# THE IMPLICATIONS OF INTANGIBLE ASSETS IN COMPANY SUCCESSION IN SMES


## ABSTRACT

Taking the example of company succession as a means of embarking on an entrepreneurial activity, we explore the role of intangible assets in external company succession in small and medium-sized enterprises (SMEs). Although intangibles are supposedly the key drivers of business performance, the link between intangibles and external company succession in small and medium-sized enterprises has so far been neglected from the research point of view. Acquired on the basis of a sequential mixed methods approach, the present body of research material consists of a quantitative web-survey involving German trade associations and qualitative interviews conducted with external successors of German SMEs. Our findings demonstrate that intangible assets have a remarkable influence on the external successor's decision as to whether or not the company should be entered.



**Keywords:** Management succession, intangible assets, small and medium-sized enterprises


## INTRODUCTION

While a multitude of articles has focused on new venture creations a lack of articles dealing with company succession as an alternative way of embarking on entrepreneurial activities is apparent. This is surprising in view of research findings established by the Austrian Institute for small and medium-sized enterprises (SMEs), which indicated that the survival rate of business formations through company succession is higher compared to that of new venture creations (Austrian Institute for SME Research, 2004). Furthermore, it has to be taken into account that most jobs are created by well established rather than newly created SMEs (Pasanen & Laukkanen, 2006). This aspect presents something of a contradiction to changing demographic conditions which will reduce the pool of potential successors, to attitudes toward self-employment, and to the increasing number of SMEs waiting to be transferred (Commission of the European Communities, 2006). In this connection we identified a need for more research in this area, paying particular attention to the external successor's point of view, which until now has tended to be underrepresented in research papers on the issue of company succession. This latter appears somewhat unwarranted, for together with financial and tangible resources, intangible assets are now seen to represent one of the crucial aspects determining company success in all organizations (Marr & Spender, 2004). It is generally acknowledged that these assets are chiefly responsible for company value and growth in most industries (Sällebrant, Hansen, Bontis, & Hofman-Bang, 2007). However, the link between them and external company succession in SMEs has so far been neglected. This could be due to the fact that in respect of company succession the main focus of investigations has been directed to succession and tax planning and to family related issues (Morris, Williams & Nel, 1996), or in the case of non-family succession it is the question of CEO succession in large companies which has attracted most attention (Bagby, 2004). Intangible assets represent a relatively young field of study, one in which a significant degree of interest has only been observed during the later decades of the previous century. We adopted a resource-based view of the issue, which proposes that the control of heterogeneous and hard-to-imitate resources enhances company performance (Barney, 2001). We anticipated that this factor would prove to be of particular significance with regard to company succession as well. In view of the general agreement regarding the central importance of succession issues (Kesner & Sebora, 1994), the lack of information available on intangibles in the succession context represents a deficiency which we have attempted to tackle through our research. To this end we posed the following central research question: What role do intangible assets play in succession processes involving small and medium-sized enterprises as seen from the perspective of potential external successors? We specified three sub-questions: 1) Which intangible assets are currently involved in the company analysis process? 2) What are the final decision criteria employed by external successors which determine whether or not the company is to be entered? 3) What is the general perception of intangible assets in a small firm environment? We focused our attention on the preparation stage in which successors seek and analyze potential companies. In this stage the critical decision as to whether or not the company should be entered is made, so it provides information about the factors which make a company attractive. The research was conducted in Germany.

The findings we present here provide a new perspective on company succession, specifically in regard to selection processes used by external successors, and thus our paper contributes to the literature in several ways. Firstly, we propose an alternative approach to dealing with company succession in small and medium-sized enterprises by adopting the perspective of external successors (non-family successors), taking their proceeding into account. Secondly, we enlarge the traditional view of company succession by considering intangible assets as being the decisive elements in the preparation stage. Finally, we summarize our findings by proposing a framework which provides insights into critical intangible assets in terms of company selection.

We have structured this paper as follows: firstly, we provide a brief review of the relevant literature; secondly, we present the methodology employed. After that we discuss the empirical results. In the concluding section we propose a framework which has been derived from the results presented previously.

## COMPANY SUCCESSION IN SMALL AND MEDIUM-SIZED ENTERPRISES

Company succession can be defined as the simultaneous transition of property and/or management of a firm from one person to another (Ip & Jacobs, 2006). Szyperski and Nathusius (1999) specify that company succession constitutes a derivative foundation as compared to the original corporate foundation, in which an entirely new company is created. Company succession can be considered as being equivalent to business start-up with all the opportunities and difficulties related to it. Thus, corporate foundation through company succession represents an alternative way of achieving entrepreneurship, albeit one which has hitherto been neglected in the current literature bearing on the subject. Selecting an existing business instead of starting a new business provides a potential successor with various benefits such as established and proven structures, or circumstances in which the business is already generating money and profits as well. Moreover, as information concerning the company is already available, financing the succession can be easier than financing a new corporate foundation (Zimmerer & Scarborough, 2008). Although these reasons appear plausible, disadvantages and challenges relating to this alternative must be reckoned with, such as the fact that assets are unlikely to be in prime condition.

Company succession can take place within a family network or outside it (buy-out). Family succession involves the transfer of the company to family member(s) (Sharma, Chrisman, & Chua, 2003), whereas in buy-out situations the company is transferred to external (non-family) individual(s). Buy-out activities can be further subdivided into those involving buyers from within the company and those involving buyers from outside.

Generally, company succession in small firms is less frequent than in large companies and is hampered by a lack of practical experience (Kesner & Sebora, 1994). In 'worst-case' scenarios, this results in the company being closed or its owner continuing to head the enterprise beyond pensionable age. Furthermore, company succession always has serious implications for all the parties involved and may prove to be a hazardous procedure which can even threaten the company's future (Shepherd & Zacharakis, 2000). The majority of researchers agree that succession represents a process rather than a discrete event (Handler, 1994), and the relevant literature provides descriptions of several models by way of illustration (e.g. Handler (1989) in Handler, 1994; Ip & Jacobs, 2006; Longenecker & Schoen, 1978). For the purposes of this study, we applied the model developed by Ballarini and Keese (2006) as it deals with both sides of the succession process, it does not lay particular emphasis on family succession and its modular structure aids enquiry into the present area of investigation (Figure 1).

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The phase relevant to our study is the preparation stage. In this phase, the successor seeks and analyses companies of interest. The company analysis, or due diligence, constitutes a crucial part of this phase. The due diligence process found in many small firms cannot be compared to that conducted in large firms in which specialists for each topic of analysis are involved (Ribeiro & Tironi, 2006). Instead, one may expect it to be a generally less comprehensive procedure of which the main part is conducted by the successors themselves. The aim of a company analysis is to reduce the degree of uncertainty relating to the target company (Zimmerer & Scarborough, 2008).

