
The importance of specific human capital, planning and familiarity in Dutch small firm ownership transfers: a seller's perspective

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Abstract: This study focuses on the transfer process and the importance of human capital and succession planning as firm resource from the seller's perspective. It further differentiates amongst two types of human capital – specific and generic – to predict the transfer duration, obtained price and satisfaction with the transfer.

A representative dataset of 112 Dutch small firm owners, who sold their firm in 2005 and 2006, is analysed. Hierarchical multiple regressions show that specific human capital, like flexibility, social skills and market awareness predict transfer performance better than generic human capital like general education. Results also indicate that succession planning in business transfers is unrelated to the objective transfer performance indicators transfer duration and obtained price. Succession planning is strongly related to the subjective transfer performance indicator satisfaction. Results also show that familiarity between seller and buyer rather than kinship or family ties is a key predictor for all transfer performance indicators.

Keywords: human capital; planning; familiarity; performance; SME; price; satisfaction; business transfer; transfer duration; entrepreneurial exit; small business.

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1 Introduction

In this study we investigate the relationship between human capitals, succession planning and transfer performance from the perspective of the seller. Many studies on human capital and planning focus on the performance of start ups and established small firms. However, studies relating human capital and planning to entrepreneurial exit are rare. For this reason, Brinckmann et al. (2008), Meijaard et al. (2005) and Wennberg et al. (2009) recommend further exploration. This study relates human capital and planning to entrepreneurial exit. In entrepreneurial exits, there are two main options: sale or liquidation. In a sale the firm survives even though the previous owner leaves. In liquidation both the owner and the firm stop their activities. This study looks at sales of small business, also called business transfers, which we define as a change of ownership where more than 50% of assets or shares are transferred. Small businesses are defined as firms with less than 50 employees.

Human capital and small business performance is a subject which is widely studied. Researchers have established the importance of human capital as a key predictor for small-firm performance (Aides and Van Praag, 2007; Bhagavatula et al., 2008; Dimov and Shepard, 2005; Colombo and Grilli, 2005; Haber and Reichel, 2006; Honig, 1998, 2001; Markman and Baron, 2003; Van Praag, 2003; Van der Sluis et al., 2005). However, they still debate which type of human capital plays a greater role in small firm performance. Some approaches to human capital distinguish between generic and specific components (Becker, 1975). Generic components include overall formal education, age and general or professional experience. Specific components of human capital refer to education limited to a particular sector, activity or context, like small business education and specific work experience in a sector. In this study we test whether generic and/or specific human capital predicts business transfer performance better.

The relationship between planning and small business performance has also been the subject of many studies. The meta-analysis by Brinckmann et al. (2008) bridges conflicting findings of past research, showing that business planning improves small business performance in general, but is strongly affected by the way performance is measured. Whereas objective performance indicators show a strong relationship between planning and small firm performance, relationships with subjective performance indicators and small firm performance are much weaker. However, the study of Brinckmann et al. (2008) does not look at succession planning. Many experts in the domain of business transfers are strong advocates of succession planning in ownership transfers (EU Commission, 2002; Flören, 1998; Goldberg and Woodridge, 1993; Kets de Vries, 1993; Kirby and Lee, 1996; Kommers and Van Engelenburg, 2003; Lansberg, 1988; Meijaard and Diephuis, 2004; Mandelbaum, 1994; Reece, 2003; Rue and Ibrahim, 1996; Seymour, 1993; Sharma et al., 2001; Stavrou, 1996). Research on the effects of planning on transfer performance (Van Teeffelen, 2007) leads to conclusions opposite to that of Brinckmann et al. (2008), namely that succession planning is strongly related to subjective performance measures and weakly related, if at all, to objective performance measures. This study includes both objective and subjective performance measures, in order to clarify this point.

Research on transfer performance has focused mainly on family firms (e.g., Morris et al., 1997; Le Breton-Miller et al., 2004). Though important, studies show that both worldwide (Grant Thornton, 2005) and in the Netherlands (Meijaard, 2005; Van Teeffelen, 2007) the majority (60%–70%) of all transfers take place between non-family members. The current study extends research to non-family transfers. We will differentiate between family ties and more general familiarity between (non-family) sellers and buyers, exploring which aspect predicts transfer performance.

Apart from academic interest there is a practical need for research on ownership transfer. Many governments and policymakers are in need of transfer performance indicators (TPIs) to devise policies on transfer failure prevention. By recent estimations one third of all entrepreneurs in western countries will retire in the coming decade (EU Commission, 2002, 2006). The European Commission considers the expected high rates of exit as an economic threat. Failure to transfer ownership of these firms is predicted to lead to high rates of unemployment and a massive loss of tangible and intangible capital.

