THE ROLE OF INTERMEDIARIES IN THE SMALL BUSINESS TRANSFER PROCESS

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ABSTRACT

With growing evidence of the economic importance of successful business transfers and of small business owners being under-equipped to manage the processes themselves, the role of intermediaries has increasingly gained attention. This paper addresses the question of how intermediaries add value at different stages of the business transfer process. To this end, 39 intermediaries in New Zealand were interviewed using in-depth interviews.

Discussion questions:

1. Small business transfer research – Quo vadis?

2. Is the small business transfer market an area that needs policy intervention?

INTRODUCTION

The contributions of start-ups to the economy have been widely researched and their importance has been well established and documented. The importance of business transfers to economic development, however, has received comparably little research attention although there is increasing evidence that ensuring successful business transfers might be a worthy policy objective. In a recent review of the economic importance of business transfers, van Teeffelen (2012) argues that in many countries business transfers might actually be more important to the economy than start-ups. Businesses that are successfully transferred to new owners outperform start-ups with respect to survival, turnover, profit, innovativeness and employment. Further he argues that micro firms are as viable for sale as small firms accounting for 90 percent of all transactions in the market.

Business ownership transfer is a complex process that requires expertise in a wide range of areas such as law, tax, finance, and sales markets. At a minimum due diligence obligations requires legal and accounting services. In addition to this, further assistance may be sought for the negotiation, transfer management and advertising capacities of business brokers, transfer strategies and business preparation expertise of business advisors and financial support, from financial advisors to bankers and lenders (European Commission: Expert Group, 2006). Small business owners however, tend to lack knowledge and experience of not only the process itself, but of most of the aforementioned key areas. As a result small business owners rely on the advice of intermediaries.

The main sources of advice for small business owners in relation to business ownership transfer are from accountants, business consultants, business brokers, legal professionals and bankers (Allinson et al., 2007; Blackburn & Tanewki, 2009; International Federation of Accountants, 2010). Yet, the transfer market is absent of a “one stop shop” of expert transfer

advisory services. Small business owners are forced to seek assistance from a range of advisors spanning selected activities within each stage of a transfer – aiding to what earlier studies have revealed to be “market failures” (Allinson et al., 2007; Van Teeffelen, 2009a)

While it has been suggested that particularly small accounting practices (generally the most used advisors by small business owners) are frequently underequipped to deal with business transfers (Blackburn et al., 2011), business brokers are considered to be most knowledgeable, but are not available for micro firms. The low value of these firms is generally not of interest to business brokers who derive their earnings from a percentage of the sales price. Lawyers, the seemingly best-qualified intermediary in the transfer process, is likewise not available to businesses at the smaller end of the size spectrum (Van Teeffelen, 2009a).

Particularly generalist intermediaries lack the specialist knowledge of business transfer which often results in underestimating the work involved in the transfer process. This inefficiency on the side of intermediaries increases the cost and length of the transfer process and therefore the chance of transfer failure which for the UK is estimated to account for 18 to 30 percent of closures recorded in VAT records (Allison et al., 2007). Business transfer failure is therefore not necessarily caused because firms are not viable, but because they are ill-prepared and misinformed.

With growing evidence of the economic importance of successful business transfers and of small business owners being under-equipped to manage the processes themselves, the role of intermediaries has increasingly gained attention (Allinson et al., 2007; Blackburn & Tanewki, 2009; International Federation of Accountants, 2010). Therefore, this paper is guided by the question how intermediaries add value at different stages of the business transfer process. To obtain a better understanding of the role of intermediaries in the transfer market, we conducted a qualitative study in New Zealand. Thirty-nine intermediaries including

accountants, lawyers, business brokers, bankers and management consultants have been interviewed using in-depth interviews.

This paper contributes to the emerging field of business transfer studies by providing qualitative, in-depth evidence on the role of intermediaries at different stages of the transfer process. Based on the results, a descriptive framework is developed that depicts the role of each intermediary within the different stages and illustrates where intermediaries believe to add most value to a successful transfer.

The rest of the paper is organised as follows. The first part provides different theoretical perspectives on business transfer followed by a review of the literature on the different types of intermediaries and their role in the transfer process. Secondly, the methodological approach is described followed by results and discussion of findings. Finally, the paper ends with limitations and implications for further research.

THEORETICAL PERSPECTIVES

In order to understand the role of intermediaries and furthermore, to be able to address the process and dynamics of the small business transfer market, different perspectives need to be taken into account.

The resource-based view of the firm is used to represent the small business perspective and to explain why small businesses seek the advice of intermediaries in the transfer process. Agency theory is used to explain the relationship between intermediaries and small business owners and social capital theory is used to explain the role of intermediaries in the transfer market.

The resource-based view (RBV) of the firm (Barney, 1991; 2001) posits that the ability of firms to achieve and sustain competitive advantage depends on their possession of resources that are valuable, rare, inimitable and difficult to imitate. The lack of internal resources in small firms means that accessing resources through external advisors is of particular importance to them (Storey, 1994). Intermediaries are therefore a potential source of competitive advantage for small firms because they possess critical resources that small businesses lack internally (Gooderham et al, 2004). North et al (2011) found that the majority of SMEs considered that the use of external advice has improved their business performance. External advice becomes particularly important when the small firm is in a crisis (Holmes et al, 1991) or in a period of change. Business transfer is one of the changes within the business where particularly SMEs need external advice and support because of the absence of internal expertise (International Federation of Accountants, 2010). Despite this need for external advice, particularly micro businesses tend to minimize their use because they perceive the cost of intermediary for business transfer advice and support to be too high (Blackburn 2005). Van Teeffelen (2011) found that - with the exception of tax specialists - the involvement of advisors did not help small firms to overcome finance or employment issues associated with the transfer process. Tax specialists, however, did have a positive effect on reducing the risk of financial shortfalls.