A review of the academic literature relating to company succession in general and external succession in particular revealed that the articles dealing with the personal side of this topic are strongly focused on the other side of the business transfer process, namely on the incumbent owner's point of view (e.g. Birley, 1986; Santora & Sarros, 1995) or that of the family (e.g. Lambrecht & Donckels, 2006; Lee, Lim, & Lim, 2003). In addition, the existing literature on company succession covers planning and controlling aspects (e.g. Ip & Jacobs, 2006;

Motwani, Levenburg, Schwarz, & Blankson, 2006), the relationship between current owner and successor (e.g. Malinen & Stenholm, 2002), between succession and company performance (e.g. Haveman & Khaire, 2004; Lauterbach, Vu, & Weisberg, 1999) as well as between succession and organizational failure (e.g. Haveman, 1993). In view of the critical role played by the successor in company succession as a "bearer of ideas, planner, controller, executer and supervisor" all in one person (Szyperski & Nathusius, 1999: 6) the literature was examined in greater detail, focusing on the 'successor' factor. This analysis showed that to date, most academic attention has been paid either to family succession, or in the case of non-family succession to the process of CEO succession in large firms (Wasserman, 2003). With regard to the German-speaking countries, Schulte and Wille (2006) conclude that empirical discussion of the topic in general is rare, although the economic consequences of failing to address the challenges related to pending demographic changes and the increasing number of smaller firms awaiting transferal can be serious. This paper aims to redress this deficiency through its concentration on external (buy-out) initiatives launched by individuals and teams planning a long-term engagement in the firm in question. As a result, those successors were considered who attempted to acquire the entire company or equity stakes sufficient to ensure not only management control but ownership status as well.

## INTANGIBLE ASSETS

The key motive forces of globalization and information technology have brought about dramatic changes in the structure of most companies. In order to remain competitive and successful companies must respond to these changes as well as to more exacting customer demands through a shift in emphasis from tangible to intangible resources. Nowadays, intangible assets are considered to be more important than they were in the 1960s, 1970s, or 1980s (Lev, 2001). These resources have always played a certain role, but now their systematic handling is seen as being an essential competitiveness factor (Wiig, 1997).

A central feature of intangibles is their significance for the future. Edvinsson (2005) links intangibles to a new management perspective that is targeted to long-term rather than short-term profit increase, in other words to sustainability. This approach is found in many German SMEs in which management behavior is based on a more long-term and ethically grounded view rather than on satisfying financial investors' desires (Edvinsson & Kivikas, 2007). According to Nonaka, Toyama, and Konno (2001) intangible assets are the type of resource which is of greatest interest to potential investors. This is confirmed by Gupta and Roos (2001: 297), who state that intangibles "are the key motivation behind mergers and acquisitions". Thus we expected to find a similar view among external successors in SMEs.

Even though an increasing number of organizations and scholars are recognizing the benefits of taking intangibles into account a serious problem remains: No common language among scholars and practitioners has yet been established (Marr, & Chatzkel, 2004). A possible explanation for this could be based on the divergent viewpoints of different interest groups or disciplines, or between considerations of strategy and measurement. The former is concerned with optimizing the management of knowledge resources in the company in order to improve performance, whereas the latter focuses on establishing standards for organizational accounting in order to provide stakeholders with a more comprehensive and comprehensible picture of intangible assets expressed in terms of traditional monetary data (Petty & Guthrie, 2000). Accordingly, competing definitions exist. For the purposes of this study we based our definition of intangible assets on Andriessen (2004) and Lev (2001), defining them as being the core non-monetary resources (lacking physical substance) that are able to contribute to future benefits in SMEs. According to many authors, intangible assets/intellectual capital can be classified into a number of distinct types of non-physical asset. These classification schemes are an aid to understanding the nature of intangible assets. Although the issue of classification is beset with the same problem as the definition of intangibles discussed before, an increasing tendency to classify intellectual capital into human capital, structural capital and relational capital may be observed (Edvinsson & Kivikas, 2007). Human capital comprises the competence, ability, and skills of those belonging to an organization. It is a central factor as it represents the basis for innovation and change (Bontis, 2002). The term structural capital covers everything which supports employees' productivity, such as organizational structure and processes, software, intellectual property and corporate culture (Marr, 2005). Finally, relational capital embodies all the relationships with customers, suppliers and other critical partners (Roos, Bainbridge, & Jacobsen, 2001).

As a field of study, research into intangible assets is still in its infancy. Although a considerable body of literature has been published in recent years, it displays an emphasis on theoretical approaches and papers which implement secondary data. Furthermore, the main object of study in these theoretical contributions has been large companies. The shortcomings of traditional accounting systems and consequently of financial reporting have encouraged a large amount of research involving a multitude of approaches, whereby the initial efforts can be regarded as having been inspired through practical motivation. Developments in the field of intellectual capital reporting are closely linked to individuals such as Sveiby (1997) and Edvinsson and Malone (1997), who wished to obtain a better understanding of value creation within companies. Apart from this, various national initiatives can be found focusing on intangible asset/intellectual capital reporting, such as the Danish guidelines for Intellectual Capital Statements, the German '*Wissensbilanz*', and the Japanese Intellectual Asset-based management reporting schemes. However, despite the development of many different intangible asset/ intellectual capital reporting approaches only a few companies apply them to date (Zambon, 2006). An attempt to overcome this situation can be seen in the inauguration of international cooperative efforts involving organizations such as the Enhanced Business Reporting Consortium, the Japanese Ministry of Economy, Trade and Industry and the Organization for Economic Development and Cooperation. This has resulted in the establishment of the World Intellectual Capital Initiative (WICI), which was launched in Paris in November 2007. This initiative aims to develop a globally accepted framework for reporting non-financial information (www.worldici.com). In addition to these research activities, empirical research has also been conducted by individual academics. Some of these studies have been focused on small firms: e.g. Watters, Jackson, and Russell, 2006; Bracci and Vagnoni, 2005. Previous studies of intangible assets have tended to be concentrated on knowledge-intensive companies. However, for the investigation of company succession as an alternative means of achieving entrepreneurship such a focus on knowledge-intensive companies would be unwise, as these companies are mainly of recent foundation (Burgman & Roos, 2007), so the issue of company succession is not normally of immediate importance. Another aspect to bear in mind is that the implementation of certain reporting frameworks such as the German *Wissensbilanz* presupposes that firms are accustomed to applying management instruments (Bornemann & Alwert, 2007). In the small firm setting it is doubtful that this condition can be fulfilled (Jennings & Beaver, 1997).

A literature review related to the relevance of intangible assets with regard to company succession in general and external succession in particular revealed that this area remains under-researched to date. This is strange in view of intangibles' ostensible role as the key drivers of business performance, leading one to expect them to be of great interest in respect of company succession as well. Furthermore, according to Roos, Pike, and Fernström (2005) there is a correlation between firm size and dependency on intangible assets. According to these authors the dependency on intangible assets increases in reciprocal proportion to the size of the company.