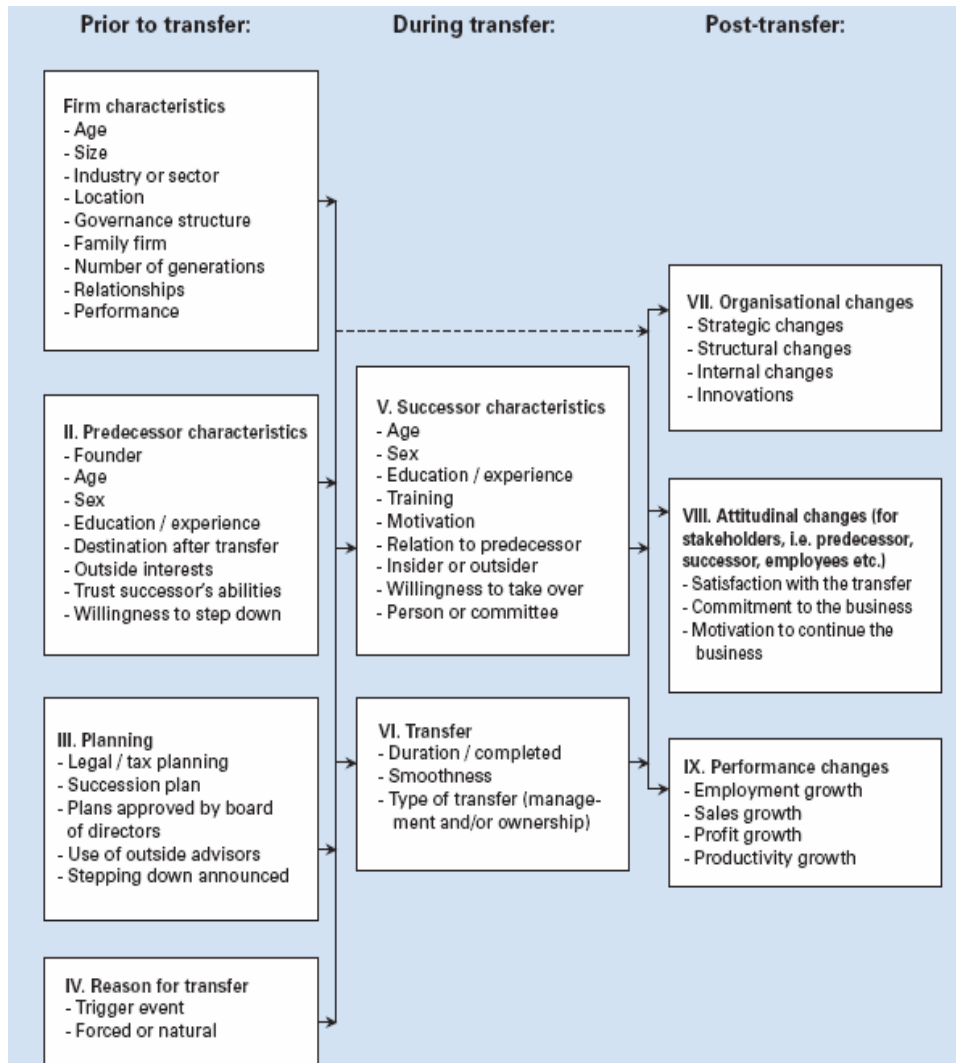
This article is organised in five sections. In the second section, we will look into the theory of human capital, the importance of planning, previous research and our hypotheses. In the remaining three sections we present our methods, results, discussion of the findings and their theoretical and practical implications.

2 Theory

Human capital and succession planning are vital to transfer performance according to three succession models (Le Breton-Miller et al., 2004; Meijaard et al., 2005; Morris et al., 1997). All models underline the importance of human capital variables like education, experience, entrepreneurial and managerial capabilities of both the incumbent and the successor. The model of Meijaard et al. (2005) shown in Figure 1, covers both family and non-family ownership transfers. Boxes II and V include the human capital variables, respectively, of the predecessor and the successor. Box III covers various

planning variables. We first consider the importance of human capital and then discuss the importance of succession planning.

Figure 1 Model of Meijaard et al. (2005) (see online version for colours)



Note: With the label 'sex' in Box II and V Meijaard's model means 'gender'.

2.1 Human capital

The concept of human capital is linked to the resources-based view. The resource-based view focuses on the critical resources of companies to perform, to survive and to compete. These resources are usually categorised as human, financial and physical (Barney, 1991; Hall, 1992). Barney (1991) considers human capital as capabilities in

order to use and manage the firms tangible resources. Barney (2001) also identifies formal and informal planning as an organisational firm resource.

Human capital has proven to be vital for firm creation, firm performance, growth and survival in both western and non-western countries (Aides and Van Praag, 2007; Bhagavatula et al., 2008; Dimov and Shepard, 2005; Colombo and Grilli, 2005; Haber and Reichel, 2006; Honig, 1998, 2001; Markman and Baron, 2003; Van Praag, 2003; Van der Sluis et al., 2005). Human capital represents the education, age, gender, experiences, skills and knowledge of entrepreneurs (Becker, 1975). Human capital is both codified and uncoded knowledge of the entrepreneurs and is developed by education, training and personal experience. Explicit and codified knowledge and skills can be transferred. Tacit knowledge like personal experiences, uncoded skills and the ability to spot opportunities are harder to transfer, because they are connected to a person, his experience or a specific firm (Dimov and Sheperd, 2005).

