreed upon before the transfer negotiations fell through? 3) What were the problems encountered in the process and the main reasons for the failure of the negotiations? 4) To what degree was external expertise utilized in the process and how satisfied were the parties with the services provided? 5) What did the sellers and the buyers learn from the process and how do they feel about the possibility of buying or selling a business in the future?

Business transfers and business transfer negotiations occur in the context of specific business transfer ecosystems. In a business transfer ecosystem, market and economic conditions together with tax and other legal frameworks make up the environment in which buyers and sellers act (Viljamaa, Tall, Varamäki, Singer, & Durst, eds., 2015; Singer et al., 2015). Financing is also one of the key issues in business transfers because most buyers need external funding, and hence financial institutions are crucial elements in business transfer ecosystems. Furthermore, external advisors are significant stakeholders in business transfers from both the seller's and the buyer's perspective (Van Teeffelen, 2012; CSES, 2013). Accordingly, both general business support organizations and private advisors should be considered when analyzing a business transfer ecosystem.

Another part of the ecosystem is action generally intended to promote early-stage planning and thus to improve preparedness for a business transfer, which we can describe as awareness raising activities. As business transfers are increasingly viewed as an important contributor to healthy dynamics in the economy, awareness raising activities also seek to promote business transfers as a normal strategic action of firms and to strengthen the business transfer culture. The key elements and content of the business transfer ecosystem are shown in Figure 1. With regard to the business transfer ecosystem, this study focuses on sellers and buyers prior to and during the transfer.

Figure 1. SME Business transfer ecosystem.



Literature review

Challenges and success factors of business transfers can be divided in accordance with the process used (Graebner, Eisenhardt, & Roundy, 2010, pp. 78-81; Very, & Schweiger, 2001, p.

19). A business transfer can fail in three different phases. First, prior to business transfer negotiations, in which case the seller and buyer do not even find each other in order to start negotiations. Second, during the business transfer negotiations, meaning negotiations commence but are interrupted and the actual business transfer does not occur. Third, after the business transfer, meaning the business transfer takes place between the buyer and seller, but the subsequent takeover and integration are not successful, or the business transfer does not meet its objectives in some other respect.

Prior research has tended to focus mainly on the last two phases (e.g., Graebner, Eisenhardt, & Roundy, 2010; Very & Schweiger, 2001). Actually, the majority of previous research is on failures in takeovers and integration (e.g., Marks & Mirvis 2011; Very & Schweiger, 2001). In addition, previous literature tends to reflect on successes and failures from the buyer perspective. This study explores unfinished business transfers from both buyer and seller perspectives. An unfinished business transfer is not necessarily always a failure, although the intended objective is not achieved (Gimeno et al., 1997). It is worth walking away from a bad deal (Rovit, Harding, & Lemire 2004, p. 22). However, investing enough time is one of the characteristics of successful business transfer negotiations (Chatterjee, 2009, p. 158). The parties to business transfer negotiations should be aware that the negotiations may take a long time and for various reasons the negotiation might not even be a continuous process.

Wennberg et al. (2010) studied business transfers from the sellers' viewpoint, combining human capital theory and prospect theory. The study developed a theoretical framework of four exit routes for the seller: the harvest sale, distress sale, harvest liquidation, and distress liquidation. The first two routes describe a situation when a business is sold and continues under the control of a new owner. A harvest sale refers to a scenario where the sale of the business allows the seller to benefit financially from the business transfer, while company continues after the transfer. A distress sale refers to a financial distress situation, where a company is making a loss and the owner is unable to resolve the situation, and accordingly is forced to sell the company to avoid bankruptcy. A harvest liquidation refers to the termination of a profitable firm to distribute the value of the assets to its owner. A distress liquidation refers to the termination of a poorly performing business to avoid bankruptcy.

Power and Ryan (2008) identified nine (9) contributing factors that can influence business transfer failures:

1) Age. The adaptability of long-established companies might have reduced, so that their reactions to changes in their operational environment are no longer effective. This increases the likelihood of failure in the business transfer process.
2) Quality. Firms' growth potential and profitability increase the attractiveness and market value of the company. Sellers who neglected the development of the business face difficulties reaching a satisfactory valuation of their business.
3) Niche. If the company is operating with more customized products and services, which serve the needs of fewer customers, it might be a less attractive market proposition for a prospective buyer (Martin et al. 2002). Consequently, companies operating in niche-markets are more likely to face difficulties in business transfer negotiations.
4) Business risk. If the business operations encompass high risk factors, potential buyers are deterred, which increases the likelihood of a business transfer failure.
5) Entrepreneurial intentions. A personal motivation for selling the business has been described as one of the key factors in successful business transfers (Bagozzi, Baumgartner & Yi, 1989).