This would indicate that the relevance of intangibles is not so much dependent on the industrial sector but primarily on company size. One aim of this study was to increase our understanding of the role of intangible assets in external company succession in SMEs and thus to augment our current pool of knowledge in this field.

# METHODS

## Conceptual Guiding Framework

According to Miles and Huberman (1994), conceptual frameworks serve as a means of graphically or descriptively elucidating the central issues being studied. For this study, we concluded that the classification scheme which divides intellectual capital into human capital, structural capital and relational capital provides a suitable means of linking the research findings into the existing body of knowledge. Taking this scheme as starting point, previous empirical studies were reviewed which focused on the influence of intangibles on company success. Particular attention was paid to studies involving SMEs. The rationale behind this approach was our assumption that if these intangibles do have an influence on company success they should also be of interest to a potential successor. On this basis, it was possible to identify intangible elements that may be expected to be relevant in terms of company succession. Figure 2 depicts the intangible assets employed for the construction of the guiding framework.

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The term 'human capital' includes both employees and owners. Interestingly, none of the studies analyzed took the critical relevance of 'owner' status into consideration. In our view, however, the owner's central position in many small firms (Ballarini & Keese, 2006) means that this person should on no account be neglected in considering issues of company succession; therefore this paper addresses this aspect. Structural capital includes the following four aspects: a firm's innovative capabilities, company culture, knowledge management, and organizational structure. Relational capital consists of customers and networks. According to the studies involved customer orientation is expected to be of critical importance in SMEs. Instead of explicitly using discrete partners such as individual suppliers as single elements we decided to use the broader concept of networks as an aspect suitable for integration into the guiding framework. This reflects our belief that the network based approach takes into account the fact that many small firms are only now beginning to networking activities seriously (European Committee for Standardization, 2004). Furthermore, a broader approach is more useful when addressing small firms of different sizes and sectors.

**Research Design**

The research design involves the application of a mixed methods approach. This relatively new approach comprises the collection and analysis of both quantitative and qualitative data (Creswell, 2003). As Curran and Blackburn (2001) remark, the use of a mix of methods enables exploitation of their respective advantages, brings triangulation benefits and, further, the weaknesses of one approach can be compensated by the strengths of one or more others. On a meta-level, a mixed methods approach is beneficial for the development or enhancement of the individual methods; it can reveal new perspectives and it expands the range of investigation (Greene, Caracelli, & Graham, 1989). Within the context of this a mixed methods approach we pursued three objectives: 1) The quantitative research helped us to gain an overall understanding of the relevance of intangible assets in an SME environment in general. Furthermore it gave us an indication as to whether the elements of the guiding framework are seen as being of practical importance by those directly concerned. Thus the quantitative research had a primarily descriptive character and fulfilled two tasks: (a) It supplied data for the development of the qualitative study and (b) it answered the sub-question regarding the general perception of intangible assets in an SME setting. 2) The mixed methods approach was used to gain data about the role of intangible assets in company succession whilst highlighting different facets and perspectives, thus enhancing the results already obtained. Finally, we applied the qualitative study to explore aspects of the decision-making processes conducted by external successors. The aim here was to answer the sub-questions regarding the intangible assets involved in the process of company analysis and regarding the successors' final decision criteria governing entry to the respective company. We selected a qualitative approach as we assumed that it is best suited to provide answers to this type of question involving an understanding of the external successors' actions and decisions (Gephart, 2004).

This course of action was based on our assumption that a procedure which starts on a broad footing (quantitative) and then moves over to a narrower, more detailed one (qualitative) provides the best means to explore this relatively new field of research. We set our priorities in favor of qualitative research.

## Quantitative Study

***Population.*** The overall population of the quantitative study consisted of the sub-populations of German trade corporations and chambers of commerce. The unit of analysis selected comprised the employees from those departments which were responsible for dealing with company succession. During the period of examination there were 54 trade corporations and 81 chambers of commerce in existence. Due to the small total population and the circumstance that all units of analysis were identifiable, we decided to address the total population rather than drawing a sample.

***Data collection and analysis.*** The data was collected by conducting a survey. This strategy is frequently used for exploratory and descriptive research, as it focuses on finding answers to questions involving ‘who’, ‘what’, ‘where’, ‘how much’ and ‘how many’ (Saunders, Lewis, & Thornhill, 2007: 138). Notwithstanding the disadvantages associated with surveys, we decided to pursue this approach because they represent appropriate instruments for gathering information on attitudes and opinions (Creswell, 2003). We selected the self-administered survey from the range of possible survey techniques on the basis of the target groups and their geographic distribution, the types of question involved and the objective of the study. As the parent organizations of the trade corporations and chambers of commerce provided us with up-to-date databases (including names and e-mails addresses) and also past experience had shown us that the persons concerned were highly internet literate, we decided to conduct the survey online. We developed a standardized questionnaire which comprised the areas ‘relevance of intangible assets’, ‘pre-validation of guiding framework’, ‘decisive factors for successful small firms’ and ‘demographic issues’. In order to measure the relevance of intangible assets in general and the eight elements of the guiding framework in particular a five-point rating scale was used, ranging from ‘very important’ to ‘unimportant’. To gather data on success factors in small firms an open-ended question was formulated. After the questionnaire had been drafted we pre-tested it to confirm its usability. The application was programmed so as to facilitate a tailored course of action for each respondent (Evans & Mathur, 2005). The survey was conducted online from June to September 2006 by means of e-mail contact with the employees of the relevant departments. In order to increase the response rate and to moderate the effects of weaknesses inherent in online surveys the participants received an e-mail notifying them prior to the survey and requesting their participation. Also, as an incentive we promised to provide a summary of the study’s results. The follow-up e-mail contained the hyperlink to the web survey, which was sent to those respondents who had expressed their willingness to participate. Four weeks later we sent a further e-mail as a reminder of the deadline. Of the 135 e-mails sent we received 51 usable responses. In the context of online surveys, this represents a relatively high response rate (Saunders et al., 2007). In order to test for any bias we also conducted a non-response analysis. In this, we took the size and the location of the associations into consideration as being possible factors governing differences between respondents and non-respondents, but discovered no significant correlations. Furthermore, in view of the fact that the survey addressed a homogeneous population we expected a low variation (Bryman & Teevan, 2005). The demographic characteristics of the participants are summarized in Table 1.

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Because of the descriptive nature of the quantitative study and the prevailing ordinal level of measurement, the emphasis in terms of statistical tests was placed on the assessment of central tendency and of dispersion.