As mentioned in the introduction, researchers distinguish between generic and specific components of human capital (Becker, 1975). Some studies on small firm growth show a robust impact of general education (Cooper et al., 1994; Westhead and Cowling, 1995) while others fail to show this relationship (Storey, 1994; Brüdl and Preisendörfer, 2000). Cooper et al. (1992) and Van der Sluijs et al. (2005) find in their meta-analysis that general education is related positively to small firm performance. Whereas the positive relationship of education on small firm performance is widely acknowledged, the impact of general education is still questioned. Colombo and Grilli (2005) and Dimov and Sheperd (2005) point out that the nature of the education and experience has been largely neglected in empirical research and show that specific education is a much better predictor for specific types of firms and their performance.

We observe the same incongruent findings on generic and specific measures of experience. For instance, Bates (1990), Brüderl et al. (1992) and Gimeno et al. (1997) find no evidence that individuals' prior general experiences of self-employment and managerial experiences have an impact on the failure rate of new firms. At the same time, self-employment and managerial experience do relate to growth (Brüderl and Preisendörfer, 2000) or economic performance (Gimeno et al., 1997) of new firms. Again Colombo and Grilli's (2005) results indicate that specific experience relevant to the sector predicts small-firm performance better than general experience. Their findings are backed up by other studies which show that experience and specific skills relevant to the sector are strongly related to innovation capabilities (Hadjimolis, 2000), opportunity recognition (Ucbasaran et al., 2009) and small firm performance (Bhagavatula et al., 2008; Haber and Reichel, 2007).

Markman and Baron (2003) and Driessen (2005) are strong advocates of the importance of specific human capital. They argue that success of entrepreneurs is related to a specific set of entrepreneurial skills and competences and agree upon the importance of following set: perseverance, flexibility, opportunity recognition or market awareness, self-efficacy and social skills. Research by Driessen (2005) supports the claim that specific entrepreneurial competences and characteristics do predict better sales turnover and a higher rate of survival in start-ups. De Jong and Van der Velden (2005) observe that these same characteristics and competences account for the day-to-day successes or failures in business and ownership transfers alike.

Why should perseverance, flexibility, market awareness, self-efficacy and social skills be important in selling a firm? We present the following explanation: transfer of ownership is a complex process combining legal, tax, financial, market situation,

organisational and emotional aspects involving a buyer, a seller, advisers, staff, customers and suppliers (EU Commission, 2002; Kommers and Van Engelenburg, 2003). The refusal of banks to finance ownership transfer is an important reason for transfer failure (Geerts et al., 2004; Langman and Lugt, 2005). As in many countries, capital in the Netherlands is primarily provided by banks; private investors and venture capital are rarely available for small firms. Strictly speaking, financing is a problem of the buyer. But in selling the firm the timing (market awareness), looking at all options and adjusting plans (flexibility), finding the right successor (perseverance) and negotiating with both the purchaser and the bank (social skill and self-efficacy) are significant since in many cases co-financing of the seller is essential to capitalise the ownership transfer. We assume that these specific capabilities are as important for entrepreneurs in transfer situations as education and experience. We thus propose:

Hypothesis 1

- a Specific human capital (years of ownership and entrepreneurial competencies like perseverance, flexibility market awareness, self-efficacy and social skills) of the seller is positively associated with transfer performance.
- b Generic human capital (education) of the seller is positively associated with transfer performance.

2.2 *Succession planning*

Planning is an organisational firm resource according to the resource-based view (Barney, 1991). Research on business planning and small business performance has led to conflicting empirical findings and competing schools of thought. On the one hand, the planning school (e.g., Ansoff, 1991; Porter, 1985) sees planning as advantageous to performance, positing that planning increases speed, a more effective use of resources and pre-conceived alternatives (Delmar and Shane, 2003). On the other hand, contingency theorists (e.g., Mintzberg, 1994; Donaldson, 1985) see planning as (potentially) detrimental to small firms. According to this view, small firms have less need for formal rules and procedures. Day-to-day contact with the manager/owner is an efficient mechanism of coordination and planning: it is more satisfying and a more efficient use of resources than planning (Hatch and Cunliffe, 2006).

Brinckmann et al. (2008) examine the conflicting paradigms and empirical findings on planning and small business performance by looking at contextual differences and the way performance is measured. They carefully select and meta-analyse 46 studies from 15 different countries, concluding that (especially long-term) business planning improves small business performance. They find that start-ups, which are usually smaller, profit less from planning than established firms. They also find that firms in countries with high uncertainty avoidance profit less from planning due to rigidly sticking to their planning. Finally, the Brinckmann et al. (2008) study also shows that the way in which performance is measured affects the pattern of results. Objective performance indicators (i.e., hard-coded data on sales, growth and survival) are superior to subjective performance indicators (i.e., those where individual respondents assess outcomes).

The results of Brinckmann et al.'s (2008) study do not necessarily apply to succession planning in that it excludes short-term (less than a year), operational and functional planning. Succession planning is functional planning and most firm owners only plan for succession within a time span of a year (Van Teeffelen, 2007). Indeed, studies of

ownership change and (post) transfer performance in small firms find either weak or no effect of succession planning with objective performance indicators such as sales growth and survival (Astrachnan and Kolenko, 1994; Avila et al., 2003; Berent et al., 2009; File and Prince, 1996; Meijaard et al., 2005; Morris et al., 1996, 1997). Studies using subjective performance measurements, on the other hand, find a strong relationship between succession planning and satisfaction (Morris et al., 1997; Sharma et al., 2003; Van Teeffelen, 2007). In summary, studies on ownership change show that functional planning in ownership change does not contribute to objective transfer performance but *does* improve satisfaction on the part of the entrepreneur who is selling. These findings, furthermore, are in line with the contingency theory and the predictions of Mintzberg (1994), which point out that it is more effective for small firms to improvise than to formalise rules and procedures.