Therefore, the personal intentions of the seller are expected to influence the business transfer process.

6) Attributes of the market. The attractiveness of the operational environment might influence a company's ability to continue after the business transfer, in that it will affect the number of potential buyers of the business, which is likely to affect the market price of the business.

7) Insiders. A business might be transferred to an insider, perhaps an employee or other stakeholder who knows the industry and the company. This diminishes the likelihood of failure in the business transfer process (Bjuggren & Sund, 2002).

8) Outsiders. Buyers with no previous experience in industry of the target firm might face more difficulties in taking over the business than buyers who are familiar with the industry. However, there are indications that when parties buy a rival business to prevent other external buyers gaining entry to the market, they can pay over the market price for the business. However, there is evidence suggesting that the likelihood of a successful business transfer improves when that transfer is to a rival organization.

9) Prosperity of the region. Companies located in less vibrant regions are found to be more vulnerable to age related business transfer failures. However, those businesses located in more economically vibrant regions are found to be less prone to business transfer failures.

In conclusion, Power and Ryan (2008) state that small, older firms located in declining regions can be expected to cease business. The likelihood of these firms shutting down increases if their business strategy is based on catering to a niche market. Furthermore, companies that have faced a relatively larger amount of turbulence during their life cycle are less likely to be successfully transferred.

The business transfer negotiations phase

This section reviews the phases of negotiations that precede a business transfer, starting with the first contact between a seller and a potential buyer and ending with an agreement on the business transfer (Tall, 2014, p. 156). Critical success factors prior to a business transfer include 1) the selection and evaluation of a strategic partner from among a limited number of potential candidates and the identification of potential business transfer advisors, 2) the right price being asked and offered, 3) the overall strategy and accumulated experience of business transfers, and 4) courtship (Gomes, Angwin, Weber, & Tarba, 2013, p. 17; Very & Schweiger, 2001, p. 19).

Previous literature highlights planning as a key factor in successful business transfers (e.g., Morris, Williams, Allen, & Avila, 1997, p. 398; Colombo, Conca, Buongiorno, & Gnan, 2007, p. 218). In addition, it is very important that a business transfer represents a strategic fit for the acquiring firm (Haspeslagh & Jemison, 1991; King, Dalton, Daily, & Covin 2004; Langford & Brown 2004; Uhlaner & West, 2008). For the buyer, one critical factor during negotiations is obtaining reliable information about the target business (Very & Schweiger, 2001, p. 18). Establishing trust and confidence through “courtship” can facilitate realistic action planning, effective communication and appropriate negotiation and bargaining styles (Gomes et al., 2013; Sebenius, 2002, 1998). Lack of trust makes it difficult to evaluate target business resources, competences and the buyer’s intentions (Gomes et al., 2013, p. 21). For the buyer, obtaining reliable information on the target business is essential (Very & Schweiger, 2001, p. 18).

In addition to the findings of Gomes et al. (2011) other previous research has found a link between the business transfer experience and successful implementation (Haleblian, Kim, & Rajagopalan 2006; Barkema & Schijven 2008). On the other hand, contrasting results have also been found. For example, Ellis et al. (2011) found that previous experience in smaller business transfers would not necessarily help in the implementation of larger business transfers. In addition, previous research found that the most successful business transfers are those where the target business is smaller than the acquiring firm (e.g. Rovit, Harding, & Lemire, 2004).

Previous research identifies the presence of an experienced deal team as one of the business transfer success factors (Rovit et al., 2004; Aiello & Watkins, 2000). According to earlier research, successful buyers build an experienced deal team that is involved in the business transfer (Rovit, Harding, & Lemire 2004, p. 20; Varamäki et al., 2013). The experience of experts is likely to foster a successful business transfer (Varamäki et al., 2013a). Kim, Haleblian, and Finkelstein (2011) have stated that the expert's previous experience of business transfers is more effective at preventing too high a deal price than the buyer's own experience. There are also results indicating that serial entrepreneurs, who have their own business transfer experience, more often use the services of experts than their less experienced counterparts (Varamäki et al., 2012a; Varamäki et al., 2013a).

Methodology

Business transfer research requires a rich and broad analysis to support theory development. Hence, methodological heterogeneity is required to understand the phenomenon (Leitch et al., 2010). Qualitative research focuses on understanding the underlying dynamics in individual settings. A case study answers the questions *why* and *how* and strives to understand the focal phenomenon in a more detailed way than is possible with quantitative surveys. The quantitative method enables a researcher to collect a rich and representative dataset, which improves the generalizability of the results. This method tries to explain the relationship between variables through numerical data (Holden & Lynch, 2004; Cameron, 2011).

