



# Competence preservation and transfer in a generation shift

## WP3, Activity 4

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Contributing partners:

- 2 County of Pinneberg (DE)
- 3 University of Rostock (DE)
- 6 Institute for European Initiatives (PL)
- 10 Siaulilai Branch of National Regional Development Agency (LT)
- 14 University of Gothenburg (SE)
- 15 County Council of Norrbotten (SE)

# Competence preservation and transfer in a generation shift

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## Summary

This report is a result of work carried out in the Best Agers Work Package 3, Activity 4, Keeping Best Agers' expertise in the company in a generation shift and has particular focus on SMEs. The study was divided in two parts: firstly to identify in the different countries in the Baltic Sea Region the scale and awareness of the problem, and secondly to find studies that had been carried out in the different countries concerning documented competence transfer related to generation shift. This Work Package is not primarily research oriented, but aims at compilation of existing knowledge and to present it so as to facilitate benchmarking. It was found that there were significant differences between countries with respect to problem awareness: in Sweden and in part of Germany the problem was recognized, but prioritized neither in the Baltic States, nor in Poland. It is suggested that the differences between countries are at least partly due to the different demographic profiles: in countries with low average age in company directors, the problems may not yet have surfaced. Project reports from Sweden, Denmark, Finland and Germany were found, and are summarized in the present report. Major findings include:

- The problems concerning age related company transfer are most acute in sparsely populated areas with decreasing and ageing population.
- Problem awareness is facilitated by demographic analysis at the company level, as a point of departure on the way to implementation of age management.
- Family businesses facing generation shift can benefit from prioritizing tacit knowledge transfer; otherwise essential company assets may get lost. However, knowledge is not always easily transferrable.
- If a company needs to be sold to a successor, it is essential to find a buyer who may make the company flourish and grow. This can be greatly facilitated by community support, for instance by compilation of facts and matching services.
- The regulatory framework affecting company succession needs monitoring and review.

## Introduction 1

Already in 2002, the European Commission Company Transmission Experts in a major report noted that in the coming decade, around one third of European companies would be subject to a transfer of ownership. Projections indicated that this would include an annual average of 610,000 small and medium size companies, affecting some 2.4 million European employees. There are not yet statistics showing to what extent this scenario came true, but it would suffice to consider the order of magnitude of the figures so as to identify transfer of ownership as a major concern from the point of view of European economics and prosperity. For instance in France, Cieply and Sikorzewski (2006) estimated that around 60,000 companies would be subject to buy-out annually. Referring to the European Observatory of Small and Medium-Sized Companies, which includes in its statistics individual entrepreneurs and 1.5 million companies, they estimated that 6.3 million jobs could disappear.

In a situation when a small or medium size company director and owner approaches retirement, there are four main scenarios.

1. Family succession. Transfer of management/ownership to children or to other relatives. May or may not succeed, depending on factors such as entrepreneurship, business viability, competence.
2. In-house succession. An employee or business partner takes over. Perhaps the most promising alternative, since the successor is likely to have a realistic company insight.
3. Buying out. Selling the company. As Cieply and Sikorzewski (2006) point out, “the buying out of companies is in fact a high-risk operation which, in order to succeed, must be well planned”.
4. Closure. May or may not take place if the first three scenarios prove unsuccessful. Alternatively, the previous owner may then decide to continue managing the company for a few more years.

It is likely that in the Baltic Sea Region more than one hundred thousand of SMEs risk going out of business in the coming decade due to an upcoming generation shift. Therefore, Activity 4 of the Best Agers Work Package 3: Work and Employment addresses the need to retain the competence and competitiveness of organisations in a generation shift, when key people retire. This activity is not essentially research oriented, but aims at collection of already existing information. Main pieces of information relate to the scale and awareness of the problem, and if there are approaches and/or projects that have been tried out in order to alleviate the problem, and to identify viable solutions.

Although a main focus in the present study is on small and medium size enterprises, it is noted that the problem of competence transfer in a generation shift is generic in all areas of working life, including large as well as small companies, and public as well as private sectors. What differs is the resource that can be allocated in order to support the process of competence transfer.

Since the generation shift is often particularly difficult in SME companies, it is interesting to find out what pattern can be seen in the EU, and in particular in the BSR countries, with respect to the age distribution among SME directors. Figure 1 illustrates the average age in this group of stakeholders in EU countries (unfortunately statistics are not including the Baltic states). It shows that there are considerable differences between countries in the EU, from about 50 years in Portugal to about 40 years in Slovakia.