## Qualitative Study

***Sample.*** In order to study external successors in Germany we needed data that was not available to the public. In Germany, legal information related to company succession must be registered, but not the take-over itself (Schulte & Wille, 2006). Consequently, we had to contact persons or institutions directly involved. The selection was carried out with the help of the same German trade associations which represented the target group for the quantitative research. The criteria for selecting a firm for further investigation were as follows: 1) Those who took over were externals (buy-in and buy-out initiatives), 2) they had acquired the entire company or a sufficiently large share of it to provide them with control of ownership and of management, 3) following the recommendation of the European Commission, the firms had a total number of employees fewer than 250. To ensure a broad-based sample, respondents were chosen to represent different sectors/industries.

***Data collection and analysis.*** As we needed close contact with the successors in order to gain an understanding of the object of our research (Maykut & Morehouse, 1994) we selected a qualitative approach involving case studies. The aim of this strategy is to examine a contemporary phenomenon within its real-life context (Yin, 2003). The case study approach lends itself to achieving various objectives such as description, theory testing and theory generation (Eisenhardt, 1989). On account of the explorative nature of this study, we were mainly concerned with theory generation and to a lesser degree description. Also, we selected multiple case studies since this approach has been described as being similar to replication or repetition of experiments (Yin, 2003). Furthermore, according to Miles and Huberman (1994: 29) the use of multiple cases promotes serves to "strengthen the precision, the validity and the stability of the findings".

We collected the data through in-depth interviews, using a guided interview approach, conducted with ten external successors in German SMEs. This figure is within the range of 4 to 10 cases which is considered as being appropriate (Eisenhardt, 1989). Although interviews have their limitations we chose this technique allows the researcher to gain an understanding of the decisions an individual has taken (Saunders et al., 2007). Furthermore, the use of interviews is appropriate "when the object of interest is highly episodic and infrequent" (Eisenhardt & Graebner, 2007: 28). The interview guide focused upon initial factors such as company analysis, the relevance of the intangibles in the guiding framework, the relevance of other intangibles, and the weighting of intangibles in respect of the final decision. General characteristics of the ten cases are summarized in Table 2.

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As can be seen from Table 2, the successions cover the years from 1995 to 2007. Quite a broad range of industrial sectors is represented. The respective numbers of employees involved indicates a bias in favor of very small to small companies (in accordance with the recommendation of the European Commission). All of the companies involved are located in southern Germany. The successions selected all involve external succession, either buy-ins or buy-outs. In case 3 the franchising model is representative of one type of succession which can be seen as a cross between original and derivative foundation. The last row, 'management', indicates whether the succession was carried out by an individual or a team. Thus the set of criteria given above was fulfilled. Also, Table 2 shows that traditional SMEs were selected.

The interviews were conducted according to the interviewee's preferences in terms of timing and location. This is of psychological benefit, helping the participants to feel at ease (Berg, 2007). The recorded interviews lasted between 1 and 2 hours and they were transcribed directly after the interview. They took place between May and November 2007.

In order to obtain a better understanding of the general setting we gathered data from other sources as well. We arranged for three informal exchanges with advisors from trade corporations and chambers of commerce about how company succession tends to function and the parties involved. Moreover, one of us participated in an initial discussion between the owner of a joinery business and a potential successor. The purpose of this was to investigate the way a company is presented in the context of company succession. Finally, we participated in a workshop about company succession that was jointly hosted by a chamber of commerce and a trade corporation from the state of Baden-Wuerttemberg. The event was targeted at company owners and dealt with tax, legal and valuation issues. Participation helped us to obtain a more differentiated appreciation of the subject.

Data analysis was conducted by using a combination of inductive and deductive thematic analysis. Thematic analysis involves searching for themes which appear to be of importance for understanding of the phenomenon under investigation (Fereday & Muir-Cochrane, 2006). Our analysis consisted of different stages: 1) By transcribing data, reading and re-reading we immersed ourselves in the data. 2) In the next stage we summarized and condensed every transcript. The summary of each interview facilitated the recognition of patterns within the entire data material. 3) The next step consisted in the application of previously defined codes in order to identify significant text passages. However, our analysis was not confined to these codes and additional codes were assigned to blocks of data representing new themes (Saunders et al., 2007). 4) Then we clustered the themes identified across the data under headings that were directly linked to the research objectives. The result of this procedure was the identification of similarities as well as differences between the various participants. In order to organize the data and to assist cross-case comparisons we used data matrices (Miles & Huberman; 1994). 5) At this stage we elaborated the themes which we intended to take for analysis by defining and then further refining them. This stage was also supplemented by a comparison of the emergent themes with the existing literature (Eisenhardt, 1989). Finally, we documented our results.

## FINDINGS

### Quantitative Findings

***Relevance of intangible assets.*** Questions related to the relevance of intangibles in small firms were addressed to obtain data about the current state of intangible relevance in this particular setting in general and with regard to company succession in particular. The findings (presented as a group comparison) as displayed in Table 3 (five-point Likert type scale ranging from ‘unimportant’ (1) to ‘very important’ (5)) indicate that the participants from the chambers of commerce ranked intangibles slightly higher, which may be attributable to the broader range of industrial activity with which they have to do.

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This higher assessment by the participants from the chambers of commerce is also evident in the next two items as indicated in Table 3. Notwithstanding the apparently more moderate assessment of intangibles on the part of the trade associations and their members, the findings suggest that intangibles are given a higher priority by successors. As illustrated in the table this was given almost equal weighting by both associations. These results imply that various degrees of inhomogeneity prevail amongst successors, owners and their advisors regarding the relevance of different types of assets which may have a detrimental effect on the succession process. Additionally, the participants were asked to estimate the future importance of intangible assets (Table 4). The results revealed a considerable lack of consensus amongst the participants. A large proportion of the respondents anticipated a higher relevance for intangibles in the future; however, almost the same number of respondents stated that the focus will remain on tangible assets. Somewhat fewer participants expected an equal weighting between intangible and tangible assets in the future.

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The overall findings indicate that an increasing interest in intangible assets can only be confirmed in part within this small firm setting.

***Pre-validation of the guiding framework.*** Regarding the guiding framework which linked all aspects of our investigation, the participants were asked to estimate the influence of the eight elements in the succession process. We consolidated the statistics for the assessment of each factor in Table 5.

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The questions referring to the intangibles were again based on a five-point Likert type scale. According to our results the item ‘customers’ was ranked the highest, which confirms the customer focus prevailing in many SMEs (Salavou, Baltas, & Lioukas, 2004). The relatively high relevance of the ‘owner’ factor can be seen as a consequence of his/her pivotal position in many small firms (O’Gorman, 2006). The assessment of the item ‘innovative capabilities’ underlines the significance of continuous development in the company as a survival factor as well as with a view to attracting the attention of successors. The concept of knowledge management did not achieve the same relevance in our study as it is accorded in the academic literature (c.f. Gupta & Govindarajan, 2000), however it is interesting that this aspect is assessed as being of slightly more importance than ‘employees’. This result was unexpected in view of the widely held opinion that small firms’ employees are its most important capital (Hine & Ryan, 1999). Apparently this view is not reflected in the company succession process as yet. ‘Culture’ and ‘organizational structure’ are ranked slightly lower and networks lower still. Although networking can provide smaller firms with a means of overcoming their inherent lack of immediate resources (Dubini & Aldrich, 1991), the result suggests that to date its influence in company succession processes is only moderate. Thus, it can be argued that both current owners and potential successors still prefer to work independently, disregarding the possible advantages of networking.