According to agency theory (Ross, 1973; Jensen & Meckling, 1976; Eisenhardt, 1989) intermediaries can be seen as agents that are contracted by business owners i.e. principals to assist with the sale or purchase of a business. Agency problem arise when the actions taken by the agent are not in the best interest of the principal because principal and agent have differing goals or because the principal cannot verify the actions of the agent under conditions of information symmetry. Evidence of the existence of agency problem in small business transfers was provided by Allison et al (2007) and van Teeffelen (2009, 2011) who

found that intermediaries frequently take longer than expected to complete the due diligence process adding to the length and costs of the process. The main reason for the delay was that intermediaries underestimated the work involved because of their lack of experience. Similarly important, however, was the inability of small business owners to choose appropriately qualified intermediaries.

Alternatively, the role of intermediaries in the business transfer market can be explained by using the theory of structural holes (Burt, 1992, 1995). Structural holes are holes in the social structure of a network that create a competitive advantage for actors whose relationships span those holes. It could be argued that there are structural holes between seller and buyers in the small business transfer market with intermediaries bridging these holes. Bridging structural holes, allows intermediaries to obtain information that contains fewer redundancies as it comes from different sources, and to learn early about activities in different parts of the network. Further, their position in the network makes them more likely to know when it would be valuable to bring together certain disconnected parts of the network. They have a disproportionate say in whose interests are served when contacts do come together. Intermediaries can therefore be described as *tertius gaudens* i.e. actors who not only gain information benefits, but derive control benefits from spanning structural holes.

TYPES OF INTERMEDIARIES AND THEIR ROLE IN THE TRANSFER PROCESS

Van Teeffelen (2009) has suggested that the business transfer process consists of six stages that businesses are passing through. These are:

1. Orientation: Considering options; first info and ideas

2. Preparation: Valuation/asked price, bid book and business information

3. Matching and contacting potential purchasers

4. Negotiation: First meetings, initial negotiations and final negotiations

5. Contract: Letter of intent, due diligence, final contracts, financing

6. Advice after completion of the transfer

Each of these stages bear different challenges and require specific skills and expertise. For most small business owners, business transfer is a once-in-a-lifetime situation and they tend to lack knowledge of the process and expertise to manage the inherent challenges. As a result small business owners rely on the advice of intermediaries. There are different types of intermediaries that operate in the business transfer market. The ones that small business owners tend to deal with most frequently are accountants, management consultants, business brokers, legal professionals and bankers.

Accountants are widely regarded as the most frequently used source of external advice by small firms (International Federation of Accountants, 2010; North, 2011; Bennet and Robson, 1999) and are therefore the most widely researched type of intermediary (e.g. Hasle et al, 2010; Gooderham et al, 2004; Doving and Gooderham, 2008). While small firm initially seek the advice of accountants to meet regulatory requirements and assist with financial management, there is increasing evidence that small firms turn to accountants for advice over non-compliance issues including exit planning, valuations and transfer services (Gooderham et al, 2004; International Federation of Accountants, 2010). Van Teeffelen (2006) found that accountants coordinated the whole transfer process in three quarters of all small business transfers. This may be based on cost grounds i.e. reduces the cost of searching for another advisor (Better Regulation Executive, 2007) or because the business owner has developed trust in the advising capability of his/her accountant (Bennett and Robson, 2004; Berry et al,

2006, Carey and Tanewski, 2009). There is, however, mixed evidence on how competent accountants are in providing non-compliance advice to small firms. Blackburn et al (2011) suggested that there is an expectation gap between the service needs of SMEs and the supply of services by accountants. Particularly in relation to transfer services, research has found that accountants lack specific experience in dealing with transfer issues (van Teeffelen, 2009). This applies particularly to smaller accounting practices as they tend to deal with low numbers of sales limiting their capacity to build expertise (Allison et al, 2010; Blackburn et al, 2011). Large accounting firms (i.e. the Big Four) and second tier practices are more likely to have the resources to build their in-house capabilities to deliver advice across all stages of the transfer process.

While lawyers are frequently cited as another key source of external advice for small business owners (e.g. Lewis et al, 2007; Battisti, 2008) empirical evidence on the relationship between small firms and legal professionals is scarce. While business transfer process typically comprises some form of legal work, few legal professionals – with the exception of M&A lawyers, are specialists in business transfer. As a result legal professionals often underestimate the time for the due diligence causing delay and increasing the cost of the transfer (Allison et al, 2010). While some research suggests that lawyers are part of the small business network of long-term and trusted advisors, there is evidence that lawyers are getting engaged relatively late in the transfer process (van Teeffelen, 2006).