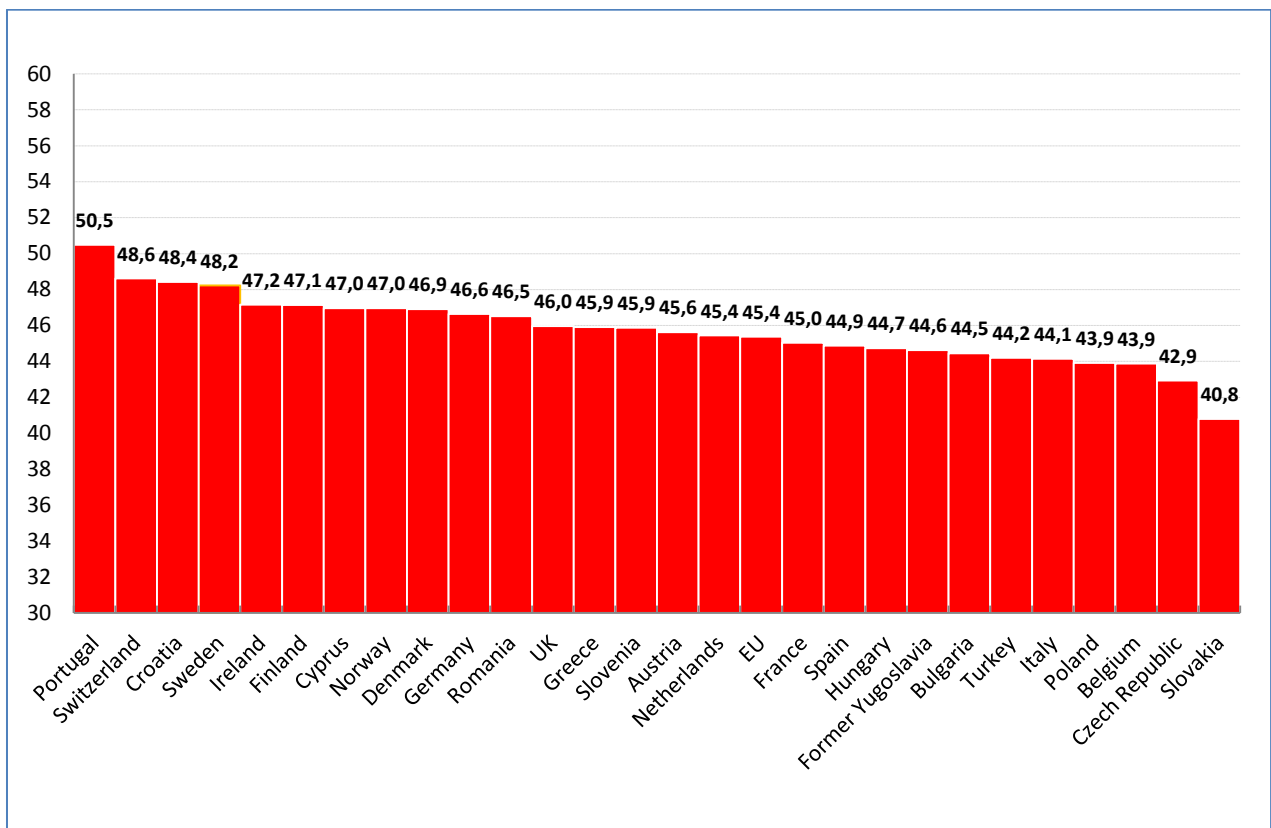


Figure 1. Mean age of SME directors in the EU member states. Source: Eurostat (2010).

In the BSR countries covered by the statistics, Sweden has older directors than other countries in the region. Figure 2 provides information on age distribution in four Best Agers countries. Whereas Denmark and Germany tend to have rather similar profiles, Poland has a comparatively very high proportion of young directors in the age span 20-39 years. In Sweden, the age distribution is more even; more than 20% all SME directors are in the age span 60-69 years, and about 10% are in fact 65 years or older. And according to a survey carried out by the Swedish Federation of Business Owners in 2009, almost 50% of Swedish SME company directors plan currently to continue working after age 65.

It is of note that in countries with a high proportion of younger SME directors in the BSR, the proportion of female directors tends to be high as well: Poland is number 4, Latvia/Lithuania are number 7 and 8, Germany number 10, Estonia number 12, Sweden number 20, and Denmark number 24 out of EU-27 member states (Eurostat 2008).

A contributing factor behind the differences may also be the relatively low numbers of citizens now facing retirement in countries that were affected by the Second World War. This observation was made in the study from Mecklenburg-Vorpommern that will be referred to below.

These country differences may be highly relevant in the interpretation of national data.

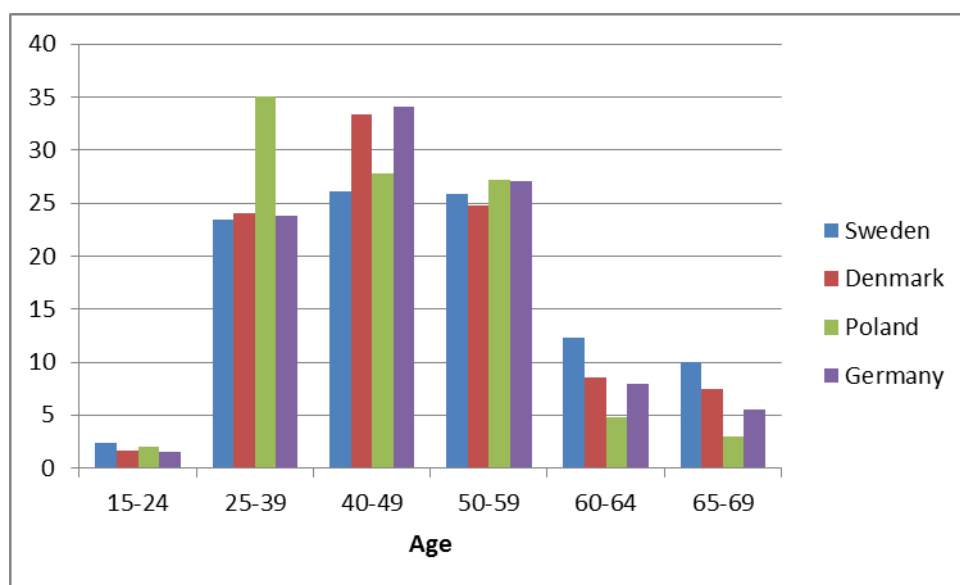


Figure 2. Age distribution (%), SME directors in four Baltic Sea Countries (Eurostat 2010). Note the differences in the length of age spans.

## Aims 2

In the present report, some basic information relevant to the Baltic Sea Region, concerning national awareness and approaches with respect to competence preservation in a generation shift is presented. Questions addressed include,

- Is there an awareness of problems linked to upcoming competence crisis in SMEs in a generation shift?
- In what branches if any, are the problems most imminent?
- Are there specific geographical areas with more problems than others?

- Are there programs or projects aiming at competence transfer in order to reduce the negative effects in a generation shift?

## National observations 3

### General 3.1

As a point of departure, an inquiry was distributed to project partners in different parts of the Baltic Sea region. The following partners had committed themselves to participation in the activity: County of Pinneberg (DE), Institute for European Initiatives (PL), County Council of Norrbotten (SE), and University of Göteborg (SE). However, some relevant basic information was received also from other partners.

In Table 1, the responses to the inquiry are summarized. The awareness as judged by partners in their communities was graded in three steps: low, moderate, or high.

Partner no	Partner	Awareness	Comment
2	County of Pinneberg (DE)	Low	Inquiry made
3	Rostock University (DE)	Moderate	Study contributed
6	Institute for European Initiatives (PL)	Low	Inquiry made
10	Siaulilai Branch of National Regional Development Agency (LT)	Low	Inquiry made
14	County Council of Norrbotten (SE)	High	Study contributed
15	University of Gothenburg (SE)	High	Study contributed

There was an obvious diversity between partners, or rather countries, with respect to the interest in these matters. Contributions included Sweden and Germany only, where the upcoming generation shifts seemed to be seen by some as a threat to societal service, particularly in rural areas. It is interesting to consider possible reasons for this diversity. It was reported that in the Baltic States, and also in Poland, the generation shift was considered a non-issue at this time, since the unemployment issue was given priority.