***Decisive factors in small firms***. Finally we asked the participants to name critical aspects which distinguish the more successful small firms from the less successful ones. We believed that these features are also germane to the company selection process. In order to get a better overview of the data we assigned the responses to categories. Next to the main category, we recorded the total frequency illustrating the significance of each category assigned by the respondents (Table 6).

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The findings suggest that 'owner' and 'employees' represent the most decisive factors for successful small firms, which underlines the special significance of the resource 'human capital' within such firms (Roos et al., 2005). The next factors named were 'customers', 'creative and innovative', 'market' as well as 'knowledge management' and 'organizational structure'. The ranking especially highlights the connection between intangible assets and success in small firms. However, financial aspects are also named, underlining the financial limitations facing many small firms which influence their potential for expansion (European Commission, 2003). The factors 'accounting' and 'controlling' go hand in hand with this, highlighting areas in which lack of competence in many smaller firms can be identified (DG Research, 2006). According to our findings, networks were not to be regarded as having a critical significance for success. This suggests that possible benefits associated with networks which could improve a company's performance as well as reducing resource limitations have not so far been perceived by those concerned. Our findings in respect of the elements of the guiding framework and the enumerations of crucial assets by the respondents prompted us to retain them all for the purposes of the study.

## Qualitative Findings

***Decisive factors for a more detailed company analysis.*** The findings in respect of the critical aspects surrounding the more detailed investigation of a given company provided us with a variety of starting-points. This is not surprising as each successor pursues individual aims, and therefore similar patterns are rare. Two statements (Cases 3 & 8) are notable in view of the singularity of purpose which they represent. Both informants declared that only one company came into question and if the business transfer had failed, they would have started a new venture. In case 10, the motivating force was provided by social pressure, because if the management team had decided to close the company the employees as well as they themselves would have lost their jobs. Thus the team of successors found itself in an unusually sensitive situation involving constraints not present in the other cases. Informant 1's observation that the industrial sector represented a critical factor was understandable; for his intention was to make a new start after a successful career in the banking sector and he was looking for a relevantly similar that would minimize the risk involved in reorientation. In the course of the interviews another factor emerged that seems to be very critical in terms of company selection: the successor's place of residence. Company selection, it seems, not only depends on the factors presented above but also on the location. For example, informant 4 said that the company is located close to his domicile and according to him the "ideal company does not exist".

***Relevance of the owner***. Our findings suggested that for most successors the owner was perceived mainly as a negotiation partner and not as a potential asset in respect of successful continuity within the firm. This contrasts strongly with previous research which emphasized that the owner's knowledge and business relations are highly relevant for company succession (Bracci & Vagnoni, 2005). On the contrary, we observed in general that successors attempt to impress his or her style of leadership on the firm. Several successors explained this attitude in terms of deficiencies in the previous style of management as perceived by themselves.

> *The predecessor was very sure of his own intellectual capacity and on the left and on the right there was nothing. (Case 7)*

The successors abstained from exploiting the previous owner's expertise and thus also from combining it with their own know-how in order to create a new company stance. Although the successors stated that they wished to avoid their predecessors' past mistakes, they appeared unwilling to seize any opportunities to benefit from positive aspects either. Thus they neglected the simple chance to obtain and retain past knowledge, canceling out their potential advantage over founders of new ventures who by definition cannot avail themselves of this option. One reason for this could be that sometimes, relationships between successor and predecessor seem to be quite tense, so the predecessor's role was reduced to that of a negotiation partner and the successor's efforts were confined mainly to achieving finalization of the succession process in order to start. Under such circumstances the company's ability to build on past attainments is curtailed and it becomes more comparable to a new venture.

***Relevance of employees.*** Our findings indicated that the 'employees' factor received a great deal of attention, which is concurrent with earlier research (Hofer & Charan, 1984) and the findings of our own quantitative research. The interviewees laid particular emphasis on the aspects of education, experience, and knowledge. Accordingly, retaining correspondingly qualified staff was a critical goal for most of them.

> *The transfer of the key employee was very important for me to ensure that we could maintain the quality of our unique selling proposition. This demands experience and hands-on knowledge. (Case 8)*

Our findings further revealed the specific importance of key employees compared with other staff, so that it is wise to make a specific distinction between the two as this takes into account the special status of key individuals and the measures related to keeping them, e.g. granting power of attorney (Case 7). But while their relevance was recognized by most of the successors, two successors regarded key employees more as a liability than a benefit through fear of becoming dependent on them. On the other hand, little consideration was given to employees being integrated into the succession process. The succession process consists more of discussions between predecessor and successor, with other relevant figures not being consulted (Lambrecht & Donckels, 2006). Although the successors regarded employees as being important they missed the chance of involving them in the implementation of the new corporate strategy and thus complicated their own launch stage.

***Relevance of corporate culture.*** The findings suggested that corporate culture is very important for most successors. In the case of buy-outs, the corporate culture quality assessment appears to result from a long-term impression (Case 2 & 6). Positive emotions were viewed as being of crucial importance for the decision process. With buy-ins there is normally not enough time available, so the successors had to base their estimations on outward indications as well as relying in their own knowledge of human nature (Case 7). Successors with many personal customer contacts (Case 2 & 3) valued the corporate culture very highly, seeing it as being directly linked to company success. For them, compatibility between staff members was very important. They acknowledged their own critical status in promoting a pleasant corporate culture (Smallbone & Wyer, 2006). However, in some buy-in cases it seemed that the successors did not take into consideration that company culture has been built up over time and change is not easy or may not be possible at all. Instead, these successors believed that by setting a new example it would be possible to introduce another culture. They clearly entertained firm ideas as to the nature of an ideal corporate culture/climate, but they gave little or no thought as to the viability of implementing them within the company concerned and whether or not the employees would cooperate (Schein, 2006). Although our findings indicated that these successors meant well, they underestimated the difficulties which may be introduced by a change in culture (Schabracq, 2007). We considered this to be a possible explanation for the fact that these successors did not decide against the company concerned although this would have seemed wiser.