Banks are considered to be another key stakeholder in the small firm's learning environment (Gibb, 1997). The evidence on the small firm relationship with banks is inconsistent, however. Lewis et al, (2007) found that bank managers are among the most frequently turned to sources of trusted business advice. This contrasts with research undertaken by Perry and Coetzer (2009) that found small business owners frequently described their relationship with bank managers as too impersonal and lacking stability, resulting in a reduction of the use of

bank managers for general business advice in favour of advice obtained from accountants or other sources. In relation to small business transfers only little is known about the role of banks, but existing research suggest that banks play a more distant role and are engaged relatively late in the process (van Teeffelen, 2006). Further, concerns were raised about the independency of valuations undertaken by banks. The banks self-interest and risk-aversion led valuation being lower than those from other experts (Allison et al, 2010).

Business brokers are considered to be specialist intermediaries acting predominantly on behalf of sellers. Small business owners, however, do not rank them highly as a potential source of support compared to accountants and lawyers (Battisti, 2008). Brokers typically charge a commission fee as a percentage of the sales price and are therefore interested in a quick sales process that might not always be the best deal for the seller and/or the buyer leading to a potential market failure. Van Teeffelen (2011) even suggests that the involvement of business brokers – alongside bankers – increases the obstacles of financing as well as post-transfer performance. Introducing licensing or accreditation of business brokers has been suggested as a measure to mitigate these risks (Allison et al, 2010).

Intermediaries can broadly be differentiated into relationship and transactional advisors (Leonetti, 2008). Relationship advisors are involved with the business long-term whereas transactional advisors are only involved when it comes to exiting the firm. The review suggests that accountants are relationship advisors and that brokers are transactional advisors. In relation to lawyers and banks, current empirical evidence is mixed suggesting that it depends to a large extent on the *individual* relationships and *individual* experiences.

In summary, the review broadly points to two different strands of literature. The first strand of literature is concerned with the transfer process i.e. the different stages buyers and seller have to go through to complete a business transfer. The second strand of literature is more

concerned with the role of different types of intermediaries and their relationship with small business owners. This paper combines these two strands by specifically answering the following three research questions:

- What is the role of intermediaries at different stages of the small business transfer process?
- At which stage of the transfer process do intermediaries add most value?
- What are the critical points of difference between different types of intermediaries at each stage of the transfer process?

METHODOLOGY

A qualitative research approach was considered appropriate to achieve the research objectives. Qualitative research allows exploration into the "how" and "why" of social situations and human behaviour. It aims to understand the complexity of a phenomenon through exploring the specifics of each case and providing rich descriptions (e.g. Denzin & Lincoln, 2000; Huberman & Miles, 2002, Patton, 2002). The research consisted of in-depth, face to face interviews with a carefully constructed sample of 39 business transfer intermediaries to contain representation of different services i.e. accountancy, business advisory, business broking, legal services and banking.

Sample selection

From the accounting profession the sample included respondents from 4 first-tier accounting firms, 7 second-tier accounting firms and 5 third-tier accounting firms. Further the sample

included 5 legal professionals, 11 management consultants, 5 business brokers and 2 bank managers.

--- Insert Table 1 about here ---

Data collection

A total of 39 New Zealand intermediaries were interviewed using a semi-structured interview schedule that broadly covered the role of intermediaries in the transfer process, their experiences with small business transfers and the value they add to the process.

Intermediaries were initially contacted by email or phone to seek their participation in the research. Where possible, interviews took place on the intermediaries' premises and averaged around one hour. Informed consent was obtained and with the permission of the interviewee the interviews were recorded and transcribed. The study followed the guidelines provided by Massey University's Ethical Committee, the research design and potential ethical implications were peer reviewed and consequently judged to be low risk.

Data analysis

The first step in the data analysis was to write a descriptive case summary for each interview to 'allow for the unique pattern of each case to emerge' (Eisenhardt, 2002: 18) and to capture the diversity of experiences and approaches of intermediaries. Subsequently all interview transcripts were coded thematically by paragraph and sentence using NVivo. The second stage involved cross-case analysis in order to identify common patterns as suggested by Patton (2002).

RESULTS

Intermediaries play unique roles in the transfer process spanning different time ranges, firm stages and performing a variety of functions. The specific roles, duration and timeframe of involvement of each of the intermediaries in the transfer process can be overlapping as well as sequential, yet despite the seemingly chaotic interchange between each, there is some homogeneity between the roles of the respective advisory service agents when related to business transfer.

Figure 1 depicts the roles of intermediaries as suggested from the results of this study, throughout six key business ownership transfer stages (van Teeffelen, 2009). It demonstrates the value each the intermediary types add in the various stage (as illustrated in the intensity of the shade), and the interchange between intermediaries throughout the transfer stages.

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Key issues within the different business transfer stages

Stage 1 issue: Quality of strategic advisory service

In the early stages of the transfer process where the focus is on planning and developing exit options particularly management consultants, first and second tier accounting firms are offering their services.

Respondents offering their services at this stage of the transfer process broadly agreed in relation to the timeframe needed to prepare clients for an ownership transfer. Most respondents considered five years as an appropriate timeframe that provide the necessary

lead-in time. A few respondents considered ten years to be more appropriate as it allows them to take into account economic cycles which have a significant impact on the resulting value being gained for the firm. Management consultants and first tier accounting firms predominantly use the timeframe to identify the owners' objectives, to establish a governance structure and to develop a general business strategy that identifies risk and value drivers in the business and considers different growth options. Second-tier accounting firms were engaged to a much lesser extent in governance and general business planning though.

