

THE ROLE OF INTERMEDIARIES IN THE SMALL BUSINESS TRANSFER PROCESS

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ABSTRACT

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. Building on the resource-based view of the firm and agency theory, this paper identifies the specific resources different types of intermediaries offer small businesses in the transfer process. Further, it explores the role of intermediaries in managing risk and uncertainty in the interaction between buyer and seller. The results suggest that small business owners may need to navigate the use of a variety of intermediaries throughout different times leading-up-to and throughout the business transfer process. Finally, opportunities for further research are explored.

KEY WORDS

Business transfer, advisors, exit, succession, New Zealand

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 comparatively 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. Micro and small enterprises are of particular importance in regards to business transfer therefore, made even more poignant at present, due to the impact of an aging population (Kulik, Ryan, Harper & George, 2014). Further, key processes in small enterprises are rarely written formally, the competitive advantage of a small business tends to be centred upon the knowledge possessed by the owner-manager which can be difficult to transfer without expert insight. Thus the process of successful transfer of a small business, which tends to be closely linked to its (previous) owner-manager's knowledge, network and abilities, is an important area for small business owners' attention, one which is particularly poignant at present as owners age in greater numbers.

The formal process involved in the transfer of small business ownership is also complex, requiring expertise in a wide range of areas such as law, tax, finance, and sales markets. Small business owners however, tend to lack knowledge and experience of the transfer process and most of these key areas - as the transfer of ownership tends to be a once-in-a-lifetime event. As a result, small business owners frequently rely on intermediaries as a critical external resource. At a minimum due diligence obligations require legal and accounting services. In addition, further assistance may be sought in relation to business planning, valuation and finding a buyer. Small business owners, however, are often reluctant to deal with unknown advisors. Instead they chose their accountant as a trusted source of advice (van Teeffelen, 2006). While accountants are an important part of the proximal layer of a small business learning network (Deakins et al. 2012), they often lack capability and capacity to assist with the transfer process. Besides accountants, business consultants, business brokers, legal professionals and bankers

represent alternative sources of advice for small business owners in relation to business ownership transfer (Allinson et al., 2007; Blackburn & Tanewki, 2009; International Federation of Accountants, 2010). Yet, there is no “one stop shop” of expert transfer advisory services for small businesses, leaving owners with the choice between seeking advice from one advisor who might lack experience and/or qualification to cover the entire range of service requirements along the different stages of the transfer process or seeking assistance from multiple advisors adding to the cost of the process.

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 (Allinson 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). Building on the resource-based view of the firm and agency theory, this paper identifies the specific resources different types of intermediaries offer small businesses in the transfer process. Further it explores the role of intermediaries in managing risk and uncertainty in the interaction between buyer and seller.

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 interview procedures.

This paper contributes to the emerging field of small firm business transfer studies by providing qualitative, in-depth evidence on the role of intermediaries at different stages of the transfer process. Given the paucity of literature on the topic, it seemed particularly necessary at this stage to begin with insight from intermediaries, who are more likely to deal with a variety of small business transfers in various sectors – thus have insight into the overview of the process, as opposed to owner-managers at this time who's business transfer experience may be a one-off event.

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 the 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 in the small business transfer market, two different theoretical perspectives are considered: the resource-based view (RBV) of the firm and agency theory.

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 non-substitutable. 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 small businesses 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 small businesses particularly need external advice and support, due to the absence of internal expertise (International Federation of Accountants, 2010). Conversely the transferability of competencies which are fundamental in the business operations is another issue for which the RBV is relevant. Business transfer tends to be viewed as a complex process, which may be better managed with expert assistance. The transfer of resources, particularly those possessed by the firm's owner-manager such as un-written knowledge, can be fundamental for the sustained competitive advantage of a business. Yet as Cabrera-Suarez, De Saa-Perez and Garcia-Almeida (2001) suggests, before a new successor can take power, proper training and a thorough handover is needed to retain key resources - namely implicit knowledge held by the (former) owner or key competences. Despite this need for external advice, micro and small firms particularly tend to minimize their use of advisors, due to the perceived costs of their services during the business transfer process (Blackburn 2005). Further, 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.