We used a mixed-methods approach to integrate quantitative and qualitative methods to provide a more detailed understanding of this complex phenomenon than either methodology alone could provide (Hurmerinta-Peltomäki and Nummela 2006). A mixed-methods approach allows theory generation and testing, and facilitates data triangulation (Molina-Azorín et al. 2012). The mixed-method approach has a long tradition in the social sciences (Erzberger and Prein 1997), and it has been suggested to particularly benefit entrepreneurship research (Davidsson 2003; Westhead and Wright 2000). By adopting a mixed-method approach, this study benefits from and contributes to the interaction of qualitative and quantitative data that makes it possible to present diverse views and findings.

The prospect of contacting sellers and buyers with experience of an incomplete business transfer is a challenging one. We overcame the challenge by contacting informants in two ways: First, we requested business transfer experts forward an email to the target group. Second, the Federation of Finnish Enterprises included a link to our survey in an email to their members. The questions included in the survey were arranged in five subject-oriented sections: entrepreneur, target firm, business transfer process, business transfer services, and future outlook. The quantitative data were collected during the summer of 2014 via an internet survey of sellers and buyers who had experienced a failure in business transfer negotiations in Finland during the years 2011–2014. A total of 156 replies were received, 40 from buyers and 116 from sellers.

The survey data were complemented by interview data from 20 cases. Those interviews were conducted by telephone or face-to-face, involving either a seller (N=13) or a buyer (N=7) who had been involved in an unsuccessful business transfer process. The interviewees were found through the networks of the research teams and the areal business transfer experts. Interviews were conducted by five different interviewers.

The qualitative data seemed appropriate for the target group of this study, as narratives can help understand these unique processes. We used multiple data sources; archives and field observation, but the hub of this study is the semi-structured interview and real-time processing of the situations experienced by people who had conducted business transfer negotiations. As people relate narratives about their personal experiences, they also weave and fashion their sense of self in the process (Kenny, Whittle and Willmott 2011; Gioia, Corley and Hamilton, 2012).

To improve the quality of our interpretations, we always had a member of our team adopt an outsider perspective. All the interviewees were company owners or leaders, and in charge of operations. Before starting the interviews, the interviewers briefly explained the research, secured the interviewees' permission to record their responses, and guaranteed them anonymity. After the data gathering and initial stages of analysis, we began cycling between data, dimensions, themes, and the previous literature to determine how our findings confronted the existing concepts. We applied researcher triangulation to arrive at consensual interpretations of the obscure data.

All but two of the entrepreneurs contacted accepted the interview request—one said he is never ever going to sell his business and the other was busy with business transfer negotiations with a potential buyer. Interviews took place during fall 2014, and lasted between 10 and 65 minutes. The interviewees were asked to relate their account of the business transfer process, and then the interviewers asked additional questions as necessary. The interviewers took notes and the interviews were also recorded and transcribed. The outcome was stories of one to two pages in each case.

In both samples, the studied companies were small or medium-sized enterprises (SMEs). The survey data revealed the average size of the target firm, whether selling or acquiring, was from two to four employees with a turnover of between EUR 100,000 and EUR 499,000. This fits with earlier results in Finland (Varamäki et al. 2013) suggesting that a similarity in size between sellers and buyers is common. Most of the target firms were in the service sector (40 % among sellers, 35 % among buyers) and located in the same area as the buyer (over 50 %). The level of previous experience, measured on a 5-point Likert scale anchored with *no experience at all* (1) and *considerable experience* (5) of acquiring a firm was 3.3 (buyers) and 2.1 (sellers), and in selling a firm 2.2 (buyers) and 2.4 (sellers), that is, the buyers had more experience of acquiring ($p<.001$) and the sellers slightly more experience of selling.

Data analysis

The quantitative data were statistically processed using IBM SPSS Statistics 21. The results were analyzed by questionnaire according to theme as direct distributions and averages. In addition, the Spearman correlation coefficient (Spearman, 1904, 1910), cross-tabulation and x^2-independence rate, median test, and mean variance analysis or *t*-test were used to determine statistical significance. If the average test assumptions were not valid, a corresponding U-test (Mann-Whitney, 1947) and non-parametric tests (Kruskal-Wallis, 2012) were used to detect significant differences.