The key issue identified at this stage of the transfer process was the differing view in relation to the focus of strategic advisory services. A number of management consultants were very critical of the quality of advisory services provided by accountants. In advisory, it is thought that accountants do not have enough specialized advisory experience outside of strictly accountancy based topics. Management consultants criticized accountants for too strongly focusing on the financial side of the planning process and neglecting the risk and value drivers in the business.

If they do any type of forward planning, it is all financial forward planning. Even the big guys say, "Yeah, we do business planning," but they don't. They look at the financial plan - there's definitely a need for that - but they miss the whole other stuff. (#13)

While it could be argued that these resentments might be driven by the increasingly competitive market conditions in which consultants and accountants are operating in, one respondent explained that the critique is mostly grounded in the stereotypical view of accountants being *"bean counters"*.

"In their mindset we are bean counters, not actual business advisors. A lot of them haven't been able to shift that mindset." (#14).

Some banks were considered playing a somewhat minor role at this stage by trying to raise awareness about business transfer issue and educating business owners. Other types of intermediaries seemed to be completely absent from this early stage of the small business exit process.

Stage 2 issue: Accuracy of valuations

The second step in the transfer process is about getting firms ready for sale. This was the only stage in the transfer process where all intermediaries reported to be actively engaged. Results showed a range of different measures are taken by intermediaries to prepare small businesses for sale. The measures were mostly consistent with the professional background of the intermediary and can be seen in more detail in Figure 1. Management consultants predominantly provided financial reviews and valuations of the businesses as well as reviewed, and if necessary formalized, management structures, systems, processes and relationships with key stakeholders. First-tier accounting firms who tend to have in-house capabilities across multiple professional disciplines tended to provide the most comprehensive service package. Their services ranged from reviewing and advising on tax and insurance issues, reviewing financials and preparing statements, formalizing systems, processes and relationships with key stakeholders to valuations and preparing information memoranda. Compared to first-tier accounting firms, second-tier accounting firms did not have the additional legal in-house capabilities and did not provide the breadth of transfer advisory services. The role of third-tier accountants in preparing small businesses for sale predominantly consisted of preparing financial statements and ensuring tax compliance with little transfer specialization offered. The role of legal professionals included the *"legal grooming"(#7)* prior to the sale which typically consisted of drawing up contractual agreements with key stakeholders (e.g. with suppliers, customers or employees), reviewing and ensuring legal compliance such as for example keeping statutory records under the

Company's Act and preparing information memoranda. In the preparation stage of the business transfer business brokers offer a very narrow range of services by specializing on preparing information memoranda and business valuations. Banks' role in preparing small businesses for transfer was only peripheral by providing general transfer advice and referring them to other intermediaries.

The key issue that emerged as being a critical point of discussion between different types of intermediaries was business valuations. All business brokers in the study stressed that their strength lies in providing *accurate* valuations that reflect market conditions. From the different types of intermediaries, business brokers claimed to have the most comprehensive data in relation to past and recent business sales at least for industries that they focus on allowing them to benchmark. One of the business brokers interviewed continuously reviews his sales and claims that he only has a 2.5 percent movement between the valuations that he has provided and the actually achieved sales price.

That gives us a lot of confidence that we're pretty accurate with our valuations. (#12)

On the other hand brokers tended to be very critical of the valuations provided by other professionals such as accountants or lawyers as they considered them to be too removed from the realities of the market and are not good at valuing intangibles such as goodwill.

Business owners usually get some very, very poor advice from their accountants and/or their solicitors as to value of their businesses. (#4)

In addition to market data, brokers tended to particularly take the future earnings potential of the businesses into account by highlighting the opportunities for development.

Everyone buying a business likes to think that they're going to improve it and if you can point out where the opportunities are based on your experience and dealing in other businesses,

you can paint this picture of upside on the business that will help them to get a better price. (#11)

Given that brokers typically use a charging model that is based on a success fee, rather than an ongoing i.e. hourly consulting fee, it seems that they need to carefully balance their valuations against the market and their own financial interests. If the valuation is too low, the business might sell fast, but the business brokers lose out on their proportionate success fee. If the valuation is too high, the business might be difficult to sell or might not sell at all, leaving the brokers with the risk of not being compensated for the work they have undertaken.

Stage 3 issue: Different marketing approaches

The third stage in the business transfer process is concerned with identifying, matching and contacting potential buyers. Results showed two main approaches that the different types of intermediaries used. These two approaches can be described as targeted and untargeted approaches.

Business brokers considered themselves as the marketing and sales experts in the business transfer process. Two channels were predominantly used – datasets of interested buyers and direct advertising through newsletters, magazines or internet platforms. Overall their marketing approach could be described as rather broad and untargeted using mostly database marketing, print and online marketing. The marketing strategy clearly aimed at reaching as many potential buyers as possible instead of targeting specific types of buyers.

The best opportunity to get the best possible price with the least problems is for the business to be widely marketed. The more potential buyers it's exposed to, the more chance there is of finding the right one and the eventual buyer dripping out the bottom of the funnel. So, what

we're doing is trying to expose the business to the widest range of possible buyers in the hope of finding that best buyer. So, we're looking for the best buyer who's generally the one who will pay the most money. (#11)

It was further suggested that wide marketing is important to attract as many potential buyers as possible as this ensures a good sales price.