In measuring transfer performance the underlying assumption is that objective and subjective TPIs are related (Morris et al., 1997). Theoretically this is a dubious assumption. Objective measures are rated by outsiders/observers (consultants/practitioners, researchers), while subjective performance is rated by the insiders/actors (business owners who are selling). The known actor-observer difference (Jones and Nisbett, 1971) in social psychology states that consultants/researchers as observers typically attribute causes to the business owner's characteristics as the actor, while the business owners as actor will attribute causes to circumstances. So we may expect that objective and subjective TPIs will tell us a different story. To further explore this assumption, we test hypotheses using both objective and subjective TPIs. In contrast with the dominant planning school paradigm we predict that planning in small businesses ownership is unrelated to objective TPIs but is positively associated with subjective TPIs. To summarise we propose Hypotheses 2a and 2b:

Hypothesis 2

- a Succession planning by the seller is not related to objective TPIs.
- b Succession planning by the seller is positively related to subjective TPIs.

2.3 *Family ties and familiarity*

The vast majority of academic transfer studies to date deal with family transfers. The importance of family firms for national economies is widely recognised. However, family transfers represent only a minority of small firm ownership transfers. Several studies show that generally a third of all SME transfers are family transfers (Grant Thornton, 2005; Howorth et al., 2004). In this article, we would like to extend our knowledge by looking at all kinds of relationships between seller and buyer.

A lesson learned from family transfers is that trust is essential (Howorth et al., 2004; Morris et al., 1997; Venter et al., 2003). Howorth et al. (2004) show that trust between seller and owner mitigates information asymmetry between buyer and seller. This helps to negotiate a fair price and the knowledge transfer from seller to buyer. Venter et al. (2003) also show that a positive relationship and trust are the best predictors for satisfaction with the transfer process in family firms. We expand the concept of family ties to overall familiarity. That is we assume the better a seller and purchaser know one another, the better transfer performance is likely to be. We thus predict that familiarity between seller and purchaser (and not kinship) is positively associated with TPIs.

Hypothesis 3 Familiarity between seller and purchaser – family and non-family transfers alike – is positively associated with both objective and subjective TPIs.

2.4 Other factors

Three other factors may influence transfer performance: the motive for the ownership transfer, the use of external advisors and the number of employees involved. We will use these variables as control variables with regard to ownership transfer.

A recent study of Wennberg et al. (2009) provides taxonomy for exit routes. Wennberg et al. (2009) warn against generalising results from one type of exit to another. With respect to ownership transfer they make a distinction between harvest sales and distress sales. In the harvest sale the sale is for reasons of wealth creation and in the distress sale the firm is sold to avoid liquidation or bankruptcy. We think this distinction is more meaningful than the motive of retirement mentioned in previous studies (Bruce and Picard, 2006; EU Commission, 2002; Meijaard and Diephuis, 2004) and covers forced sales as opposed to voluntary sales.

Succession models (Le Breton-Miller et al., 2004; Meijaard et al., 2005; Morris et al., 1997) suggest that the use of an external advisor in ownership transfer can be beneficial for transfer performance. The use of external advisors is considered an organisational firm resource (Barney, 2001). Both Meijaard et al. (2005) and Morris et al. (1997) find a negative result for the use of (tax) advisors during the post-transfer performance. Morris et al. (1997) explains this by assuming that the results of (tax) advice favour individual financial gain for the selling party at the expense of business profits. Though this might be true for long-term post-transfer performance, we think that external advice could improve short-term transfer performance like selling price, transfer duration and satisfaction.

The number of employees is also a firm resource and may complicate transfers. Geerts et al. (2004) show that the number of employees is a major concern of buyers. Meijaard et al. (2005) find that firm size is the best predictor of post-transfer performance. That is, the smaller the SME the better the post-transfer performance.

2.5 Measuring transfer performance

In looking at TPIs we have to address the issue that success in transfers is not well defined (Venter et al., 2003). Morris et al. (1997) propose to evaluate and distinguish between the quality of the (personal) experience as subjective measurement and the effectiveness as seen by others as objective measurement.

Most frequently used measures in small (family) business research are post-transfer growth of sales, profit, employees, new products or survival (e.g., Morris et al., 1997). These measures are also used in both research on planning and small firm performance (e.g., Brinckmann et al., 2008) and are mostly objective in nature.

Taking a multi-dimensional perspective on performance is advised by scholars like Kaplan and Norton (1996), Hillman and Keim (2001) and Laitinen (2002). Also small firm researchers like Ghobadian and O'Regan (2006) and Haber and Reichel (2006) are strong advocates of multiple performance criteria to get a better understanding of the success of small firms.