A response from Lithuania is telling:

“There are no statistics about this problem. Usually there’s discussion about how to keep best agers longer in the labour market, but the reason for that is not to transfer experience to the younger generation, but that those people would work longer and won’t go into retirement.”

Similar responses have been received from Latvia and also Poland; however, The Institute for European Initiatives in Poland states:

“The problem of a generation shift and the competence transfer is mainly observed in the family businesses, where most often head of the family can’t find suitable successor who will take over the company. The younger generation very often either don’t have enough skills or don’t want to work in the family business. The majority of family businesses are working in services, sales and production.”

According to information provided by the Estonian Association of SMEs (April 2011), work on competence transfer in SMEs had commenced in Estonia as an EU initiated activity. Until now, there has been no focus on problems linked to the generation shift.

It is interesting, and essential, to reflect over the diversity in national responses. Here the information contained in Figures 1 and 2 may be relevant. There is a much higher proportion of SME directors approaching retirement in Sweden than in other countries covered in these statistics. This means that a larger share of the SMEs is facing a generation shift in Sweden in a near future, and this may make the problem more imminent in Sweden than in other BSR countries. With respect to Poland, it has been suggested by Polish partners that the high proportion of young SME directors there is due to the economic and political changes that took place about 20 years ago; many entrepreneurs taking advantage of the new possibilities were young. The problems linked to an upcoming generation shift are therefore likely not to appear at a wider scale until later on.

The problems related to the generation shift do not only concern the SME companies themselves; closure of an SME may have very negative consequences in the local environment as well. Many small and medium size companies provide essential services to the local communities where they are based. But the effects are likely to differ much between cities, town and rural areas. When the local grocery store closes, this may have very negative consequences in a local village. And these consequences are likely to be particularly severe in rural areas of low population density.

The importance of the local conditions may be illustrated by observations made in the Best Agers project. In Denmark, University College Lillebaelt (based in in southern Jutland) declared that the generation shift was not recognized as a concern locally; however, in the township of Randers, situated further north in Jutland, local projects concerning demographics and competence transfer in SMEs had already been carried out. One of these activities will be reported below as an example of a way of work that can be applied while endeavoring to raise the awareness of demographic matters within SME and other companies.

In Germany, it was reported by County of Pinneberg (based in Schleswig-Holstein, in the vicinity of Hamburg) that “experts from our local business development agency don't have any information, data or rather interest in the topic. The public administration has no knowledge with respect to the topic.” However, University of Rostock (based in Mecklenburg-Vorpommern) was able to furnish an extensive report that had been commissioned by the Handwerkskammer Schwerin (a local Chamber of Commerce) to the university, addressing the commercial scenarios linked to upcoming generation shifts in SMEs regionally. It may be said that Mecklenburg-Vorpommern is a largely rural region with declining population, whereas in Schleswig-Holstein, this is not the case. The University of Rostock report will be referred to more extensively below (chapter 3.2).

Since problems linked to the generation shift are highlighted in particular in rural, sparsely populated areas, special emphasis will be made here on the Norrbotten County report (chapter 4).

## Germany: Mecklenburg-Vorpommern 3.2

The demographic ageing process is stronger in the state of Mecklenburg-Vorpommern than in other parts of Germany. The population decreased by more than 225.000 persons between 1990 and 2007; it was 1.679 million in 2007. The median age is the highest in Germany while it was the lowest only a few decades ago. Reasons behind the decline include low birth rates, and emigration, mostly to other parts of Germany. For a thorough analysis of the demographic characteristics of Mecklenburg-Vorpommern, as well as of other BSR regions, see Tivig and Korb (2011).

The Schwerin Chamber of Commerce, introducing the University of Rostock report mentioned in the previous paragraph (Doblhammer et al. 2009), notes:

“The effects of an ageing and shrinking society will be evident also for the local crafts in Mecklenburg- Vorpommern, which will face new and difficult challenges. The demographic changes will, already in a near future, affect the local market and the general commercial environment.”

“The two Chambers of Commerce in Mecklenburg-Vorpommern have as one of their responsibilities to support enterprises with respect to preservation of their autonomy and to advise and support them in situations of company succession, no matter if it is within the family, to an employee or to an external successor.”

In the report, it is prognosticated that the number of age inflicted company transfers will increase in a foreseeable future. In 2020, between 128 and 256 transfers are expected, and in 2030 between 145 and 286. This is however not the case in a near future, due to the low numbers in the war cohorts that face retirement. It is in electrical and mechanical engineering that most current transfers take place.

Due to the demographic changes, a decline of about 13% in the number of enterprises is expected by the year 2020. And an increase in the number of age related company transfers is met by a decrease in the number of potential successors.

The enterprises face already an imminent shortage of trained personnel.

What can be done in order to reduce the effects of demographic changes on the enterprises? Suggestions listed include:

- The educational system must address the problem at all levels, both from a quantitative and a qualitative point of view. It is necessary to include all young people in these endeavors, but also to make adult education accessible to all. Cooperation between schools at all levels, universities and commercial organisations should be established.
- It is necessary to change the conditions for older employees in the workplaces. They should have access to education and competence development in order to stay employable. It is also necessary to recruit and integrate trained immigrants.

- About one third of all unplanned company transfers are due to poor health. Precautions should be made in order to facilitate handling such situations.
- It is necessary to ease the economic and regulatory framework affecting the crafts enterprises so as to make it attractive to become an entrepreneur.

It is concluded that the situation requires immediate political action in order to meet the demographic challenge, and not allow the bleak prognoses with respect to the future of enterprises in Mecklenburg-Vorpommern come true.

### Sweden: Västra Götaland 3.3

The Västra Götaland NUTS 3 region has a total of around 1 571,000 inhabitants (2010), including Sweden's second largest municipality Göteborg (almost 509,000 inhabitants; it represents about 17% of the Swedish population). The population density averages 66 persons per km<sup>2</sup>. Västra Götaland is around 300 km long and 250 km wide: a little smaller than Belgium. According to the population prognosis made by Statistics Sweden in 2009, the population in Västra Götaland region is expected to increase from 1,558,000 in 2008 to about 1,617,000 in 2020. This corresponds to an annual increase of about 0.5 per cent; somewhat higher than for Sweden as a whole. However, the population development differs between rural areas (negative) and towns/cities (positive), much like in Sweden at large.