If there's a whole lot of people want to buy your business you're going to get a good price and if there's very, very few people want to buy your business you might need to take a bit of a hit on the price. (#4)

Overall, it seems that the 'best buyer' tended to be considered to be the one that paid the highest price. This suggests that little attempts are made to match buyers and sellers on criteria other than the financial expectation of the seller and financial capability of the buyer. Business brokers considered this broad marketing approach to be the most appropriate for the type of businesses they represent.

The more specialized a business is the more difficult it is to sell because you're dealing with a smaller audience that will feel comfortable in that space. Whereas for a more general business, like a retail business, there's a lot of people who can get their heads around that. (#12)

Other intermediaries, however, suggested that brokers use this marketing approach to increase the chances of a quick sale given that they are paid success fees for completed sales only. Brokers operating at the lower end of the market clearly needed a certain sales volume to be able to survive given that the success fee per sale was relatively low. Further, business brokers tended to argue that buyers who came from within the same industry tend to pay lower prices and are therefore not specifically targeted.

Usually people within an industry don't pay as much as people outside of industry cause they actually don't value the good will as high. (#12)

First-tier accounting firms used the complete opposite approach to that used by business brokers i.e. a much more targeted approach. Most respondents representing first-tier accounting firms suggested that they first undertake a market analysis to identify potential buyers and to then develop appropriate strategies to approach them.

We avoid taking the business to the open market and we see that you can potentially come up with a better or tailored option if you can actually identify the appropriate parties who would be interested and would ultimately take over the business. We would actually undertake a market analysis to identify who the potential parties are and then activate a strategy to make contact to tease those potential purchasers. (#20)

It was suggested that the market analysis usually narrows down potential purchasers to a maximum of three parties, who would then be approached personally on a confidential basis. Unlike business brokers, first-tier accountancy firms focus their efforts on parties that operate in the same industry as the seller. This approach is considered to be more valuable as it creates synergies i.e. reduces risk for the buyer due to familiarity with the industry and increases value for the seller.

"Usually there is a clear set of potential buyers: others that operate in the same industry. This approach also means that the new owner is likely to know how to operate the enterprise and this helps to ensure no loss of value." (#27)

Respondents from first-tier accounting firms suggested that their extensive internal and external networks provide them with a strong tool to not only for identify potential buyers, but to achieve a good match. Match-making buyers and sellers through internal networks

reaps a significant benefit. It mediates the trust issues between buyers (wanting information about the firm before they come forward) and sellers (not wanting to identify their firm or give away too much competitive information).

Second-tier accounting firms use both i.e. targeted and untargeted approaches depending on the nature of the business that is for sale and the extent of their own networks. If they cannot identify potential buyers within their own networks, they would typically refer the client on to a business broker or occasionally on to a first-tier accounting firm.

Respondents from third-tier accounting firms tended not to be involved at this stage of the exit process. Instead, they would refer their clients on to business brokers.

Similarly, legal professionals do not typically get directly involved with identifying and making contact with potential buyers. They do, however, provide their services at this stage of the transfer process through e.g. drawing up confidentiality agreements.

Unlike legal professionals who provide a very homogenous service, management consultants reported a wide range of different services that they offer their small business clients. Their services range from undertaking market analysis and identifying and contacting potential buyers to working closely with different accounting practices and business brokers to not being engaged at all in the matching and contacting stage of the transfer process. Those management consultants that are actively involved in identifying and contacting potential buyers however, would typically hold a governance role in the business that is for sale.

Only occasionally, bank managers might be involved in match-making between potential buyers and sellers within their network.

Stage 4 issue: Negotiating

Brokers were the only type of intermediary that specifically reported negotiation to be part of their services. Business brokers saw themselves as playing a key role in facilitating negotiations between sellers and potential buyers as most parties wouldn't be comfortable doing it by themselves due to the lack of experience or concerns in relation to confidentiality.

In terms of negotiating the terms, conditions, the actual sale process again often times people are not comfortable doing that, they don't know how to do it, they obviously would prefer somebody to do that on their behalf. They need discretion, they need confidentiality, we can provide all those things. (#4)

It was suggested that negotiations can get very fractious and difficult when the two parties negotiate directly as sellers tend to act more guarded and be more cautious with providing information, making buyers more suspicious of potential pitfalls in the business. Besides brokering the relationship between the two parties, it was suggested that business brokers are better are presenting the information in a way that does not threaten the deal which reinforces the importance of sales volumes for business brokers.

We obviously want to make sure that we deliver that information in a way that isn't going to tank the deal. (#4)

Only business brokers mentioned negotiations as a specific service. For other types of intermediaries such as legal professionals, the negotiation and contract stage overlapped considerably with stage five of the transfer process and is discussed in more detail in the next section.

Stage 5 issue: Extent of due diligence that is considered necessary

The contract stage of the transfer process includes due diligence, contracts and finance. Other than management consultants, all of the other intermediaries offered their services at this stage of the transfer process. This is also the first time banks are notably involved in the transfer process. The key issue that emerged from the analysis was the disagreement amongst intermediaries as to how much due diligence was necessary.