Looking for a multi-dimensional approach and combining the objective and subjective performance measures during a business transfer three TPIs seem of importance: transfer duration, sales price and satisfaction with the transfer. As objective measurement Morris et al. (1997) and Meijaard et al. (2005) identify the duration of a transfer. Transfer duration provides functional information for policy makers since delay and postponement (with a long transfer duration) are among the main factors for transfer failure (Flören, 2002; Sharma et al., 2001). Another objective measure is the obtained selling price related to the expected selling price (Van Teeffelen, 2007), which shows to what extent the seller has to drop his initial selling price. As for subjective measurement Morris et al. (1997) identifies the smoothness of ownership transfer as a subjective measure. Smoothness is comparable with satisfaction used by Venter et al. (2003) and Sharma et al. (2003) as subjective measurement.

3 Method

To summarise, in this study we focus on two objectives (transfer duration and obtained price) and one subjective TPI (satisfaction). We expect the three chosen TPIs will show different patterns. A better transfer performance is defined by:

- a a shorter transfer period
- b a smaller (negative) difference between the obtained and asking price
- c greater satisfaction about the transfer.

The rest of the method section includes a description of our sample, the dependent, independent and control variables and a description of our data analyses.

3.1 Sample

We drew a sample of 3,600 small firms, defined as having less than 50 employees, using the registers of the Dutch Chambers of Commerce and national codes 'registration of new ownership' and 'still in business' in the years of 2005 and 2006. Due to our research design, which required contacting former business owners, we could track 1,800 former owners. From these 1,800, we were able to contact 900 sellers within three calling attempts. These owners were screened to meet the following criterion: more than 50% of the assets or shares had to have been transferred to another legal entity or person. Cases were omitted, furthermore, where there had been only a minority sale of equity, a change due to a new partner joining the firm (rather than someone leaving) or a change in the legal status of the firm. This led to a reduced sample of 288 former firm owners meeting the above criteria, 130 of which participated in the study. This resulted in a response rate of 45% of the final target sample. Due to missing values our dataset for analysis was reduced to 112.

Prior to sampling we piloted our survey questionnaire with thirty business owners, revising the final version based on those responses. One important lesson learned was that small firm owners are quite reluctant to share objective performance figures on profit, sales growth, costs and assets. Even information regarding the costs of using advisors in the ownership transfer was withheld. Based on this feedback, it was decided to omit objective performance figures from the final questionnaire.

Our dataset represents 1% of all estimated transfers per year in the Netherlands (Meijaard and Diephuis, 2004). The macro-economic setting in 2005-2006 is a mildly growing economy of 1%–3% (CBS, 2006, 2007). The dataset is representative for the Dutch SME population on firm size, sector and the gender of the business owners. The average transfer age of business owners is 53 years. As shown in Table 2, the fraction of forced sales is 33%, and we can also see that the fraction of family transfers is 30%. The fraction of transfer between familiar sellers and purchasers – being the two highest score on the familiarity item – is considerably higher: 55%.

Table 1 List of variables

<i>Dependent variables</i>	
Total transfer duration in years	
How long did it take to transfer the ownership of your firm, calculated from the first inquiries you made about transfer to the actual transfer of equity or shares?	
Difference between expected and obtained selling price	
Was the obtained selling price lower, equal or higher than the initial asked price?	
What was the deviance in percentages?	
Satisfaction:	Scores: 1 = dissatisfied thru 5 = satisfied
If you look back, how satisfied are you with the following aspects of the transfer?	
1	The preparations I have made
2	The total transfer time
3	The amount of potential buyers I negotiated with
4	The abilities of my successor
5	The obtained price
6	The performance of the company at this moment
<i>Independent variables</i>	
Human capital	
At what level did you complete your education?	
How long were you owner of the firm? (in years)	1. Primary school thru 7. University degree
Perseverance: I will endure until all my plans are realised	1. Completely disagree thru 7. Completely agree
Perseverance: I will endure until all my plans are realised	1. Completely disagree thru 7. Completely agree
Flexibility: I change my plans immediately if the situation changes	1. Completely disagree thru 7. Completely agree
Market awareness: I track well what other firms do in my sector	1. Completely disagree thru 7. Completely agree
Social orientation: I find it hard to start conversation with people	1. Completely disagree thru 7. Completely agree
Familiarity	
How well did you know the buyer before you started to negotiate?	1. Not at all thru 5. Well

Table 1 List of variables (continued)

<i>Independent variables</i>	
Firm resources	
Planning	Scores: 1 = not at all thru 5 = completely
Which of the following steps did you take before selling your business?	
1	Made inquiries or went to gatherings
2	Made a decision on the date of sale
3	Made a plan in my head
4	Worked out a planning on paper
5	Identified stongnesses/weaknesses, opportunities/threats
6	A valuation was made
7	Improved my business in preparation for the sale
8	Made a sales memorandum
9	Informed my staff
10	Made a profile of potential buyers
Staff	
How many employees in FTE were working in the firm besides the owners?	
Advisors	
Which advisors did you consult? How many advisors did you consult?	
<i>Control variables</i>	
Family transfer	
Did you sell your firm to a family member?	0 = no, 1 = yes
Forced transfers (dummy)	
For what reason did you sell the firm?	0 = voluntary, 1 = forced
Social desirable answering	
I always tell the truth	1. Completely disagree thru 7. Completely agree

3.2 Dependent variables

The three dependent variables include total transfer duration, the difference (in percentages) of the obtained and asked price and sellers' satisfaction (see Table 1). Single items measure the first two dependent variables. Satisfaction is measured by a six item scale (Cronbach's $\alpha = 0.80$, see Tables 1 and 2), based on items of Venter et al. (2003) and Sharma et al. (2003). Factor analyses with Varimax rotation on the six satisfaction items results in a single factor, with factor loadings of individual items ranging from 0.55 and 0.74.