Agency theory (Ross, 1973; Jensen & Meckling, 1976; Eisenhardt, 1989) can be used to conceptualize the relationship between seller and buyer in the small business transfer process. Agency problem arises 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 asymmetry. Intermediaries have a potentially important role to play in the relationship between buyer and seller as their services and resources could reduce agency problem. By managing some of the risk as well as uncertainty that is inherent in the principal-agent relationship, intermediaries could help reduce information asymmetries. Similarly, however, intermediaries can contribute to agency problem if they act as agents themselves. Previous empirical evidence suggests that intermediaries lack experience with the specific challenges associated with small business transfer and that small business owners lack the experience to choose appropriate intermediaries. As a result, the process frequently takes longer than expected to complete and is more expensive (Allinson et al, 2007; van Teeffelen, 2009; 2011)

TYPES OF INTERMEDIARIES AND THEIR ROLE IN THE TRANSFER PROCESS

Van Teeffelen (2009) has suggested that the business transfer process consists of six stages which small businesses need to pass 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 firms 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 small firms 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 (Allinson et al, 2007; Blackburn et al, 2011). Large accounting firms 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 the business transfer process typically comprises some form of legal work, few legal professionals – with the exception of M&A (mergers and acquisitions) 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 (Allinson et al, 2007). 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 to frequently describe 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 to valuations being lower than those from other experts (Allinson et al, 2007).

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 (Allinson et al, 2007).

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.

The literature contains no “one-size fits all” determinant as to why small business owner-managers choose one intermediary over another during the business exit process, although in addition to specific transfer needs discussed above, the literature suggests that firm size, its growth rate (Bennett and Robson, 1999), perceived trust or existing relationships with advisors, and the ability to overcome the perceived high cost of service (Marriott & Marriott, 2000) are key factors. Thus smaller firms with modest growth rates, are less likely to seek advice. The literature also demonstrates that owner-managers are more likely to use a specific accountant if a relationship has already been established (Edwards et al, 2010). Gooderham et al.’s (2004) survey of micro and small firms suggests that in conjunction to established relationships, the level of trust in an advisor’s competence is an important determinant for subsequent use. Yet

despite the findings positing the importance of trust (Bennett & Robson, 1999), more recent research have provided evidence to suggest that that owner-managers put aside relationships with their trusted advisors (accountants) to make decisions based on their specific needs (Blackburn, Carey & Tanewski, 2014). Therefore although there is no one factor determining why an owner-manager uses one advisor over another, the literature suggests that perceptions of their firm's needs and a specific advisor's ability to assist, are fundamental elements.

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 owner-managers. Building on the RBV and agency theory, this paper combines these two strands of literature by specifically answering the following two research questions:

(1) From the perspective of different types of intermediaries, what are the specific resources they offer small businesses in the different stages of the transfer process?

(2) In the small business transfer process, what is the role of intermediaries in managing risk and uncertainty in the interaction between buyer and seller?

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. This approach does not necessarily suggest generalizable findings, but provides a useful narrative for small business transfer, specifically in the Australasian context.

Sample selection

From the accounting profession the sample included respondents from four first-tier accounting firms, seven second-tier accounting firms and five third-tier accounting firms. Accounting firms are divided in tiers base on their size – the first tier is formed from the four largest accounting firms Deloitte, PricewaterhouseCoopers, Ernst & Young and KPMG. The second- or mid-tier consists of mostly national and regional firms such as BDO or Grant Thorndon, they have a smaller client base and also focus on smaller firms. Third-tier accounting firms are small, local accounting firms that serve clients in a set local market. Further the sample included five legal professionals, 11 management consultants, five business brokers and two bank managers.

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
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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 one hour. Informed consent was obtained and with the permission of the interviewee the interviews were recorded and transcribed for data analysis.

Data analysis

In accordance with the well established seven steps of content analysis (Easterby-Smith, Thorpe, & Lowe, 2002; Hsieh & Shannon, 2005), data analysis was undertaken as a multistep process. Descriptive case summaries were written 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. Further, broad themes reoccurring in the transcripts were explored, through cross-case analysis in order to identify common patterns as suggested by Patton (2002). More nuanced threads between cases was then examined, drawing together important discoveries. The results section goes on to present small excerpts from interviews in the "coding categories" tables, which illustrates the congruence between analysis and the very ideas communicated by participants.

RESULTS

This section explores the resources offered by intermediaries in the different stages of the small business transfer process (van Teeffelen, 2009).

Resources offered by intermediaries in the small business transfer process

Stage 1: Orientation

In the early stages of the transfer process where the focus is on planning and developing exit options, it is predominantly management consultants, as well as first and second tier accounting firms and banks that provided services for small businesses.

Raising awareness and educating small business owners about different transfer options and the process itself was considered important at this early orientation stage. Respondents felt that particularly small business owners lacked the knowledge and experience necessary to prepare for a successful exit. Particularly first and second-tier accounting firms as well as banks have developed specific educational material including brochures and seminar series.

The different types of intermediaries broadly agreed that the orientation phase would ideally start about five years ahead of an intended exit as it takes time to prepare small businesses for an ownership transfer. 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 establish a governance structure and develop an exit strategy. Based on the owner-manager's objectives, they would typically help them identify the risk and value drivers in the business and explore different exit options. Second-tier accounting firms were engaged to a much lesser extent in governance and strategic planning though.