Statistical significance (*p*) was used to describe the magnitude of difference. The smaller the *p* value, the smaller the chance effect. The *p* value also affects the number of respondents and the mean values for standard deviation. Statistically significant differences (p) are not more than 0.05. All results were reflected in relation to all the key factors related to the entrepreneur, the company, and the change of ownership itself. If statistically significant differences were found, they were reported.

As mentioned above, we recorded and transcribed the interviews to gather the qualitative data. Then we made notes and wrote a short case history for each case. The unabridged transcriptions of the interviews were used for the final analysis. Once the interviews were conducted, the case stories for each case were written based on the narratives gathered. The focus was on capturing key questions during the business transfer negotiations. Critical incidents occurring during each case were thoroughly investigated, compared, and cross-checked employing researcher triangulation.

Results

Survey study results

According to the survey study, negotiations lasted between one and six months on average. The issues the parties had agreed upon prior to ending the negotiations included the object of the transfer (87 %), the role of the seller after the transfer (55 %), timing of the transfer (39 %), price (35 %) and other terms of the business transfer (26 %) and due diligence (8%) (Figure 1). Previous experience in selling a firm had a positive effect on the number of items the parties were able to agree. However, experience of acquiring businesses did not have a similar effect.

Figure 1. Business transfer negotiations – Agreed items prior to the failure of negotiations

Agreed items prior to the fall of negotiations	Buyer (n=35)	Seller (n=107)	All respondents (n=142)
Target of the business transfer	83 %	89 %	87 %
Role of the seller after the business transfer	46 %	58 %	55 %
Timing of the business transfer	31 %	42 %	39 %
Price	29 %	36 %	35 %
Other terms of the business transfer	31 %	24 %	26 %
Due diligence	0 %	11 %	8 %
Other	14 %	7 %	8 %

The failure of negotiations was generally the result of several areas of disagreement rather than a single issue. From the buyer's perspective, the seller's high asking price was the main problem during the negotiation process (recording an average 4.0 on a scale of 1–5 anchored with *not a problem* (1) and *an extremely big problem* (5)). That item was followed by valuation (mean 3.2) and funding (mean 2.7). Preparing the contract and learning about the target presented no serious issues. For sellers, the key problems were funding (mean 3.3), finding the buyer (mean 3.2), valuation (3.0) and buyer's price offer being too low (2.9). Funding was a major problem in the retail trade (mean 3.8) and manufacturing (mean 3.7) but less so in the service sector (mean 2.9).

Valuation was a more of a challenge among micro firms than larger companies (mean 2.9 for firms with 2–9 employees and 2.7 for firms with ten or more employees. Of the buyers, 68 % rated the sellers' high asking price, and 45 % the target not meeting their expectations as the most or the second-most important reason for the failure to complete the deal. Of the sellers, however, 63 % reported that the most or the second-most important reason for failure was that the buyer did not really want to buy, and 47 % reported that the buyer was unable to secure funding. The differences between buyers' and sellers' perceptions are statistically very significant (see Table 1).

Table 1. Experienced problems in the business transfer negotiation process – Buyer's and seller's perspectives

Experienced problems in the business transfer negotiation process – Buyer's/seller's perspectives Scale 1-5, 1=not a problem - 5=extremely big problem	**Buyer** (n=37) Mean	**Seller** (n=91) Mean	sig.
Seller's too high asking a price/Buyer's too low offer	**4,0**	2,9	0,000
Valuation	**3,2**	3,0	0,416
Getting funding	2,7	**3,3**	0,037
Finding the object of buying/Finding a buyer candidate	2,3	**3,2**	0,001
Agreeing on the final object of trade	**2,4**	**2,4**	0,811
Preparation and selection of implementation options	**2,4**	**2,4**	0,893
Taxation	2,0	**2,4**	0,060
Familiarization to business transfer target	**1,9**	1,8	0,536
Formulation a purchase or sale agreement	1,6	**1,7**	0,615

Of the buyers, 68 % rated the sellers' high asking price, and 45 % the target not meeting their expectations during the due diligence process as the most or the second-most important reason for the failure to complete the deal. Of the sellers, however, 63 % reported that the most or the second-most important reason for failure was that the buyer did not really want to buy, and 47 % reported that the buyer was unable to secure funding. The differences between buyers' and sellers' perceptions are statistically very significant.

A significant 83 % of the buyers but only 55 % of the sellers would not do anything differently in the negotiations were they to start over. Learning from transfer negotiations seems cumulative. The respondents with previous experience would more often do something differently than those for whom this was the first such process. Among those who would do something differently, both sellers and buyers would plan the process better and employ more external expertise. Moreover, many of the sellers would adjust their asking price and try to move the process along faster. Ultimately, however, 39 % of the buyers and 18 % of the sellers were either satisfied or very satisfied despite the fact that the negotiations failed and the transfer remained incomplete.