Table 2 Pearson correlations, means and standard deviations of tested variables (n = 112)

Type	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Dependents																
1	Transfer duration	1.00														
2	Deviation from asked price	0.02	1.00													
3	Satisfaction	0.03	0.18	1.00												
Independents																
Human capital																
4	Level of education	g	-0.13	0.01	-0.04	1.00										
5	Years of ownership	s	0.26**	0.04	0.06	-0.19*	1.00									
6	Perseverance	s	0.02	0.05	-0.07	0.06	-0.08	1.00								
7	Flexibility	s	0.21	-0.01	-0.24**	-0.05	0.15	1.00								
8	Market awareness	s	0.10	0.13	0.01	0.12	0.15	0.02	1.00							
9	Social orientation	s	-0.15	0.02	-0.11	0.06	-0.07	0.02	0.13	1.00						
10	Familiarity	s	0.05	0.24**	0.08	0.05	0.01	-0.02	-0.05	0.01	-0.25**	1.00				
Firm resources																
11	Planning		0.24**	-0.03	0.29**	0.06	0.05	-0.01	-0.06	-0.06	-0.03	0.11	1.00			
12	Number of employees		0.14	-0.01	0.13	-0.25**	0.03	0.03	0.08	-0.13	0.00	-0.12	0.21*	1.00		
13	Number of advisors		0.31**	0.01	0.12	0.01	0.11	0.05	-0.02	-0.05	0.01	-0.19*	0.46**	0.16	1.00	
Controls																
14	Family firms (dummy)		-0.09	0.12	-0.07	-0.02	0.24**	0.00	-0.04	-0.05	0.02	0.52**	-0.26**	-0.06	-0.17	1.00
15	Forced transfers (dummy)		-0.15	0.03	-0.01	0.07	-0.18	0.18	0.07	0.04	-0.03	-0.14	-0.10	0.00	-0.20*	1.00
16	Socially desirable answers		-0.08	0.09	-0.08	0.02	-0.02	0.02	0.10	0.23*	0.20*	-0.06	-0.06	-0.04	0.01	-0.11
Mean			1.11	-6.17	23.34	3.91	17.20	2.39	2.94	3.08	5.30	3.32	22.60	3.34	1.01	2.17
Fraction (dummy)			1.36	13.36	6.48	1.39	12.92	1.18	1.47	1.70	1.67	1.13	9.04	1.80	0.92	0.97
Standard deviation																
Std. Cronbach's α																0.78

Notes: g = generic, s = specific, * $p < 0.05$, ** $p < 0.01$ level

3.3 *Independent variables*

For the generic human capital of the seller, we measure the level of general education ranging from primary school as the lowest in ranking order (1) to a completed university master course (7). To measure entrepreneurial experience we asked the respondent to indicate the number of years he or she had owned the business before selling it. For specific human capital we used ten items of Driessen's (2005) e-scan. Driessen validated his items extensively on three separate datasets. For our survey we selected initially two of Driessen's (2005) highest loading items on each of the factors: market awareness, perseverance, flexibility, social orientation and self-efficacy. All items are scored on a seven point Likert scale.

For all but self-efficacy we eventually selected only the item with the highest factor load in our analysis (0.70 or higher), dropping self-efficacy, as it did not load on a separate factor. To measure familiarity between seller and buyer we asked on a five point Likert scale how well seller and buyer knew each other before they started the initial talks on the transfer of ownership.

To measure succession planning we used a 10-item scale (Cronbach's $\alpha = 0.78$). Separate factor analysis with Varimax rotation, shows three factors in our items (see Table 1): preparation (Items 1 and 6 through 9), planning (Items 3 and 4) and decision-making (Items 2 and 10) all with communalities above .50.

Additionally we asked small firm owners what kind of advisors they used and counted the number. A third of business owners did not use any advisors, but on average they use one advisor. Most frequently they were advised by an accountant or a bookkeeper. Firm size is measured by the number of employees working at the firm beside the owners in full time equivalents (FTE).

3.4 *Control variables*

Wennberg et al. (2009) uses objective balance sheet and profit and loss account performance measures to determine harvest vs. distress sales. We have no data on direct firm performance so we used a dummy proxy for distress sales: forced sales. Forced sales are sales motivated by illness/health problems or declining firm performance (0 = voluntary, 1 = forced transfers). Our proxy for distress sales is not as accurate as Wennberg's et al. (2009) definition and we cannot rule out that firms with ailing owners still perform well. Socially desirable answering was also included based on the items "I am always honest", since it was the highest loading item (>0.70) in our factor analysis on this separate factor.

Finally we distinguished family transfers from non-family transfers with a dummy variable by inquiring whether the firm was sold to a family member (see Table 1).