According to the Swedish Federation of Business Owners (2011), for the whole of Sweden, 23% of SME directors plan to step down in five years' time. About four out of ten enterprises believe that a company transfer may take place within ten years. This means about 55.000 – 60.000 SMEs in the range 1-50 employees, or 175,000 if the self-employed are included.

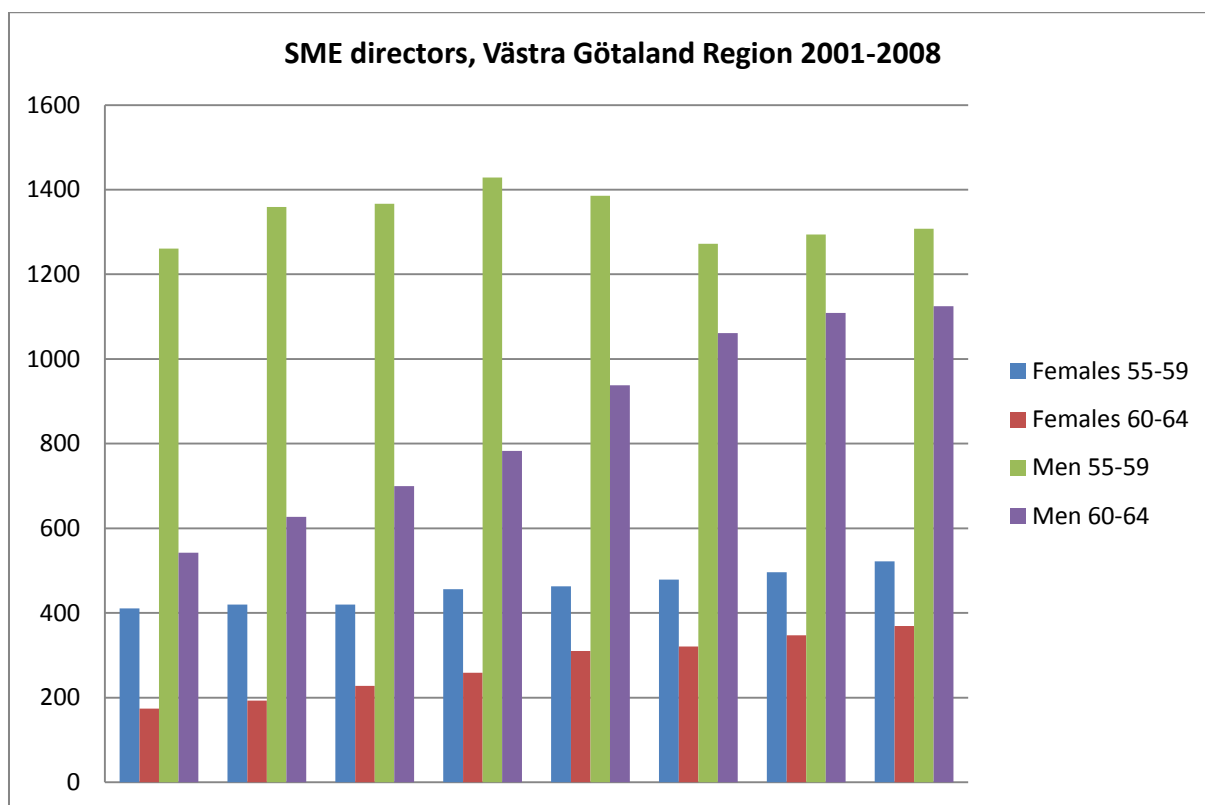


Figure 3. Development of the number of older male and female SME directors in the years 2001-2008 (Västra Götaland regional statistics).

Statistics provided by the Västra Götaland Region (2009) show that the average age among the SME directors is high. About half of them can be expected to have left working life by the year 2025. Figure 3 shows the development of the number of male and female SME directors in the years 2001-2008. The most striking feature in the statistics is the rapid increase in the 60-64 age group, in both males and females. It indicates that an increasing number of age related company transfers are likely to occur in the coming decade in this region.

The Västra Götaland region is large, and comprises densely as well as sparsely populated areas. It is found that the average age of business owners also differs between municipalities within the region. For instance, in the city of Gothenburg 70,9 percent of the owners are in the age span 16-54 years, whereas in rural Essunga, only 51,5 per cent are in this age span, meaning that almost half of the number of business owners there are older than 55. The danger of business closure faced in the generation shift is likely to hit much harder in rural municipalities such as Essunga, compared with densely populated municipalities.

These upcoming problems have been observed and are addressed at the Västra Götaland regional level. In a pioneering project coordinated by ALMI Företagspartner, an interactive homepage "Ägarskiften i Västra Götaland" (Ownership transfer in Västra Götaland, [www.agarskifte.nu](http://www.agarskifte.nu)) was created (2010). It is described as "A regional initiative to facilitate transfer of ownership in small enterprises". This homepage contains much information about e.g.,

- how to sell and to find a buyer,
- how to buy and to find a company to buy,
- how to make use of matching opportunities,
- how to evaluate the value of a company,
- how to think about and arrange for generation transfers,
- contact information to advisory centres,
- contact information to financing institutions, auditors, legal advisors etc.
- networking information.

The homepage also contains videos where successful buyers and sellers of companies are interviewed: what are their experiences, what made their initiative a success?

This project aims at reducing the risk for closure of companies in a generation shift, and support newcomers interested in establishing themselves as entrepreneurs. It is particularly focusing on those areas of the Västra Götaland region, where the population is decreasing and the age structure therefore is of particular concern. It is in these areas that the problems linked to the age related company transfer are the most important ones to address. Closure of a small service operation may be very negative for a whole township.

A translated version of the title page is found in Appendix 1.

### **Finland: Ostrobothnia 3.4**

A Finnish study (Haldin-Herrgård 2009) aimed at investigation of tacit knowledge sharing between generations in family business succession, what are the critical factors, and how tacit knowledge is transferred in family takeover. The background was that due to demographic factors, in a 10 years period almost 50% of the Finnish companies were expected go through a transfer in generations at the management level. If the business is to be retained in the family, it is necessary to find ways to make tacit knowledge diffusion take place.

The study included 15 cases of family owned and operated SME businesses in rural Ostrobothnia in Finland.