Case study results

In the case study, interviewees were asked to relate in their own words the story of a failed business transfer negotiation process. For each interview, the interviewers made notes, and the interviews were also recorded and transcribed. The interviews were also written up as intensive case stories, and the summary (Table 2.) and main findings are presented in the next paragraph. The interview data reveal an unfinished business transfer can be an interesting and valuable experience for both buyer and seller. The buyer may finally find out what kind of business he or she really wants to acquire. The seller may obtain new perspectives on the firm's development or learn to be more professional with the next prospective buyer.

Motives are an important element in business transfers. It is possible publicly stated motives are not the truly deciding ones. Both sellers and buyers may lack any strong motive to sell. This could lean on the theory of intentional and planned behavior (Ajzen, 1991) which is one of the most often used theories in predicting and explaining behavior of individuals. The seller may have a conscious or unconscious emotional bond to the firm, which makes it difficult to give it up, although in general, both sellers' and buyers' intentions with regard to a business transfer do seem to be bona fide. Sometimes the unfinished business transfer is also a valuable educational experience in itself.

There was more than one reason for the failure of the business transfer in 12 of the 20 cases. The most common reasons for the interruption of the process were a strategic disagreement between the purchaser and the buyer (11), and the different opinion of the valuation (10). Financing arrangements were the third most common reason for the interruption in negotiations (7); however, this only came out in the sellers' interviews. Distinctions between the valuation may have many different dimensions. They may exist, for example, between buyer and seller, between different experts, and between the financier and the trading partners (see Table 2).

There may also be a number of reasons why a buyer cannot get funding; these include a lack of collateral, lack of trust of financiers in the business being traded, the business sector, or the ability of the buyer to take the business forward. Lack of trust may be a consequence of a particular event during negotiations (e.g., a delay in delivering financial information by a buyer) or there may be other reasons for the financiers lacking confidence. The late launch of the business transfer emerged as a reason for the interruption in only two cases, but this is likely to result in a reduction of the number of available alternatives, or even a drift in the timescale may result in the only option being a termination of the business.

This lack of expertise can be divided into two subgroups based on the research material. It may be that there are not enough external experts participating in the negotiations or that the quality of the experts used does not meet the need. In a fifth of cases (4), one of the reasons for the interruption was the seller's emotional attachment to the firm. An interesting detail is that the emotional bond was never the only reason for the interruption of the negotiations. Strategic incompatibility is common but also somewhat ambiguous, as it can be based upon the purchasing target, the buyer proposition, or both.

Table 2. Reasons for interruption of the business transfer negotiations in the case study.

Case	Buyer/ Seller	Strategic disagreement	Different opinion of the valuation	Financing arrangements	Lack of expertise	Lack of trust	Emotional bonds	The late launch of the process	Total
Case A	S	x							1
Case B	S	x			x		x	x	4
Case C	S	x	x		x		x		4
Case D	S			x					1
Case E	S		x	x					2
Case F	S			x					1
Case G	S	x		x	x				3
Case H	S		x						1
Case I	S					x			1
Case J	S	x		x					2
Case K	S	x	x						2
Case L	S	x	x	x		x			3
Case M	S			x					1
Case N	B	x	x						2
Case O	B		x						1
Case P	B		x		x		x	x	4
Case Q	B	x							1
Case R	B	x	x						2
Case S	B	x			x	x			3
Case T	B		x			x	x		3
Total		11	10	7	5	4	4	2	43

Based on the results, the financing of acquisitions is a major problem. The difficulties in financing the business transfer are reflected not only in the comments of the buyers but also in those of the sellers. If the buyer is unable to find the financing, the business transfer will not be completed. Funding might be a real problem, but also sometimes a handy explanation. The requirements for collateral can be especially strict. Financing for small business acquisitions is largely a matter for the banks, and often those banks are reluctant to become financiers. It is notable, however, that the funding is also used to some extent as an excuse to withdraw from the negotiations when the buyer does not want to reveal the real reason. This is also evident from the fact that sellers consider financing to be often a cause of buyer withdrawal. In addition to the overall industry outlook and collateral, financiers also consider the viability of the target when in the hands of a new buyer. Ultimately, the financing solution is purchase-specific and buyer-specific.