Table 2: Coding categories for Stage 1 – Orientation

<i>Resources</i>	<i>Representative data example</i>	<i>Type of intermediary</i>
Strategic planning	My role is to help develop the enterprise and develop some form of succession strategy, which may include developing the business to a point where directors can be appointed and the owner shares some of the ownership and control. #33	Management consultants First-tier accountants Second-tier accountants
Governance	If I come on the board we're looking at what the inspirations of the owners are and the time frame. We are looking to understand if the right people are sitting in the right seats and we're trying to get them to think of the three hats that they wear - as a manager with a job, as a director, trying to grow the value of the business and as a shareholder ultimately realising value of it. #16	Management consultants First-tier accountants Second-tier accountants
Raising awareness and educating about transfer	Our questions are all around educating them about what to look for in their business and it's empowering them. It's not about having an advisor that just comes in and goes this is what you do and that's it. Business owners need to be educated about what to look for cause they might not make a decision one way if they know that, "Oh, wait a minute, that might affect the value of my business. #12	First-tier accountants Second-tier accountants Banks

Stage 2: Preparation

The second step in the small business transfer process focuses on preparing firms for sale. This was the only stage in the transfer process where all intermediaries reported to be actively engaged. Results showed that 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 Table 3. Management consultants predominantly reviewed management structures as well as operating systems and processes. They also provided financial reviews, valuations and general transfer advice. First-tier accounting firms who tend to have in-house capabilities across multiple professional disciplines generally provide the most comprehensive service package. Their services included providing tax and legal compliance checks, financial reviews as well as reviews of operating systems and processes, valuations, information memoranda and general transfer advice. 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 key role of most legal professionals in this preparation stage was undertaking what was termed by some as “*legal grooming*”(#7) prior to the sale, which typically consisted of ensuring legal compliance in relation contractual agreements with key stakeholders (e.g. with suppliers, customers or employees), statutory records under the Company’s Act and preparing information memoranda. In the preparation stage of the business transfer, business brokers tend to offer a very narrow range of services by specializing on preparing information memoranda and business valuations. The banks’ role in preparing small businesses for transfer was predominantly peripheral, by providing general transfer advice and referring them to other intermediaries.

Table 3: Coding categories for Stage 2 – Preparation

<i>Resources</i>	<i>Representative data example</i>	<i>Type of intermediary</i>
Information memorandum	I’ll produce an information memorandum which details, basically gives a story of the business, gives its history, gives its operating procedures, talks about its staff, its location, it’s, all the things that are significant to the business, the industry that it’s in, who are its competitors, what’s the you know the opportunity moving forward. And then a summary of the financials for the last three years. #09	First-tier accountants Second-tier accountants Business brokers Legal professionals
Review of management structure	And then you need to look at the internal structures. Is the organisational structure appropriate for a new purchaser? Have we got the right staff in the right roles or do we need to revisit the roles? What might work for them because of the way they run the business might not be the best to achieve a sale.#10	Management consultants
Financial review	It’s usually also around financial structures such as dealing with historic financial issues, debt, shareholder loans, related party transactions. All those sort of things that build up, we are trying to unwind that so that you’ve got a nice clean structure. #10	Management consultants First-tier accountants Second-tier accountants Third-tier accountants
Review of operating systems and processes	We look at their processes and procedures and determine whether or not they’ve got operating procedures that someone can come in to and look at and understand. #09	Management consultants First-tier accountants

Valuations	We help them first of all finding out what the value of their business is. #06	Management consultants First-tier accountants Second-tier accountants Business brokers
Compliance checks (Tax, Insurance)	We do the tax compliance. #23	First-tier accountants Second-tier accountants Third-tier accountants
Compliance checks (Legal)	Also getting it legally fit – so, leases, employment records, and distribution contracts etc. which are quite a significant part. #14	First-tier accountants Legal professionals
General transfer advice	We have all the skills to advise a business owner as to how they should prepare business for a sale, things they need to do to actually position themselves in the best possible way in terms of maximising the bottom line, the process they need to go through, the time it might take then the information collation and presentation in terms of what a buyer would want and expect to see. #18	Management consultants Banks

Stage 3: Matching and contacting

The third stage in the business transfer process is concerned with identifying, matching and contacting potential buyers. Other than third-tier accountants, all other intermediaries reported being involved in the matching and contacting stage. Respondents from third-tier accounting firms tended to refer their clients on to business brokers instead. 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 the provision of legal documents, such as 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 finally 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.

First-tier accountants and business brokers appeared to be the most active ones when it came to marketing the client business as well as identifying and approaching potential buyers. Results showed that these two types of intermediaries used very different approaches for matching and contacting. These two approaches can be described as targeted and untargeted approaches.