***Relevance of knowledge management.*** From the findings we concluded that specialized knowledge as an asset was generally regarded as important when the firm's success is substantially dependent on it. Otherwise, little consideration was given to it. Furthermore, the findings showed that knowledge was mainly associated with key employees, and many successors regarded it as particularly critical to keep these individuals (Case 6, 7, 8, 9, & 10). The predecessor's knowledge appeared to only play a minor role, which fits in with the findings related to the 'owner' factor. As far as the storage of knowledge is concerned our findings agree with current academic literature which supports the view that the knowledge resides mainly in heads rather than storage media (Nonaka, 1994). This increase companies' risk in respect of employee fluctuation and hinders the dissemination of knowledge. We rated underestimation of the implications related to knowledge outflow from the company as negligence, since successors are unlikely to be able to compensate for the shortfall themselves. Knowledge transfer and sharing require confidence and time. Buy-outs are clearly at an advantage in this respect as their proponents have had the opportunity to acquire relevant knowledge in the past. Buy-in successors cannot avail themselves of this and must use the greatly reduced familiarization period to acquire the knowledge needed. However, in some cases (Case 2, 3, & 8) apparently insoluble personal differences rendered an exchange of knowledge impossible, highlighting the specific importance of a good relationship between all the people involved (Szulanski, 1996). In such cases the help of a neutral third party would have been beneficial. The findings further suggested that in the context of company succession the concept of knowledge management is too broad. Instead, we concluded that the specific retention of certain types of knowledge was of great relevance. The same applies on a different level to the storage of this knowledge. Thus in the case of company succession our findings suggested that the focus was mainly concentrated on knowledge retention in the sense of preservation, storage and transfer of knowledge.

***Relevance of organizational structure.*** The findings indicated that the organizational structure was only taken into account by some successors (Case 6, 7, 8, & 9). This was an unexpected result in view of the fact that SMEs are said to benefit from their flexibility resulting from, amongst other things, simple structures and systems (Carson, Cromie, McGowan, & Hill, 1995). Our investigation indicates that this was not taken into consideration or taken for granted by some successors. On the other hand, those successors who did pay attention to this aspect returned many different and varied findings. In other words, this is a business dependent factor and one which emphasizes the heterogeneity prevailing among small firms.

***Relevance of innovative capability.*** This aspect received little attention during the successors' decision making process. This result is in stark contrast to the prevailing academic literature concerning small firms' contributions to innovative activity (e.g. Acs, 2006). However, although the findings revealed that the topic only seemed to play a minor role during the succession process, recent activities of the new owners indicate the degree of importance which they attribute to permanent changes.

***Relevance of customers.*** Our findings show that the successors viewed customers as representing relevant factors and they analyzed them as part of the company analysis. However, what emerged from the case studies was that cooperative relationships with customers, e.g. to acquire new skills, were not given the same priority as is indicated in business literature (e.g. Kandampully, 2002).

> *We still have no backlog of orders. We work within certain constraints. The company can be described as an extended workbench, the goods are delivered and it is expected that they can be finished next week. That's how it works here. (Case 1)*

The successors emphasized the relevance of a broad customer base to avoid being dependent on only a few customers. Informant 10 represents an exception to this. The firm is very customer oriented and the creation of partnerships with customers is given high priority. The firm develops customized products which are the result of a close exchange between customers and the firm. As they recognized the benefits of partnerships a long time ago, this issue was of little relevance for the company succession process. Despite the high degree of customer relevance, only few companies informed customers about the forthcoming succession. Specifically, in situations involving a tense relationship between predecessor and successor customers were not informed. This supports the impression that succession is mainly a deal conducted between two parties who are partially blind in respect of other central stakeholders.

***Relevance of networks.*** The findings indicated that in the context of company succession networks are far from being the high priority factor which the academic literature indicates (Inkpen, 1996). Instead, our findings suggest that the benefits of networks have not yet been recognized by traditional smaller firms. Furthermore, our study revealed that most successors did not pay much store by the benefits to be gained by maintaining relationships established by their predecessors. The topic was of little or no interest or regarded as a dependent factor.

*We need suppliers and they need customers. You want something and I give it to you. I think that's an easy game. (Case 4)*

The findings indicated that the successors in particular acted more like founders of new ventures facing the task of establishing new networks (Wickham, 2004). Thus Bontis' statement (2002) in which he asserts that managers do not exploit the potential of the knowledge available within their networks appears to be confirmed by our study.

***New intangibles identified.*** From the results of the qualitative interviews five new intangibles emerged.

***Brand.*** Our findings indicate that the continuation of the brand name played a critical role in decision making. An established brand name was seen mainly as a facilitator for doing business irrespective of whether the successor is new in the industry or not. This does not apply to new ventures alone, as earlier research work regarding the brand name as a relevant intangible within the firm confirms (Watters et al., 2006). In this respect one new aspect emerged, namely the relevance of brand creation in the succession context. This field of research appears to be under-researched (Krake, 2005) as far as smaller firms are concerned and our results suggest that this needs to be changed.

***Partners.*** For successions involving a team our findings underline the critical role of the relationships between the partners. The terms cooperation and mutual understanding appeared to be of great importance. Although teamed activities as an object of study have been well researched, it has mainly been considered in the context of new venture creation (Pasanen & Laukkanen, 2006). There, however, other aspects are equally significant, e.g. network creation and employee recruitment, whereas in company succession restructuring is important, for instance. The quality of relationships appears to play a critical role which has been neglected in succession literature to date. Our findings indicate the need for research to explore the relevance of partner relationships with regard to company succession, as our results imply that it may be of greater significance than the company itself.

***Style.*** Informant 8 stressed that the style/handwriting of her predecessor represented a critical intangible aspect facilitating her decision-making. For her, handwriting style reflects one's personality. She noted that her predecessor's style is similar to hers and she viewed this as being of essential importance. According to her, it is important that the handwriting fits. In view of the nature of this business compared to the others, this statement must be considered in isolation. However, an aspect was highlighted here that seems to have been neglected in the literature and in the introductions provided, for instance, by trade associations. In terms of succession the statements made by this informant indicated that a correspondence in the style of predecessor and successor is of critical importance to enable continued fulfillment of customers' wishes and thus for the firm's viability. These findings agree with Zimmerer and Scarborough (2008) concerning the issues related to foundation through company succession.

***Quality.*** Two interviewees (9 & 10) highlighted the relevance of the quality aspect in connection with company analysis. They spoke of the importance of the firm providing good product quality and its influence on company success. Good quality may provide small firms with a competitive advantage (Bamberger, 1989, quoted in O'Gorman, 2006). In view of the significance of this aspect, it was surprising that only these two successors devoted so much attention to quality.

***Strategy.*** Informant 6 highlighted the critical importance of the strategy pursued within the company. For him, the strategy laid down in the past gave him the feeling that the company is on the right track and thus a suitable buy-out candidate.

