

Research to offer a blueprint in succession for Denmark's SMEs

Insead and [Copenhagen Business School](#) have joined forces on a research project which, if successful, could provide a blueprint for saving thousands of small and medium-sized enterprises worldwide.

Researchers will try to canvass up to 6,000 privately owned Danish SMEs and ask detailed questions to build a realistic picture of how prepared the owners are to transfer ownership.

The research is crucial because owner-managed companies account for about 80 per cent of businesses in Denmark and nearly 20 per cent of those owners are aged over 65, according to Morten Bennedsen, chair of family enterprise at [Insead](#). The Danish Industry Foundation, a private philanthropic organisation, estimates that due to the age of the proprietors about 25,000 business will have to be transferred to new ownership in Denmark during the next 10 years.

Prof Bennedsen says the situation in Denmark is about to play out across Europe and other areas of the world. "Most of the wealth that has been generated in the world has come after the second world war," he explains. "From our perspective one of the strengths of this project is that the results will be completely applicable to many other countries."

Aims

Prof Bennedsen and his counterpart at CBS, Peter Møllgaard, hope to gather so much data that they will be able to produce a benchmark ranking that will be published online and allow business owners to see how they compare with their peers in terms of preparation for transfer of ownership.

"We're hoping to provoke them into thinking about this," says Prof Møllgaard. "We want to start that process of realising that they are not going to live forever."

Combating unrealistic ideas

Private owners of SMEs face two choices, Prof Bennedsen and Prof Møllgaard explain: to hand over to a family member or to sell to an outsider. An [ownership transfer](#) within the family can lead to loss of value in the hands of a less competent successor. Less well documented is the prospect that the owner cannot find a buyer at the asking price and has to close the shutters at retirement.

"When I talk with dealmakers they say the biggest problem family business owners have is valuation. But the value the owner puts on his company is frequently imaginary," says Prof Bennedsen. Owners often cannot produce a spreadsheet that will show how the price is derived, he says.

Owners fail to understand that a buyer might need a spreadsheet to raise financing, he adds. They also do not recognise that part of the value of the company will leave when they retire because they are frequently so integral to their business.

Mads Lebech, chief executive of the Danish Industry Foundation, adds that owners also do not appreciate the depreciation in value of their capital expenditure, for example on plant machinery. "A lot of these owners think they should have a higher price, but a lot of these businesses will never be sold, they will just be shut down," says Mr Lebech.

The project

The Danish Industry Foundation has given a grant of DKK22.8m (\$4.2m) to fund the establishment of the Centre for Owner-Managed Businesses at CBS and the five-year research project. The centre will begin operating in May and the first surveys will be done this summer. Statistics Denmark, a government agency, will collaborate in the research, provide large amounts of its existing data on the companies and conduct the telephone surveys. In addition, the professional services firms PwC and BDO will each survey 250 of their clients and hold consultations with selected companies.

By the end there will be the online benchmark comparison tool, a checklist to help owners to see if they are ready for a transfer, and six academic papers that Insead will produce based on the research findings.