Table 4: Coding categories for Stage 3 – Matching and contacting

<i>Resources</i>	<i>Representative data example</i>	<i>Type of intermediary</i>
Market analysis	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	Management consultants First-tier accountants
Identifying and approaching potential buyers/ sellers	We look at who would be most interested in purchasing the business. We look at competitors, but we also look at management coming through. Then we would look at vertical integration, so someone else in the value chain, before we go out and approach a wider investor network. #10	Management consultants First-tier accountants Second-tier accountants Banks
Marketing	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. #11	Business brokers
Confidentiality agreements	We've got several versions of confidentiality agreements from a nice one pager to one which says we're going to sue the pants of you if you abuse the information. #18	Legal professionals

The marketing approach used by business brokers tended to be 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. It was argued that attracting as many potential buyers as possible 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 few 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 increases the chances of a quick sale, given that they are paid a 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, on the other hand, specifically targeted their potential buyers. 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. 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)

Second-tier accounting firms use both 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.

Stages 4 and 5: Negotiation and contract

From the perspective of the intermediaries in our study, the negotiation stage of the transfer process overlapped considerably with the contract stage. Brokers were the only type of intermediary that specifically reported negotiation to be part of their services. Brokering the relationship between seller and buyer was one of the key resources they considered to offer in the small business transfer process. First, second and third-tier accounting firms all offered due diligence services. This is also the first time banks are notably involved in the transfer process, particularly in their capacity to provide finance and banking options. Management consultants were the only type of intermediary that did not report to offer any resources at this stage of the transfer process.

Table 5: Coding categories for Stage 4 and 5 – Negotiation and contract

<i>Resources</i>	<i>Representative data example</i>	<i>Type of intermediary</i>
Due diligence	We get engaged in the due diligence. I think due diligence is very important as a process. #06	First-tier accountants Second-tier accountants Third-tier accountants Legal professionals

Negotiation	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)	Business brokers
Sales and purchase agreement	We add value in allocating risk in the sale and purchase agreement. #03	Legal professionals
Warranties and indemnities	We would always be in the contractual staff so the sale and purchase agreement, particular terms, conditions, warranties, indemnities. #23	Legal professionals
Financing and banking	There's a place for banks obviously to assist in that because obviously the bank will want to fund someone who's wanting to come in as well so there's an opportunity for the bank to continue to be involved in that business. #17	Banks

Stage 6: Post-transfer advice

None of the intermediaries offered any specific services for small businesses in the post-transfer stage. While they offered general advice in relation to management, financial, tax and legal matters, it seemed that the advising and assisting with post-transfer performance issues was considered less of a service focus.

Intermediaries and the agency problem

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 sales price actually achieved.

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.

Negotiating the sales process to reduce the risk of tensions

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. They also 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. Business brokers saw their role in presenting the information in a way that reduces the information asymmetry and goal discrepancy between sellers and buyers.

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

Due diligence as a basis for qualified decisions

Legal professionals, first and second-tier accountants argued their expertise in due diligence can significantly enhance the decision making process by reducing information asymmetry between seller and buyer. Legal, tax, financial and insurance due diligence can minimize future risk and liabilities.

“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)

Matching buyers and sellers through personal networks

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).

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. (#20)

DISCUSSION AND CONCLUSIONS

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). Although the literature suggests that first tier accountants are not necessarily the intermediary utilized in most small business transfers, the results of this research suggest that their services provide the most continual source of assistance throughout the transfer process. While first and some second tier 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 particularly. 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.

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 value intermediaries provide can vary significantly 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 buyers/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.

We have identified the resources different types of intermediaries offer small businesses in different stages of the transfer process. The extent to which those resources are valuable to small businesses also 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.

Table 6: Summary of results

Summary of results
Intermediaries offer a range of resources to small businesses, but the extent to which those resources are valuable depends on the profile of the seller and the buyer.
Small business owners need to seek assistance from a range of advisors spanning a variety of activities throughout a transfer.

Particularly first and some second tier accountants tend to work closely with other intermediaries to provide their clients a flexible advisory network that meets the clients' needs at the different stages of the transfer process.

In the early stages of the transfer process where the focus is on planning and developing exit options, it is predominantly management consultants, as well as first and second tier accounting firms and banks that provided services for small businesses.

The preparation stage was the only stage in the transfer process where all intermediaries reported to be actively engaged.

Intermediaries used very different approaches for matching and contacting.

Banks and third-tier accounting firms play a relatively minor role in providing resources for small businesses.

Limited resources are available for small firms to assist with post-transfer performance issues.

Intermediaries play a potentially important role in managing risk and uncertainty in the interaction between buyer and seller through providing valuations, negotiating the sales process to reduce frictions, providing due diligence as a basis for qualified decisions and matching buyers and sellers through personal networks.

The role of intermediaries in the business transfer market needs to be seen within their wider socio-economic environment.

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 and abroad. 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 transfer outcomes. 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 specific challenges and dynamics.

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