> *"The bank simply told us that they do not finance furniture industry transfers at all. Inconceivable in itself." (Buyer)*
>
> *"Risky project in the current financial situation." (Buyer)*
>
> *"Many active companies disappear from Finland when financial instruments do not support business transfers of small companies." (Seller)*
>
> *"The young private entrepreneurs (I do not mean big companies) do not seem to be able to get loans from banks in the current situation. The bank does not accept the amount of the loan required as the value of the property, and buyers are not able to finance the balance themselves." (Seller)*

Too high price requests are a major problem, and from a buyer's point of view, the biggest one. The difference in the buyer's and seller's valuations may be considerable, and unrealistic valuations can end negotiations at an early phase. In the case of a small company, an inexperienced buyer may not necessarily be able to negotiate if the seller's expectations are too high in relation to the buyer's resources. It is also unfortunate for the seller if negotiations are not even possible, as it is likely that the purchase price will decrease over time.

If a business transfer is to be completed, the price has to be attractive for the buyer. To keep the price reasonable, accounting for the expectations of the company after the change of ownership is a key issue. With a view to facilitating acquisitions, it would be desirable for entrepreneurs who sell their businesses to make a realistic assessment of the price from the buyer's point of view even before the start of the negotiations. The valuation was a subject that particularly drew comment from buyers. From the buyers' point of view, the prices of the companies were too high in relation to their value in the eyes of the buyer. Valuing a company is a difficult task for either side, and should ideally be undertaken by an expert in the process. The issue is not one-sided, sellers also find buyers' expectations unreasonable on occasion.

> *"The seller side often has a too rosy view of the value of his business - and quite sincerely. The company has emotional value for its owner, especially if he has founded it and worked there for a long time. But the buyer is not willing to pay for the emotional value, because he* ***doesn't have an emotional attachment to the firm."*** *(Buyer)*
>
> *"The basic problem with a business transfer is the unreasonable price request of the seller." (Buyer)*
>
> *"Large chains have high profit requirements. Individuals do not want to take risks, or they have too high expectations." (Seller)*

Comments from both buyers and sellers highlight the need for diligent planning of the business transfers. Without planning and agreeing on time limits, for example, the process can stretch over a long period and become discrete. The results indicate that the use of experts is recommended. Both parties should also determine the fundamentals of the transaction and of the desired conclusion before the start of the negotiations. When negotiating, it is important to establish trust between the buyer and the seller.

> *"The exact planning of a business transfer can never be overemphasized. I believe that this 10-year-long behind-the-scenes project failed mostly due to the fact that time limits were not set and what was set was not realized by the seller." (Buyer)*
>
> *"For both the buyer and the seller, it makes sense, and ultimately is advantageous, to use a good expert in the business transfer process." (Buyer)*
>
> *"Please draw up a mutually agreed timetable." (Seller)*
>
> *"Building trust between candidates. The buyer candidate was a bigger competitor, that is, business-alignment would have taken place, which would have been a good solution for both sides." (Seller)*

The subject of brokers was raised particularly by the sellers. The interviewees did not consider the current means of brokerage sufficient, in that brokerage was considered too general and fragmentary. The acquisition is always an individual situation and should be addressed as such. Buyers' comments criticize the timeliness and poor intermediation of the brokers.

> *"There is a clear need for an entrepreneurial organization's tailor-made service. Ready-made stencils and messaging do not support the business transfer process enough. Sellers are ready to pay more for the individual service and doubling the fee when the deal is reached." (Seller)*

> *"This deal would have been realized if there had been a person who had been involved in the process, the governmental agents did not know how or were not be able to deal with the various alternatives and put them clearly to table for the buyer as well as to the seller." (Seller)*

> *"The Ely Center carries out sales, but there should be a salesperson who closes the deals. That is, all the services available from the same organization." (Seller)*

> *"There are a lot of bad brokers in the industry who milk the companies quite cleverly." (Buyer)*

Finding a suitable buyer is a major issue from the sellers' viewpoint. In addition, the breadth of expertise of the seller can be very difficult to replace. Customers must also accept the new owner if the customer relationships are to be maintained after the transfer. The company may also not be willing to sell to a private equity investor, but would like to have the buyer working for the company. In addition, sellers report that not all buyers are really serious about the transfer.

> *"The difficulty is to find a buyer when the company is sold through quiet marketing. When you can't advertise more because of the competitive situation and market shares." (Seller)*

> *"The biggest problem was to find a buyer who would credibly have the ability to continue doing business. Customers need to accept a new entrepreneur in order to succeed in the future." (Seller)*

> *"The buyer would be seriously willing to employ himself and would not ask for financial statements and other things." (Seller)*

Many sellers commented that selling a business is a generally difficult process. The deal is often the first for the seller. For many, the process also involves the pain of giving up, because the company has often been built over a long period and founders might see it as “their baby”.