> *Even in times when the construction sector passed through a phase of hard economic conditions the company did well.*

This statement illustrates the importance of strategy and points also to suitable leadership skills that are especially valuable in difficult times. The fact that this informant highlights the relevance of strategy implies both that the company has a strategy and that it is recognized for its long-term significance. In the course of the interview it became clear that this company's focus is on growth and development. Thus this company contrasts with many other smaller firms that are very often short-term and survival oriented rather than pro-active (Beaver, 2003). As the true significance of strategic planning reveals itself primarily in times of difficult economic conditions as in the example quoted above, companies which can rely on an effective strategy and leadership skills are more likely to outperform their competitors. As informant 6 has not only worked in the company already but in management as well, he was in an excellent position to implement a proven strategy and this made his decision to enter the company all the easier.

***Weighting of intangible assets for the final decision.*** Reviewing the overall decision criteria, our results revealed that as well as the anticipated relevance of financial data, for many successors intangibles are of equal or even greater weight.

> *The cooperation with my partner was the decisive factor. It gave me the feeling that we were moving in the right direction. And then there was the corporate culture – without it, I would have done something else. (Case 6)*

As well as this, the findings suggest that intangibles play a relevant role throughout the whole decision process. This result agrees with the trade associations' view concerning the relevance of intangibles in the successor's decision-making processes. There is no great variation according to the type of trade association, although we observed that the successors (Case 1 & 4) of the manufacturing companies rated tangible/financial aspects more highly than the others.

## DISCUSSION AND CONCLUSION

Using a mixed method approach, the purpose of our research was to gain an understanding of the role of intangible assets in external company succession in small firms. Our findings have shown that intangible assets play an important role in external successors' decision-making processes. We found that many different intangible assets were taken into consideration, but five in particular were crucial to reaching the final appraisal of a company's attractiveness. These are the factor 'key employees' and the closely related factor 'knowledge retention', together with the factors 'brand', 'partners' and to a lesser degree 'corporate culture'. In the arts sector, 'style' also seems to be of critical importance. Furthermore, the aspect of strategic planning and its relevance to company success appear to be of increasing importance for smaller firms too, which explains why one informant ranked this intangible as being decisive. Investigation of the general perception of intangible assets within a small firm setting (German trade associations) revealed that, to date, they are given only moderate weighting. This applied both to the opinions of the associations themselves and of their member companies. This contrasts with the relevance of intangibles for external successors. Thus there appears to be a disparity of opinion among the parties involved in succession processes, which may be expected to lead to difficulties during negotiations (external successor and current owner) as well as consultations about succession (external successor and advisor). Through a combination of the findings of the two empirical studies we developed a framework encompassing the role of intangibles in external succession (Figure 3). The framework highlights the main components of the preparation stage, namely the initial contact with the targeted company and the process of company analysis. The figure shows three different initial situations which potential successors may encounter at the start of a company takeover: company selection, desired company, and long-standing firm member. Company selection means that a successor chooses the best company out of a range of companies because it offers promising future prospects, for instance. The ‘desired company’ is a sort of model company and it is the only one the successor is interested in taking over. The ‘long-standing firm member’ indicates a non-family member of a firm’s staff who is prepared to take over. Thus the first two scenarios represent buy-in initiatives and the last one represents a buy-out initiative. The right part of the figure depicts a company’s composition (tangible assets, intangible assets and financial capital) and corresponds to the scope of company analysis. Reflecting this study’s focus on intangibles, tangible assets and financial capital are displayed in light gray, although this is not an indication of relative importance as of course each company needs an appropriate mix of all elements in order to achieve success. The findings revealed that the ‘partner’ factor is seen as critical with successors planning a succession involving several persons, so that the scope of analysis was expanded to include it. This factor is not company related but is to be taken into consideration independently of the company. During negotiations, the current owner has relatively little influence on this aspect.

The intangibles are displayed according to their relevance for the external successors. We classified them into initial intangibles (from the guiding framework) and new intangibles (which emerged during the course of the study). Paired frames are used to illustrate interconnections between intangibles. As our findings revealed that the factors ‘networks’ and ‘innovative capabilities’ were considered to be of little relevance, they were not included.

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**Insert Figure 3 about here**
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The framework provides an alternative perspective on external company succession in small firms as it highlights those intangible assets which make a company attractive to external successors in the course of company selection. Thus the framework provides insights into the process that occurs between the initial decision to found a company and business transfer. In practical terms the framework provides a guideline for the parties involved during the preparation stage. Our study led us to the conclusion that intangible assets can be regarded as critical in external company succession in SMEs. Thus we recommend that the scope of relevant issues in questions of company succession should be extended to include intangible aspects in addition to those hitherto considered such as taxation, legal and financial aspects. These findings are highly significant in view of the increasing number of small firms awaiting transferal to new ownership as they provide information about the factors which make a company attractive to external successors. They can facilitate the formulation of suitable political measures for adequate treatment of company succession and they also shed more light on an alternative way of embarking on entrepreneurship.

**Limitations**

We are aware that this study has a number of limitations. Firstly, because we gave priority to the qualitative aspects of our research only analytical generalizations (Yin, 2003) and no statistical generalizations are possible. Thus, the qualitative study of the ten German successors does not allow inferences to be made as to whether the results would also apply to successors in other countries. The same applies to the survey. The small number of participants provides only a very restricted view of the small firm setting and the decision to place the focus on German trade associations may have introduced a bias, rendering the findings at least partly unsuitable for application in other countries. An examination of these limitations could beneficially influence the design of future studies.

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## TABLE 1
## Demographics of Participants

| Aspect | Absolute figures | Relative figures |
|---|---|---|
| ***Organizational affiliation*** | | |
| Chambers of Commerce | 20 | 39.22% |
| Trade Corporations | 21 | 41.18% |
| Missing values | 10 | 19.60% |
| ***Employment status*** | | |
| executive position | 8 | 19.05% |
| employed | 32 | 76.19% |
| inhouse consultant | 1 | 2.38% |
| others | 1 | 2.28% |
| ***Valuation of SMEs*** | | |
| Yes | 32 | 71.11% |
| No | 13 | 28.89% |
| ***Company size advised*** | | |
| Micro | | |
| - often | 41 | 100% |
| - sometimes | ./. | 0% |
| - seldom | ./. | 0% |
| Small | | |
| - often | 18 | 46.15% |
| - sometimes | 19 | 48.72% |
| - seldom | 2 | 5.13% |
| Medium | | |
| - often | ./. | 0% |
| - sometimes | 8 | 20.51% |
| - seldom | 31 | 79.49% |
| ***Location of association*** | | |
| Thuringia | 1 | 2.56% |
| Sachsen-Anhalt | 2 | 5.13% |
| Saxony | 2 | 5.13% |
| North Rhine-Westfalia | 7 | 17.95% |
| Lower Saxony | 4 | 10.26% |
| Mecklenburg-Western Pomerania | 2 | 5.13% |
| Hesse | 2 | 5.13% |
| Bremen | 2 | 5.13% |
| Brandenburg | 1 | 2.56% |
| Berlin | 1 | 2.56% |
| Bavaria | 5 | 12.82% |
| Baden-Wuerttemberg | 10 | 25.64% |