Typically brokers took a hands-off approach in relation to the due diligence. Their standard sale and purchase agreement contains a clause that gives the buyer ten working days to complete the due diligence process and the buyer has to sign off that the due diligence has been completed satisfactorily to complete the sale. Generally business brokers considered the due diligence process to be a simple process that only takes a few days and were rather annoyed about accountants and lawyers who would take at least four weeks and therefore delay the sales process.

You can complete it in a day. It ain't rocket science. Why do you need a month? (#4)

Similarly, business brokers were rather critical of the level of detail lawyers consider necessary in the sales and purchase agreements. Lawyers were regarded as being experienced with small firm transactions making the legal side of it unnecessary complicated and expensive.

Again some lawyers will come in with all these crazy, crazy suggestions for clauses that ought to be included. (#4)

Legal professionals, however, insisted that it is the area where they add the most value as they are minimizing future risk and liabilities for their clients.

"We add value in allocating risk in the sale and purchase agreement. If you're for the purchaser you want lots of warranties and you want indemnities and you want a guarantee from the shareholders etc. If you're the vendor you'll say yes we'll give you warranties but we're not going to give you a warranty over stuff we can't control." (#3)

Similarly, first and second-tier accountants argued that assisting in the due diligence process is one of the core services that they offer for either the seller or the buyer. One respondent even suggested that getting involved in the due diligence process was the only way for them to earn money from the transfer process.

"Of course we get involved in the due diligence. Working on the seller's side, we supply information. If we're working for the buyer, we get there and do the due diligence for them. We also do cash flow forecasting to assist the bankers with their process and whether they want to fund the deal or not. We don't earn any money from any of that transition process other than if we get involved in due diligence." (#14)

As indicated by the respondents, banks are primarily involved during the final stages of a business transfer - in a financing capacity although there is some evidence to suggest that they would like to get involved earlier in the process.

That's why accountants and lawyers get involved and increasingly bankers want to get involved because they want to do the deal and keep the client on their side and also invest those funds further down the track." (#14)

<u>Stage 6 issue: Lack of post-transfer advice</u>

With the exception of bank managers, none of the other intermediaries offered specific post-transfer advice, pointing to a potential lack of awareness of the importance of this stage

amongst intermediaries. It seems that advising and assisting with post-transfer performance issues is equally important to advising and assisting with pre-transfer performance issues.

DISCUSSION AND CONCLUSIONS

The results of this study suggest there are not only different intermediaries involved in the small business transfer, but that the timeframe with which each intermediary is involved with the firm, their perceived importance, and the activities for which they are involved with the transfer can vary. Management advisors for example tend to be involved in preparing a firm for transfer, whereas specialist legal professionals are involved during the central phases of the transfer process, and are considered critical to the long-term success of ownership transfers. Yet, the quality of the service between intermediaries can vary significant depending on competence and specialisation. The impact of the disparity in intermediary competency is perceived to be significant as the role of the adviser in providing specialist advice and services can greatly impact upon the: value of a firm; risk, and; access to buyer/sellers. Yet, there is a perception that advisors with long standing client relationships are involved in subsequent ownership transfer activities, not specifically due to their skills but the trust and primarily the search-costs associated with locating an intermediary. The most trusted advisor, however, does not necessarily need to be the most suited one in relation to transfer experience. The divide between those with transfer expertise and those without is created by the frequency with which they are involved with transfer activities. Generalist firms have few opportunities for transfer involvement, and thus continue to lack the ability to gain a critical mass of knowledge for future transfers. In these cases it depends on the willingness and ability of the advisors to refer their clients on.

As previous studies have suggested (Van Teeffelen, 2009b) there is not commonly a “one stop shop” when seeking expertise in small business transfer. Small business owners are forced to seek assistance from a range of advisors spanning a variety of activities throughout a transfer – aiding to what earlier studies have revealed to be “market failures” (Allinson et al., 2007; Van Teeffelen, 2009a). Results from this study, however, suggest that services provided by first and some second-tier accountants are quite close to a “one stop shop”. While these accountants might not be able to provide all services themselves, they tend to work closely with other intermediaries to provide their clients an advisory network that meets the clients’ needs at the different stages of the transfer process. The advantage of this approach seems to be that the network approach allows for more flexibility and therefor potentially better fit for purpose. It does assume, however, that businesses have access to these two types of intermediaries in the first place which might not be the case for micro businesses. Given the diversity of businesses and (current and future) business owners it is questionable that a “one stop shop” would be able to address these diverse requirements. The idea of having an advisory team built around a specific client does seem more appropriate.

Based on the results we have identified the stages where the different types of intermediaries add the most value for their clients as depicted in Figure 1. However, the extent and nature of the value intermediaries add in the transfer process depends on the profile of the seller and the buyer. Business brokers for example tend to work with firms at the smaller end of the firm size spectrum and predominantly focus on industries such as hospitality, retail and trades. These firms are typically owner-operated with a heavy reliance on the owner, lack of strategic planning and well developed systems and processes and a low degree of specialization. On the buyer’s side, business brokers frequently deal with first time business owners. Accountants on the other hand, were involved with businesses across all sectors. In relation to business size, their clients would typically generate revenue between NZ$3m and

NZ$15m per annum. A large proportion of clients are family businesses however. Accountants cover a very broad and heterogeneous client base that range from small husband and wife operations to medium-sized firms with a wider shareholder group. The buyer's side is equally heterogeneous covering strategic investors, corporates as well as individuals.