“It is very difficult...Too difficult.” (Seller)

“Although I would love to sell the business right away, but it is such a heavy process that it I would rather drive *down the whole business.” (Seller)*

Other individual comments were also gathered from buyers and sellers. Buyers commented on the following: the expertise of public service advisors; the sellers’ terms to continue to work for the firm after the deal and the terms for the employees to stay on. One buyer commented on the seller’s real, genuine readiness to sell the company. Sellers commented on how starting with a small income was not attractive for buyers, or felt that financiers and advisors underestimated the buyers’ abilities to run the business profitably. Driving down a business can be the most expensive option when all the fixed and running costs have to be paid during the process. One seller referred in his comment to an unrealized acquisition being a learning experience.

Discussion

Business transfer negotiations that fail without achieving a transfer have received little attention among researchers. Therefore, this present study is unique on account of its material. The importance of the research is enhanced by its being part of a wide-ranging research effort, where the perspectives of different actors and the data are harvested by applying mixed methods. The reliability of the results is strengthened by means of research triangulation. The following are the main conclusions of the study and recommendations for action.

Strategic fit was the most often occurring reason for failure to complete a business transfer. In cases where the prospective buyer is another firm, acquisitions are likely to be an essential part of the acquirer's growth strategy. During acquisition negotiations, the buyer assesses the strategic fit between the target and the acquiring business. At the same time the buyer receives more detailed information about the target business, thus, negotiations may be interrupted because of the factors relating to strategic fit between the target company and acquiring businesses. The strategic fit—or rather its absence—is an important factor in many unfinished business transfers (Gomes et al., 2013; Uhlaner & West, 2008; Very & Schweiger, 2001). The cases demonstrate that a business transfer process is also a process of mutual familiarization. A closer look may reveal that the target business in reality lacks some qualities that the buyer entrepreneur hoped to find

Financing business transfers is one of the specified reasons for withdrawals from negotiations, and issues of financing can be linked to other causes for failure as well. Although all cases have individual characteristics, a tentative recommendation is that financing solutions should be built case by case and by creatively combining different sources. Small business acquisition financing is largely dependent on banks. Business transfers often fail because of a bank's unwillingness to finance the deal. However, a bank is unlike to refuse financing if the proposed deal looks attractive. In some cases the lack of collateral, or a bank's general policy of withdrawing from a specific sector, may provide a genuine obstacle, but it is clear that in many cases the buyer and seller together have failed to come up with a credible proposition. This may be due to a high asking price or lack of realism in future profitability expectations. An entrepreneur wishing to sell a business should make every effort to calculate an asking price that enables the buyer to both manage the loan and have sufficient funds for developing the business. In this, it is advisable to use also external expertise as a reality check, because an emotional bond with the business may distort the seller's vision.

It is notable however, that obtaining funding is used to some extent as the publicly stated reason for withdrawal from the negotiations when the real reasons are tacit. A buyer whose view of the prospect of acquiring the company may cite problems with funding as the reason for ending negotiations when unwilling or unable to state the true reasons, that have emerged during the due diligence process. Tacit reasons may apply to financiers too when refusing to finance the deal. For the financiers it is common to assess the industry, target business, the buyer, and the likely vitality of the new business following the acquisition. Ultimately, the financial solutions are target business- and buyer-specific.

Theoretical Contribution

The business transfer process is a complex, multi-level, and multi-stage phenomenon (Meglio & Risberg 2011). The main contribution of the current study is to explore the reasons behind the failure of business transfer negotiations among small businesses. In unfinished business transfers, the reasons for withdrawing are numerous and the gaps between the views of the two negotiating parties are wider than in successfully concluded business transfer negotiations. Moreover, in unfinished business transfers, solutions to problems uncovered do not emerge from the negotiations, which causes the motivation to negotiate to dissipate for both sellers and buyers.

The bigger picture is one of sellers often starting a business transfer process too late; that might be when the entrepreneur is approaching retirement or is already past retirement age, when the entrepreneur's efforts will inevitably diminish and business will probably be slowly declining.

Even when the seller feels the firm is still going strong, the buyer can have doubts about the vitality of the business. An aged entrepreneur does not necessarily have the option to schedule the business transfer to align with a strong economic situation, meaning the business might not attract the offers the entrepreneur envisages. Usually, however, a successful firm is easy to sell (Power & Ryan, 2008; Colombo et al.; 2007; Morris et al., 1997).

In the case of small businesses, the role of the founder entrepreneur is often pivotal. This causes difficulties for example in predicting customer loyalty after a business transfer. Moreover, successful practices might not be documented, and nor might other important information related to the needs of an acquirer in a business transfer. It is understandable that some firms cannot find buyers (Power & Ryan, 2008).