In half of the family firms studied, knowledge sharing had taken place, while the other half seemed to have great problems. A negative situation appeared in cases where there was poor matching between the owner and the successor. Reasons behind such failures included if there was a lack of insight with respect to knowledge transfer, or if personalities did not match. For instance, in one of the least successful cases the owner had a firm perception of what kind of tacit knowledge was needed and that this was essential for the manager of the company to know about. The successor did not care for this, but had a much more diverse and management oriented view of the work. In all but one case the owner had higher ratings on most of the shared tacit knowledge.

It was concluded in the study that most of the tacit knowledge was taught or learned through action. There were large differences between the cases.

### **Denmark: Randers municipality 3.5**

In an ESF supported project, "Fokus på seniorpraksis i Randers-området" (Focus on senior practice in the Randers area), the conditions with respect to management of the ageing workforce in private enterprises were addressed. This study was part of the general activity "Randers as a centre of growth". There was a concern that a competence crisis may occur due to retirement of the ageing workforce, thereby risking the future development of companies in local private businesses. The project aimed at problem identification and development of a strategy to make companies aware of the demographic problem and adopting internal age management principles. The initial focus on the private sector was modified, since it was observed that also public organisations faced similar problems. Twenty-two enterprises, mostly manufacturing industry, participated in the project.

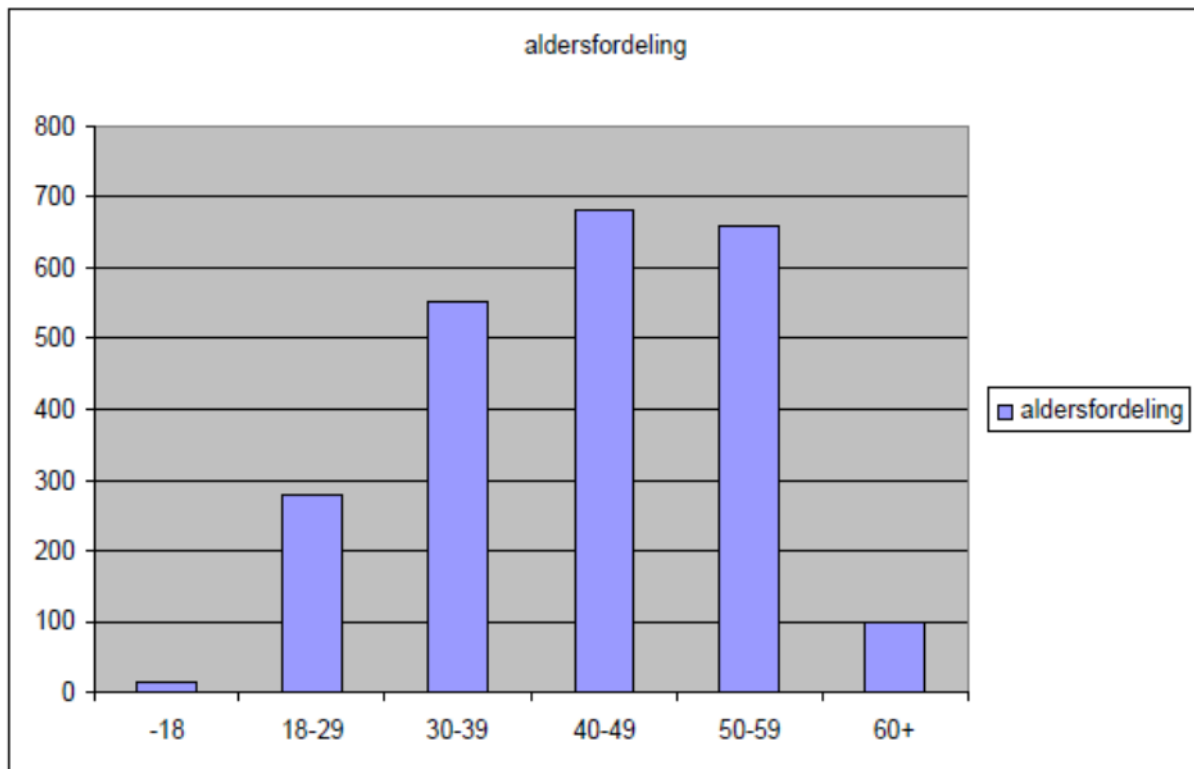


Figure 4. Age distribution in the 22 companies participating in the Randers study.

In the reporting, emphasis was on awareness and process initiation. Trade unions were helpful in finding workplaces to be approached in the study.

Necessary conditions included full management support and key persons who were willing to carry out the project implementation. It was found that demographic analysis helped to awake awareness and motivation; it was even the most important instrument in the process. It was also found that it was helpful for the participating organizations, public and private alike, to engage in group discussions, and that this provided for benchmarking opportunities. The municipality of Randers were participating, and this helped providing legitimacy, for instance with respect to age management practices. Good examples proved important in order to further activities.

Experiences from the Norwegian Centre for Senior Policy were drawn upon. It was emphasised that senior policies must be part of the general personnel policy in the company, and not constitute a parallel activity.

In securing organizational competence, senior practice and recruitment goes together, and supports competence transfer between generations.

It was finally observed, that political support would be helpful in order to create economic incentives for enterprises to engage actively in age management.

## SME generation shift in The County of Norrbotten, Sweden 4<sup>1</sup>

### Introduction 4.1

Norrbotten has 249.000 inhabitants and covers  $\frac{1}{4}$  of Sweden's area. It is about the size of Austria. The population density in Norrbotten is 2,5 inhabitants/km<sup>2</sup>. There are some local municipalities with very low population density – less than 0,5 inhabitants/km<sup>2</sup>. Most of the inhabitants are living in the cities in the south at the coastline and in the mining area in the north of the region.

In Norrbotten there are three cultures – the Swedish, the Finnish and the Sami culture - and at least three languages.

According to statistics from SCB (Statistics Sweden) there were 8.826 businessmen and business women in Norrbotten in 2008. About 38 % of those (3.317) were 55 years old or older. This statistics covers company owners that are working with their company more than 500 hours per year.