3.5 *Data analysis*

We tested our hypotheses using hierarchical multiple regression analysis. Hierarchical regression allows us to observe the added predictive value of each set of independent variables, in this case human capital and firm resources of which succession planning is

our main focus. We first entered the control variables, then human capital, then firm resources. In Table 3, the results are combined. We also tested for multi-collinearity using VIF-scores. All VIF scores are below less than 2, indicating that the level of multi-collinearity is low for the independent variables.

Our survey only includes answers of the selling party. Getting all the data from one party makes our design susceptible to common method bias (Podsakoff and Organ, 1986). We performed a principal component analysis on all dependent, independent and control variables. Varimax rotation shows six factors explaining 59% of the total variance in our dataset. The first factor explains 13% of total variance. Finding six separate factors indicates a low likelihood of common method bias, since we are not dealing with a dominant single factor.

4 Results

Table 2 shows there are no significant correlation between our objective and subjective TPIs. Also there is weak correlation amongst most of the independent variables. This reduces the risk on multi-collinearity. The two highest correlations in Table 2 are ‘family transfers’ and ‘familiarity’ ($r = 0.52, p < .01$) and ‘the number of advisors’ and ‘planning’ ($r = .46, p < .01$).

Table 3 shows the results of the multiple hierarchical regressions. Hypothesis 1a, that specific human capital is positively associated with transfer performance, is not fully confirmed. Not all specific human capital variables are a significant predictor for all three TPIs. Flexibility is the best predictor of shorter transfer duration and a higher degree of satisfaction. Also better social skills predict shorter transfer duration.

But counter to our expectations, market awareness is associated with a lower obtained price and years of ownership are related to longer transfer duration. Hypothesis 1b, that general education as generic capital is positively associated with transfer performance is rejected since it is unrelated to all TPIs.

Hypothesis 2a, that succession planning is not related to objective TPIs, and Hypothesis 2b, that succession planning is positively related to subjective TPIs, are both confirmed. Succession planning does increase the objective transfer duration slightly but only as a trend ($p < .10$) and is unrelated to the obtained price. At the same time succession planning does predict the subjective TPI satisfaction strongly.

Also the firm resource ‘advisors’ predicts on one TPI. The use of advisors increases the transfer duration so advisors contribute negatively to transfer performance. Firm size, measured by the number of employees, shows no predictive value.

Our analysis also shows that familiarity does predict transfer performance. Familiarity increases the obtained price and satisfaction, but contrary to our expectations, also increases transfer duration. This means that Hypothesis 3 – familiarity will increase TPIs – is not fully confirmed. Of particular interest is the family firm variable which, as expected, does not predict TPIs. Thus, it confirms our prediction that familiarity between seller and buyer, and not kinship, predicts better transfer performance.

The two control variables ‘forced transfers’ and ‘socially desirable answers’ show no predictive value.

5 Discussion

This study investigates the importance of human capital and succession planning in exit situations. We made a distinction between generic and specific human capital because based on past research, specific human capital variables were found to have better predictive value with respect to small firm performance (Driessen, 2005; Colombo and Grilli, 2005; Dimopv and Shepperd, 2005). Our results confirm this expectation. In particular, specific human capital, like familiarity, flexibility, social skills and market awareness predict transfer performance better than the generic human capital characteristic general education. Flexibility, in particular, proves to be important since it shortens/reduces the transfer duration and increases satisfaction. Also social skills speed up the transfer. More market awareness leads to a lower obtained price. This may indicate that when a seller is more aware of the market, he or she will become more realistic in valuation of a proper price. And more years of ownership increases transfer duration. This might indicate that more experienced owners move carefully and with caution in transfer situations or may need a longer period to detach themselves from their firm. Therefore, our results confirm that we should look at specific human capital: skills, experience and competencies of business owners needed in the context of situation. By doing so we may have captured a part of the tacit knowledge and skills that stick to a person (Dimov and Sheperd, 2005). However, not all characteristics are significant predictors on all TPI's, nor in a positive direction. Familiarity and flexibility appear to be the most consistently and positive human capital predictors of TPIs.

We suggested a non-planning paradigm for small firms, saying that planning has no effect on small-firm transfer performance since the manager/owner himself is an efficient mechanism of coordination. Our results confirm this view in the situation of a business transfer. Succession planning is unrelated to objective TPIs. Our analyses also point out that succession planning may increase the transfer duration. Perhaps succession planning may give rise to second thoughts resulting in postponing the decision to sell the firm. Alternatively the selling party may discover the firm should prepare first and changes are necessary to be saleable.

It is clear though that succession planning does improve the subjective TPI satisfaction. We believe succession planning may give the seller a better insight into various possibilities, as well as the necessary steps to sell the firm. This might alleviate the complexities in ownership transfers (EU Commission, 2002; Kommers and Van Engelenburg, 2003).