The other factors that impact on the service provision of intermediaries are changes in the external environment in which they operate such as i.e. economic, financial, technological or demographic changes. As such the need to adapt to similar changes in the external environment as their clients do. This has forced intermediaries to provide a varying number of services, particularly in the case of accountants who are – with the exception of the "Big Four" – small business themselves (Doving & Gooderham, 2008; International Federation of Accountants, 2010). The impact of the recession, the increased use of accounting software packages together with an increase of clients who are nearing retirement age has only intensified this trend through a reduction in client volume. Some intermediaries therefore focus on business transfer to further diversify their services, or attract new clients. Strategies to retain clients, or more specifically, their businesses is therefore gaining increased attention with the survival/success focus intermediaries are maintaining in the recent climate. As such the role of intermediaries in the business transfer market needs to be seen within their wider socio-economic environment (see Figure 2)

--- Insert Figure 2 about here ---

LIMITATIONS AND FUTURE RESEARCH

Results are limited to the perceptions of business transfer intermediaries interviewed however, and thus further research is needed to gain a more complete understanding of the New Zealand transfer market. This research project includes two subsequent stages nonetheless, which seek to provide a provisional understanding on the perspectives towards the transfer market functions in New Zealand. Further interviews will glean the perspectives of those selling their business, as well as those who have bought or aim to buy a business. To fully understand the dynamics of the transfer market, longitudinal case studies are necessary that include the selling party, interested buyers as well and the actual buyer and the intermediaries involved. Due to the sensitive nature of the transfer process, there are challenges associated with such a longitudinal case study approach that need to be carefully managed. Beyond the expectations of this research project however, there are still significant opportunities for further research on the transfer market in New Zealand. As van Teeffelen illustrated in a recent review of the transfer market literature, dedicated research examining the environment for business transfer has only been gaining traction over the past decade, and studies have tended to center upon European countries (van Teeffelen, 2012).

Besides better understanding the small business transfer process, it seems equally important to explore the transfer outcome. To date there is limited research about the determinants of post-transfer performance or how the performance of transferred businesses compares with that of start-up businesses. Without more robust evidence in those two areas of research, calls for (policy) interventions seem precipitant.

Lastly, it seems of particular importance to start looking at small business transfer from a sector perspective as each sector has got specific challenges and dynamics.

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Table 1: Sample description

	n	Percent	Transfers in the last 12 months (mean)
Management consultants	11	28	1
First-tier accountants	4	10	8
Second-tier accountants	7	18	15
Third-tier accountants	5	13	3
Legal professionals	5	13	18
Business brokers	5	13	13
Banks	2	5	Not known
Total	**39**	**100**	**9.6**