### Problem awareness 4.2

In Sweden, the issue of generation shift in SMEs has attracted attention in recent years, especially by business organizations. According to Företagarna (Swedish Federation of Business Owners), the proportion of entrepreneurs aged 55-64 increased from 17 to 28% since 1993. Approximately one in four is now 55-64 years old. Entrepreneurs are older than the workforce in average. One reason is that entrepreneurs often work some years before they start a business. They also often operate at a higher age than employees - "to run a business is more than a profession, it is a lifestyle."

According to a report from Företagarna: "Generation change. Will the young take over?", the proportion of entrepreneurs who are younger than 40 years, declined five times faster than the proportion of employees in the same age groups.

In a report from 2009, Företagarna writes that approximately every four owner of small businesses (with more than 49 employees) in Sweden are planning to retire in the next five years. Another 15% of entrepreneurs expect that generation shift or change of ownership will take place within five to ten years. According to the report, 42% of small businesses expect that a change in ownership or succession will take place within ten years. Of these, one in four say they do not know how the change in ownership/generational change will occur.

In Norrbotten the challenge of generation shift in SME: have attracted attention in recent years by entrepreneurs and their organizations, but also by regional politicians and officials in various organisations.

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<sup>1</sup> Furnished by Ewa Hedkvist Petersen

Companies in Norrbotten are often subcontractors to larger companies - companies in the mining, forestry and hydroelectric industries. SMEs are also often providers of public services of vital importance to citizens. These features are particularly important in a county like Norrbotten with large sparsely populated areas, far from urban centers. In small rural local municipalities, all existing businesses have significant impact on the social infrastructure, because it is often not possible to commute or move services and goods, even within the region.

Among the regional representatives there is concern that demographic trends, with increasing age of the entrepreneurs, will mean that many small enterprises close down and that community service then disappear, especially in smaller municipalities. It is therefore important that the generation shift in the companies works smoothly and/or new businesses are launched in order to perform the functions needed.

According to SCB (Statistics Sweden), 38% of the economically active entrepreneurs (working more than 500 hours per year in the company) in Norrbotten are 55 years old or older. According to a report from Företagarna, the smallest proportion of entrepreneurs who plan generation shift/transfer of ownership the next five years, is in Norrbotten. In Norrbotten there is also the comparatively largest number of entrepreneurs who expect that the family continues to run the company. With regard to bringing the company to an end, entrepreneurs in Norrbotten plan this to a lesser extent than in Sweden as a whole.

Norrbotten County Council conducted a pre-study in the county - "Regional competence and generation shift" in 2009-2010. This report is based on interviews with various representatives of stakeholders in civil society in Norrbotten. The report identifies four strategic assessments that companies and organizations in Norrbotten use concerning future supply of competence.

**Strategic Assessment A:** Here we can find employers who think that they are the best at recruiting young people. This will be achieved through close cooperation with universities and other educators. Here we can also find employers who are developing their values and ethics, and thus expect to be regarded as an attractive employer. Within the group there are also companies that expect that the evolution of technology means that they do not have to replace all staff that are retiring.

**Strategic Assessment B:** Here we have the same approach as in group A, but companies and organisations concerned also have prepared an internal analysis of age brackets and has its own strategy for generation shift. This is a more innovative approach to the challenge but has not been tested to the fullest extent.

**Strategic Assessment C:** The employer/company has obtained a so-called demographic "aha-experience". It is understood that the reduced number of young people will mean problems, no matter what strategy you have for recruiting. Some employers see the situation as a major challenge. In some small municipalities, youth brackets are so small that the young will not be enough even for the public service.

**Strategic Assessment D:** This is a group of employers/entrepreneurs that see that they have to do something immediately. Here we also find the small business owners who are not sure if anyone wants to acquire their business.

Types of companies involved in the category D include:

- companies that clear snow in remote areas,
- entrepreneurs in roads, railways, construction,
- taxi,
- local dealers,
- carriers,
- electricity dealers who are sub-contractors,
- mechanics companies or other engineering,
- local services.

In the pre-study it is suggested that the work in the local community with the generation shift in companies, be supported at the regional level, i.e. by responsible regional actors. The reason is that it is important for the region and for the community infrastructure that companies can survive and/or that new companies are created. However, the practical implementation must be done locally, because this is where you have knowledge about the companies concerned. Furthermore, conditions are very different in different local communities.

In an interview with the regional representative for Företagarna in Norrbotten he mentioned the following concerns about the situation in the region:

- There is a large number of entrepreneurs born the 1940s that are operating companies in Norrbotten. Many of them will face a generation shift before long, but find it hard to talk about it. Some value, for obvious reasons, the company highly and would prefer to be contacted by potential buyers rather than to start the process themselves. The reason could be that entrepreneurs are afraid of losing customers and revenue if it is known that the company will be sold.
- New forms of workshops with spontaneous meeting for interested stakeholders, with the theme "Selling and buying businesses" would be useful. Then the sales process could take place more quietly, which would give the best results.
- A new funding scheme to companies in a generation shift would also be required. It could be a loan to the new buyer, to facilitate financing. The experience is that sold existing businesses stabilize faster and also hires new employees faster than newly established companies.
- In rural areas it is more difficult to sell the company and get loans from banks, as fixed assets are usually valued low in these areas.
- When talking to business developers in Piteå municipality it becomes clear that awareness in companies about the demographic challenge has been low until recently.

## Branches 4.3

The age distribution differs much between branches. It is seen in Figure 5 that the sector Agriculture, forestry, etc.(Jordbruk, skogsbruk...) has a particularly high proportion of business owners older than 55 years.