Our study shows differences in outcomes compared to Brinckmann's et al. (2008) study. We find that succession planning is related to subjective transfer performance whereas Brinckmann et al. (2008) finds relations with objective performance measures. We have to keep in mind that our focus, sample and definition of planning are different from the study of Brinckmann et al. (2008). First, our study looks at functional planning in the specific situation of entrepreneurial exit. Brinckmann et al. (2008) excluded operational and functional planning. We think this might explain why, contrary to Brinckmann et al. (2008), we find succession planning to be strongly related to subjective performance measures and unrelated to objective performance measures. Succession planning with a horizon of a year seems to be related differently to performance than business planning with a typically longer time horizon. In summary, looking at the specific context and situation in which planning is used seems to be of importance.

An equally important outcome of our study is that objective and subjective TPIs are unrelated and show different results. This should be kept in mind when comparing results from previous research (e.g., Morris et al., 1997). Our findings reinforce the importance of looking more carefully at how performance is measured when predicting small firm (transfer) performance (Haber and Reichel, 2006; Kaplan and Norton, 1996; Hillman and Keim, 2001; Laitinen, 2002).

In this study, we chose perceived performance measures addressing aspects of the business transfer. We did not measure post-transfer performance (e.g., sales growth, profit change) largely due to the difficulty in obtaining such information from our respondents. This is not uncommon in our country where money, earnings and property are not discussed in public. Neither is it unusual in small firm research to refuse to give figures on firm performance (Ghobadian and O'Regan, 2006). Garg et al. (2003) suggest the use of perceived performance measures in situations where small business owners are reluctant to share their figures. Ghobadian and O'Regan (2006) argue this is acceptable since perceived responses have been found to be reliable and highly correlated to objective performance measures. It may be worthwhile, furthermore, to consider the degree of reliability of balance and profit sheets in the context of business transfer. For instance, it is in the seller's interest to boost sales turnover and profit in the years before selling. The buyer is apt to invest and/or reduce profits to save on immediate or future taxation. So how comparable are objective performance measures like balance and profit sheets before and after ownerships transfer?

Regarding the importance of familiarity versus family ties in the transfer process, our outcomes show only effects of familiarity. This highlights the value of social capital in the context of business transfer. Although a more in-depth treatment of the topic is warranted, our preliminary findings suggest that trust and the quality of relationships between buyer and seller may be a significant factor in business transfer success. Note, however, that a good relationship between predecessor and successor might be more beneficial to the predecessor than to the successor. Our results suggest that the successor pays more for the firm if he is familiar to his predecessor.

Our study also provides some clues about the role of advisors. The high correlation between advisors, and the amount of succession planning indicates that their role could be potentially detrimental (longer transfer duration) and advantageous (more succession planning increases satisfaction). The negative outcome is in line with previous research (Morris et al., 1997; Meijaard et al., 2005). The positive outcome has not been previously reported. Given these contradictory findings, we think we should be careful with conclusions about the role of advisors. We should know what kinds of advisors are involved and what their role is with respect of the actual ownership transfer. In our study, the majority of advisors used are accountants and bookkeepers. Van Teeffelen (2009) finds that especially accountants are often not well equipped to advise on ownership transfers. They have little transfer experience, report role conflicts and are not well connected with banks and financial institutions.

This study generates some practical implications for accountants, business brokers, sellers and buyers in the market. Company size, as measured by the number of employees, is neither an obstacle nor an asset in selling a firm, nor do we find differences between forced and voluntary sales. There is some indication that a seller using no advisors may actually be better off, speeding up ownership transfer in small firms. Flexibility is the most important competence of the selling firm owner, since it speeds up the transfer and is associated with greater seller satisfaction. More market awareness

helps in getting a more realistic view on the value of the firm, since owners with more market awareness seem more willing to drop the price.

Our findings also suggest that matchmakers and accountants should look at the close circle around the selling party. Buyers known already by the seller may induce to a more satisfied seller and a better selling price. Note that even though familiarity affects both obtained selling price and satisfaction, the obtained price is unrelated to satisfaction. This suggests that the added value in selling off the business is not only about money. It points in the direction of trust in the buying party, so that employees, customers and the firm are in good hands (Howorth et al., 2004; Venter et al., 2003).

There are some restrictions to our study. To use TPIs we should have looked at both succeeded and failed transfers. We only looked at succeeded transfers. However we expect that our TPIs will be also valid for failed transfers. In failed transfers the transfer duration will be much longer (second or third try) or infinite (no ownership transfer) if the transfer fails, the negative difference between obtained and asking price will rise to 100% since there is no sale and satisfaction will be lower since the seller did not realise his initial goal.

Although the sample is representative for the Netherlands, the fact remains that we only investigated at one country, and the large majority of SME in our sample are micro firms (0–9 FTE). By itself this is no problem, since micro firms constitute more than 90% of all firms in many countries (EU Commission, 2009) and we find no indications that the number of employees affects TPIs. However we did not include medium-sized firms in our sample. One might argue that for medium-sized firms (50–250 FTE) outcomes could be different, especially on the importance of succession planning, since medium-sized firms have a higher degree of formalisation and a lower flexibility as compared to micro and small firms.

Finally the results suggest that a lack of human capital and unfamiliarity of seller and buyer leads to transfer failure, but we did not test this on failed transfers yet. In the near future, the challenge will be to compare successful and failed ownership transfers in the short, medium and long run. This will enable us to compare them. In addition, comparative research in different countries will give us answers on the question if specific cultural and economic differences between countries influence success and failure of small-business transfers.

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