The results highlight the importance of unfinished small business transfers as an essential element of a dynamic business transfer market; a substantial proportion of potential buyers and sellers are satisfied with the outcome even when the transfer was not completed. Ultimately, there are usually several reasons behind a business transfer failing. In all business transfer negotiations, even those leading to realized acquisitions, problematic issues emerge, but in unrealized deals there are more pitfalls, differences in perceptions are wider, and no solution can be found for them. The motivation of the buyer, seller, or both to find a negotiated solution diminishes. It is also noteworthy that the reasons leading to the dissolution of transfer processes are not always disclosed; in addition to the reasons voiced, there are often reasons for the failure of negotiations that do not become public.

The different starting positions of the seller and the buyer can contribute to false assumptions on the part of both parties. Sellers often do not perceive that the negotiation process for the buyer is a familiarization process. The seller is naturally familiar with his / her sales object, but the buyer will only become familiar with it as the discussions progress. Therefore, the fact that the transaction is not implemented is not necessarily a sign of a failed negotiation process; the process can be successful but as the buyer becomes familiar with the firm for sale, he or she might realize it is not what is aspired to or required. Unrealized acquisitions are part of the natural dynamics of business; without there can be no functioning business transfer market.

Managerial implications

Based on a final sample of 156 informants, the managerial implications of this study can be divided into five main categories. First, several factors usually contribute to the failure of business transfer negotiations. For buyers, the negotiations are primarily a due diligence process of familiarizing themselves with the target business as the negotiations proceed.

Second, high asking prices are a serious problem and unrealistic initial valuations can cause failure in the early phases. From the buyer's perspective, excessive asking prices are the biggest problem. The differences of opinion with respect to the price might be of considerable magnitude, which is problematic, because the high asking price may cause the interruption of negotiations at a very early phase. Inexperienced buyers in particular may think that a seller's expectations are too high compared to their own. Furthermore, too high an asking price might drive away potential buyers prior to any negotiations, hence a realistic asking price is desirable for both seller and buyer.

Third, in many cases business transfers remain incomplete because the due diligence process indicate target firms in question are no longer viable. Even aging entrepreneurs should continue to develop their businesses. When looking at unfinished business transfers, it is evident that a large proportion of unsold businesses are practically unviable (Varamäki et al., 2013b). The results of this study are in line with a previous study finding that entrepreneurs should develop their firms continually right up until the business transfer actually takes place (Varamäki et al., 2013b). It is common to have an increase in financing costs after the acquisition, and that in itself can cause a reduction in the vitality of the business. That situation can be mitigated by devoting time to necessary development activity.

Fourth, once negotiations begin, every effort should be made to move them along efficiently. Negotiations that stall should be terminated without undue delay. Generally, a seller should target a progressive schedule in the negotiations, while ideally simultaneously conducting multiple negotiations. Conducting negotiations with a number of potential buyers is challenging, but doing so makes for a speedy and efficient process, which is likely to lead to a satisfactory result. The study reveals that too much time and resources are used in negotiation processes leading to a dead-end. It is desirable for all parties if the entire negotiation process proceeds promptly. When the process is interrupted, the seller would be wise to view it as time saved, and look to utilize that time for business development and instigating a new search for potential buyers; similarly, the buyer might use that time saved to search for a new acquisition target.

Fifth, employing business transfer experts in the transfer negotiations is recommended. This is challenging especially for inexperienced sellers and buyers. For example, business valuation is a challenging task, where external expertise is most required, but the quality of the specialist expertise is also of great importance. The lack of available experts hampers the use of expertise. In addition, some entrepreneurs are reluctant to invest financial resources in expert services, despite evidence that high-quality expert services can be extremely important for the realization of the business transfer. Prior research indicates highly educated and experienced buyers more often use experts, even if they have considerable personal experience of business transfers.

Future research

Further work is needed to determine the impact of transfer form of larger enterprises and to consider other ways to transfer firms. In particular, further work should expand the investigation to business acquisitions by legal entities. Another proposal for further research would be to follow-up on unfinished business transfer processes investigated previously, that is, to see how the buyers and sellers fare with subsequent negotiations. A longitudinal follow-up after one or two years might reveal whether the targets examined here later found buyers, and in the case of the buyers whether they found other targets to acquire.

Finally, while all this negotiations take place in the context of due diligence, we encourage future research to emphasize the due diligence process as a multi-level phenomenon, affecting in many different stages during the business transfer negotiation process.

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