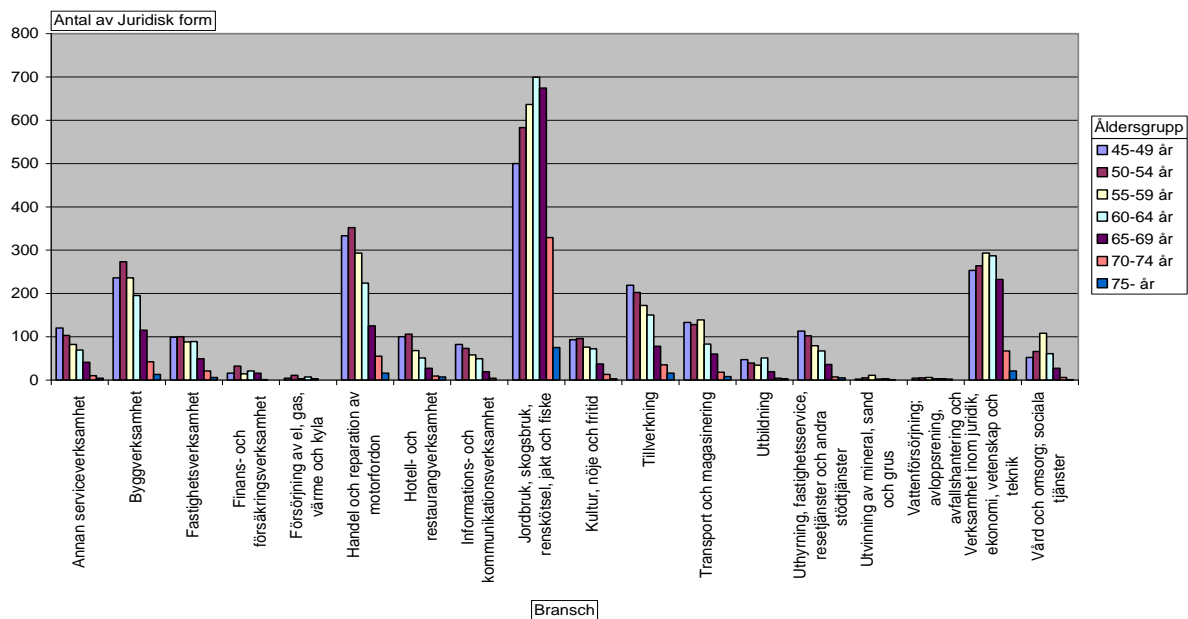


Figure 5: Number of companies in various branches in Norrbotten, distributed in age brackets of owners (September 2010). Source: UC. Categories: General service; Construction; Maintenance; Finance and insurance; Media supply; Motor vehicle trade and service; Hotel and restaurant; Information; Agriculture, forestry, etc; Culture and entertainment; Manufacturing; Education; General supply; Mining; Water, sewage and garbage services; Academic consultancy; Health and social services. Largest numbers are in Construction, Motor vehicle trade and service, in Agriculture, forestry, hunting and fishing, and in Academic consultancy.

According to the regional representative for Företagarna in Norrbotten, the sectors where it is easiest to find buyers are consultancy companies, particularly within special trades.

## Geographic differences 4.4

It was noted above that within a region, large differences may occur when it comes to the importance of the demographic changes on competence supply. This is illustrated for Norrbotten county in Figure 6. The figure shows that among the entrepreneurs who are 45 and older, the rural municipalities of Övertorneå, Pajala, Arvidsjaur and Överkalix have relatively many company owners that are 55+ and where a generation shift can be a reality in 5-15 years' time. According to RAMS data from Statistics Sweden the rural municipalities

Övertorneå, Överkalix and Pajala also have the biggest proportion of working entrepreneurs that are 55 and older: 48.3%, 47.9% and 45.9% respectively. These municipalities are all situated in the rural inland, far from the economic centers in the coastal region.

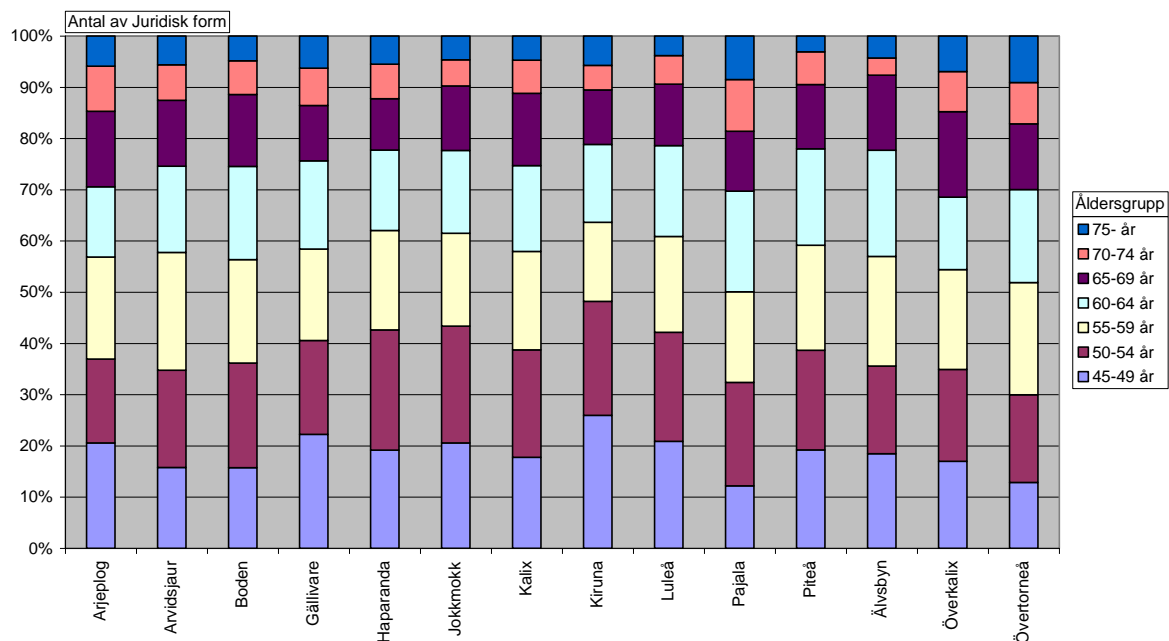


Figure 6: Percentage of company owners in different age brackets in the municipalities of Norrbotten (September 2010). Source: UC.

### Current patterns of behaviour 4.5

According to the experience of Företagarna’s regional representative in Norrbotten, entrepreneurs who were born in the 1930s are high risk takers. They often have a burning interest in their community and channel this through the company. They also sell their business later.

The impression is also that female executives are leaving their company earlier than men, because they have a better social network to rely on when they retire.

It is now more common that employees buy the company they work in and also that the sellers leave capital in the company for some years. It is also more common that the former owner is acting as a stand-by in the company to help with the marketing of the company and give information about why a company owner shift has taken place.

## Competence transfer in practice 5

In this chapter, some results relevant to the present study, showing differences and similarities in attitudes and problem solving are presented (Västra Götaland region). This information relies on a study supported by the Västra Götaland region, and it shows that the problems of competence transfer and supply in a generation shift are by no means specific for SMEs only; they are at hand also in large companies, and in the public sector as well. The study was also reported in the workshop Working and Ageing. Emerging theories and empirical perspectives, arranged by Cedefop, Thessaloniki (Holmer et al. 2010).