## TABLE 2
## General Characteristics of Cases

| General information about the companies | Case 1 | Case 2 | Case 3 | Case 4 | Case 5 | Case 6 | Case 7 | Case 8 | Case 9 | Case 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year of succession** | August 2003 | January 2007 | December 2006 | January 2003 | August 1998 | October 1995 | March 2003 | July 2006 | July 2003 | July 2003 |
| **Type of industry** | Tempering technology | Hairdressing | Optician | Packaging | Mill | Interior extension | Galvano technology | Headgear for women | Construction | Printing |
| **Number of employees** | 20 | 3 | 8 | 20 | 7 | 40 | 20 | 5 | 22 | 80 |
| **Location** | Bavaria | Baden-Wurttemberg | Baden-Wurttemberg | Baden-Wurttemberg | Baden-Wurttemberg | Baden-Wurttemberg | Baden-Wurttemberg | Bavaria | Bavaria | Bavaria |
| **Type of succession** | Buy-in | Buy-out | Franchising | Buy-in | Buy-in | Buy-out | Buy-in | Buy-in | Buy-out | Buy-out |
| **Management** | Alone | Alone | Alone | Alone | Alone | Team | Alone | Alone | Team | Team |

## TABLE 3
## Group Comparison – Relevance of Intangible Assets

| Group comparison | N | Mean | Std. Dev. |
|---|---|---|---|
| *Chambers of commerce* | | | |
| Relevance of intangibles within associations | 19 | 3.05 | 1.079 |
| Relevance of intangibles to member companies | 20 | 3.15 | 0.988 |
| Influence of intangibles on successor´s decision-making | 19 | 3.32 | 0.946 |
| *Trade corporations* | | | |
| Relevance of intangibles within associations | 20 | 2.65 | 0.988 |
| Relevance of intangibles to member companies | 21 | 2.81 | 0.873 |
| Influence of intangibles on successor´s decision-making | 20 | 3.35 | 0.933 |

## TABLE 4
## Future Relevance of Intangibles

| Future relevance of intangible assets | Frequency |
|---|---|
| Greater relevance | 20 |
| Focus remains on tangible assets | 17 |
| Balance between intangibles and tangibles | 12 |
| I do not know | 1 |

## TABLE 5
## Assessment of Elements of the Guiding Framework

| Intangible items | N | Mean | Std. Dev. |
|---|---|---|---|
| Owner | 51 | 3.94 | 0.95 |
| Employees | 51 | 3.37 | 0.89 |
| Culture | 50 | 3.18 | 0.96 |
| Organizational structure | 51 | 3.12 | 0.97 |
| Knowledge Management | 51 | 3.41 | 1.04 |
| Innovative Capabilities | 51 | 3.84 | 0.97 |
| Networks | 51 | 2.92 | 1.00 |
| Customers | 50 | 4.04 | 0.95 |

## TABLE 6
## Summary of Decisive Factors in Small and Medium-sized Enterprises

| Items | Frequency | |
|---|---|---|
| ***Owner*** | ∑25 | |
| - personality | | 4 |
| - company strategy | | 1 |
| - openness | | 4 |
| - ability to communicate | | 1 |
| - leadership skills | | 3 |
| - staffing skills | | 1 |
| - entrepreneuership | | 1 |
| - willingness to take risk | | 1 |
| - owner dependency | | 1 |
| - quality of management | | 1 |
| - business idea | | 1 |
| - business knowledge | | 4 |
| - technical knowledge | | 2 |
| ***Employees*** | ∑20 | |
| - general | | 2 |
| - loyal | | 1 |
| - openness | | 4 |
| - committed | | 2 |
| - investment in employees | | 1 |
| - motivation | | 2 |
| - continuous training | | 4 |
| - qualified | | 4 |
| ***Customers*** | ∑12 | |
| - contacts | | 1 |
| - structure (focus: early adopters) | | 1 |
| - orientation | | 8 |
| - "knowing your customers" | | 1 |
| - retention | | 1 |
| ***Creative and innovative*** | ∑10 | |
| - ability to innovate | | 8 |
| - continuous quest for improvements | | 1 |
| - general | | 1 |

| Items (continued) | Frequency | |
|---|---|---|
| ***Market*** | ∑8 | |
| - orientation | | 5 |
| - analysis | | 3 |
| ***Knowledge management*** | ∑5 | |
| - general | | 3 |
| - knowledge transfer | | 1 |
| - management | | 1 |
| ***Organizational structure*** | ∑5 | |
| - general | | 5 |
| ***Company Culture*** | ∑4 | |
| - general | | 1 |
| - emotional liaison | | 1 |
| - corporate identity | | 1 |
| - ability to communicate | | 1 |
| ***Financial aspects*** | ∑4 | |
| - structure | | 1 |
| - general | | 1 |
| - soundness | | 1 |
| - reasonable withdrawals | | 1 |
| ***Accounting and controlling*** | ∑4 | |
| - general | | 3 |
| - management of accounts receivables | | 1 |
| ***Networks*** | ∑2 | |
| - contacts to mediators | | 1 |
| - business networks | | 1 |
| ***Investment*** | ∑2 | |
| - capital input (machines, plants etc.) | | 2 |
| ***Strategic orientation*** | ∑2 | |
| - niche | | 1 |
| - quality | | 1 |
| ***Logistics*** | ∑1 | |
| - accessibility to resources | | 1 |
| ***Internationalization*** | ∑1 | |
| - general | | 1 |

## FIGURE 1
## Model for Company Succession Process (Ballarini & Keese, 2006: 442)

| | Incumbent | | | | |
|---|---|---|---|---|---|
| phase | Planning | Preparation | Realization | Retreat | Retirement |
| He/she possesses | Property & management | Property & management | Property & management | Management | |

| | Successor | | | | |
|---|---|---|---|---|---|
| phase | Planning | Preparation | Realization | Establishment | Consolidation |
| He/she possesses | | Property or management | Property & management | Property & management | Property & management |

## FIGURE 2
## Guiding Framework

| | Gallego & Rodríguez (2005) | Claessen (2005) | Alwert & Vorsatz (2005) | BMWA (2004) | Bontis (1998) |
|---|---|---|---|---|---|
| **Human capital** | | | | | |
| - employees<br>- owner | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Structural capital** | | | | | |
| - innovative capability | ✓ | ✓ | ✓ | ✓ | |
| - company culture | | ✓ | ✓ | ✓ | ✓ |
| - knowledge management | | | ✓ | ✓ | ✓ |
| - organizational structure | | ✓ | | ✓ | ✓ |
| **Relational Capital** | | | | | |
| - customers | ✓ | ✓ | ✓ | ✓ | ✓ |
| - networks | ✓ | ✓ | ✓ | ✓ | ✓ |

## FIGURE 3
## A Framework for the Role of Intangibles in External Succession in Small and Medium-sized Enterprises