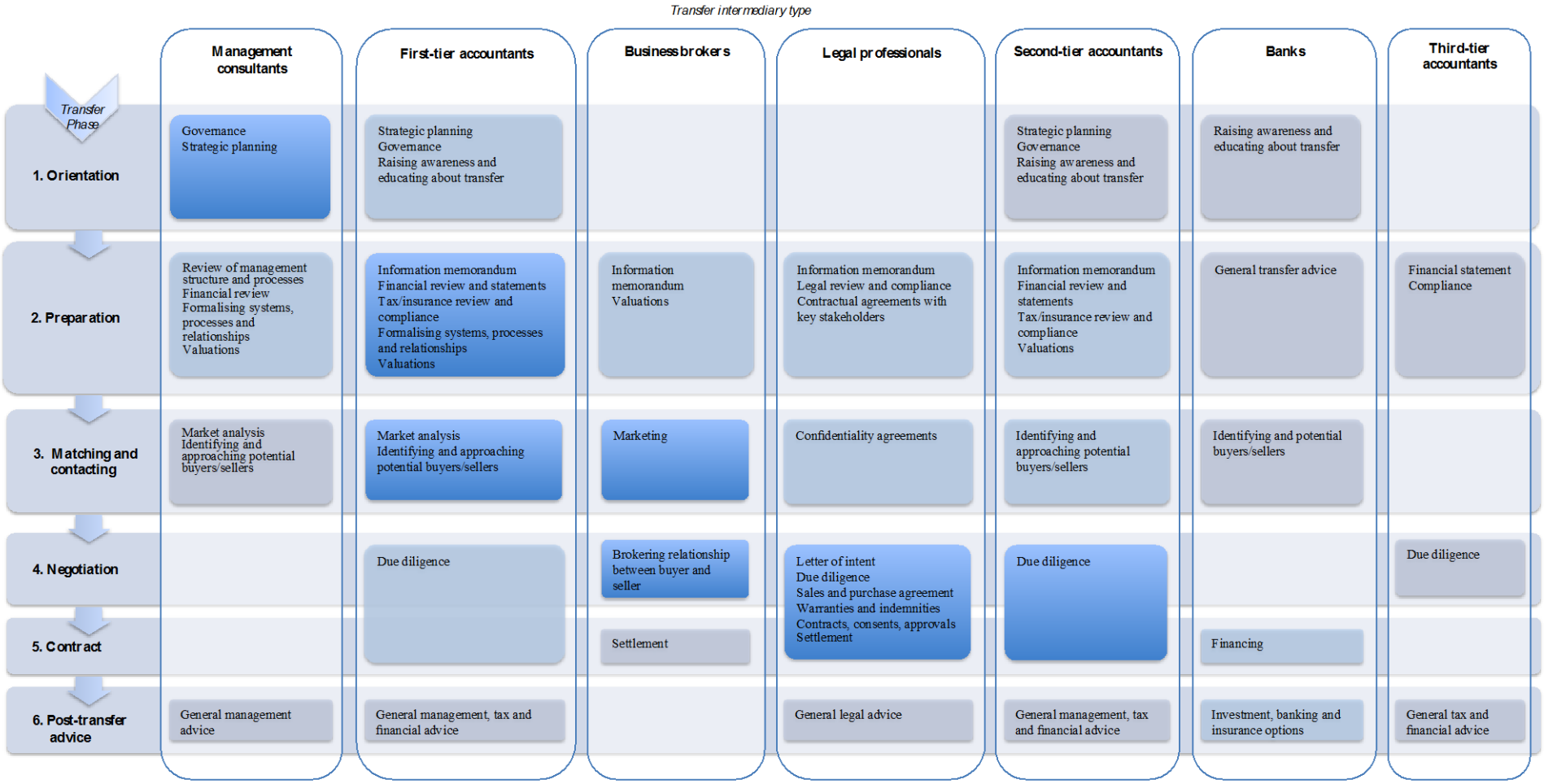

Figure 1: Role of intermediaries in the business transfer process

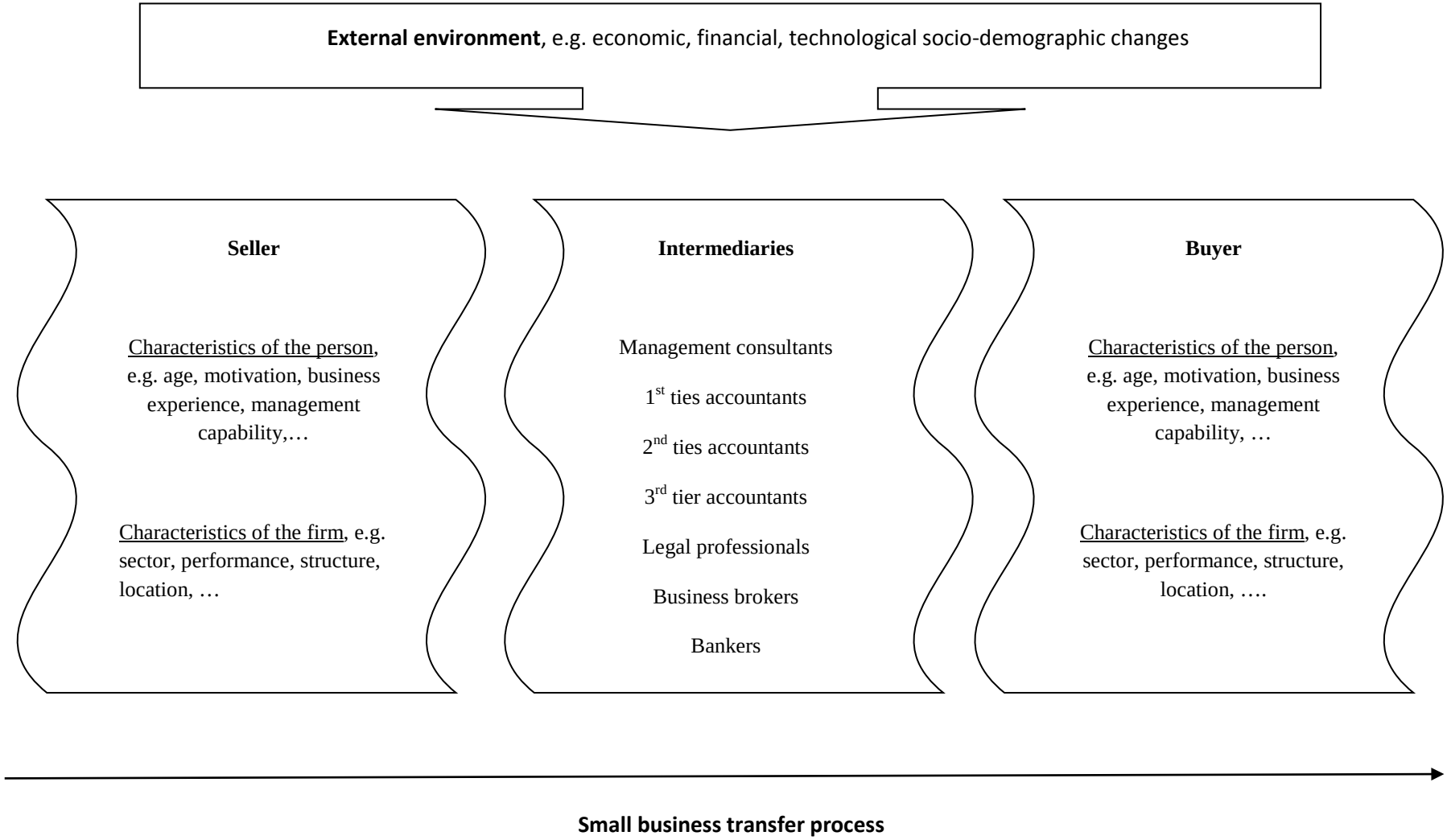

Figure 2: The small business transfer market