The organisations were distinguished by varying types of production:

Production of goods and commodities

- work intensive (e.g. truck factory)
- capital intensive (e.g. nuclear power plant)

Production of services

- knowledge intensive (e.g. university)
- work intensive (e.g. mail-order company)
- human intensive (e.g. hospital)

The organisations differ greatly from each other in types of production etc. and their number of employees are varying between some twenty and several hundred. Still there is a pattern, forming similarities in some aspects. The turnover of staff is – with some exceptions – low, and at the same time the number of retirements to come in a few years is high. The attitude to the ageing workforce is positive, and a majority expresses an articulated and positive opinion of the special competences of the older employees. A majority of the organisations in this study has special strategies to bring about knowledge transfers, for instance between older and younger employees, but there are no special work organisational arrangements to meet needs of the older part of the employees. Knowledge transfer is for most managers not so much connected to formal education as to various types of work related learning. Most of them underline the need for an over-all, Gestalt, knowledge which many of the older employees are said to have.

Even then there were tendencies showing requests for management implying:

- involvement of the employees in a "feeling of a joint mission";
- the group/the team to take greater responsibility;
- the employees to have an over-all view of the company and the world around including perspectives of the company to come (some mentioned a request for an "all around knowledge").

But today – in the case studies of 2008 – there are not at all the same thoughts as regards need for formal training. "Ordinary" training – attending courses for example – seems to decrease for the benefit of work place related competence development where elder employees among others might be involved as knowledge transferors. This seems to imply

also that by recruitment fewer claims are laid for certificates etc. than for reported (and preferably validated) knowledge and practical experience.

When formal education is urged for the contents of the courses, this is not as important as the way in which students have learnt to find knowledge and to compile facts etc. From the point of the view of content that can be arranged by internal training at the company:

"Especially as regards management tasks and developmental activities we would like to recruit persons with university college certificates. This formal competence should mean that they could take in the whole situation, could document, analyse, compile, and write reports that they on the whole could express themselves verbally and in writing." (Case from work intensive production of services; firm of haulage.)

Whereas this is a case of formal education wished for, most of our informants take a view of other forms of knowledge transfer implying non-formal training. This is to be done by for instance:

- studying by walking around/learning by asking; some colleagues gives instructions and explanations;
- work in parallel (the post is filled in double);
- sponsorship (including continuous guidance);
- mentorship;
- other forms of guidance and supervision;
- working in teams (often cross-professional);
- work place meetings;
- seminars;
- special programs for knowledge transfer;
- exercises connected to changes in technology and organisation or when new products are introduced.

We shall give some concrete samples especially focused on the knowledge transfer in older vs younger employees.

"One of our employees approaching retirement, has as his task to train some younger employees to the section of machines used for cutting treatment. He coaches starting from the direct production and foremost by being a support and knowledge bank when problems are raising or by suggesting alternate ways of managing problems in the production in order to have the team continuing their tasks." (Case from work intensive production of goods and commodities; sheet metal factory).

"Older assistant nurses teach us all. These older nurses' experiences appear for instance when they perceive the "glimpse" in the eyes of the patient, and by that observation conclude if the patient is improving or not. These nurses tell about their experiences at all divisions. They could tell us about working with a violent and unreachable frontal lobe demented patient. It's a question of treatment and of how you touch the patient. The assistant nurses are practicing – here and now, and they have learnt that treating and touching are the be-all and end-all." (Case from human intensive production of services; geriatric care).

"We have course-teams for interchange of experiences. In these new employees are introduced. The older employees are telling about their sections of a course, and then these older employees even catch sight of each other. The new ones are coming in as catalysts. Something new is happening – everybody is learning. You may speak of transfer of knowledge in situ." (Case from knowledge intensive production of services; university college).

"In the maintenance section a programme for knowledge transfer is tested containing as a first step identifying instructors and selecting older technicians and engineers with a key competence. Then these instructors are participating in recruiting of new employees and in the matching of new employee to instructor/tutor. And so the knowledge transfer starts according to a special programme, with process support to the instructors among other things. A lot of the learning is happening integrated to the work. The new employee follows his tutor or part of a working team (time varying between some months up to three or four years with continuous guidance." (Case from capital intensive production of goods and commodities: nuclear power plant).

Sometimes the older employees are not looked upon as having special knowledge "to drain" (for instance stock-room workers). In some professions there are not any wishes to stay after retirement. In some technological advanced companies they mostly have masters of engineering and blue collar workers vocationally trained in engineering. Their competences are not said to be irreplaceable but in those cases where the competence is considered to be personal, connected to just that person.

But more often the unique competence of the older employees is stated, manifesting itself in over-all view of the company and the world around. In nuclear power industry, identification and solution of problems are mentioned, showing in planning of the whole working process (including giving orders for tools etc.) and in planning of stoppage of production, if any. Here engineers and technicians with that kind of competence are lacking. In car factory industry there are difficulties in replacing "full car constructors" "having acquired a comprehensive picture not present in any documents, a feeling for the production", while other diligent, "niched" specialists (in safety belt stops for instance) are possible to find and train. Also in sheet-metal industry the over-all view of the older employees are mentioned, and moreover their deep knowledge of materials, and their ability to imagine the completed product and from that to predetermine the proper working processes. Some occupations have a great shortage of skilled labour; e.g. nurse assistants and pre-school teachers. As concerns the latter, the older nurse assistants' competence to touch and treat their clients, is especially pointed out. But many of the employees in such, not least, physically heavy occupations, are not so interested in staying in their jobs when getting older. Then it is of great importance to create possibilities for changing this work to less heavy tasks.

In order to keep the competence in the organisation, some trades have created an incentive for the elderly employees (60+) to remain for a prolonged working period, the so called "80-90-100 model". This means that the employee is working 80%, has 90% full pay, and retains 100% pension at official retirement. One of the responsibilities of the persons employed according to this model is to participate in mentoring activities. Even though this scheme may be costly for the employer, it has been shown to be economically sound for an organisation that is highly dependent on the knowledge of seniors, such as a power plant (Mykletun and Furunes 2010).



## Final remarks 6

The present study has aimed at providing a summary of experience and approaches taken in the Baltic Sea Region with respect to the competence crisis that may occur in an organisation in a generation shift. Special emphasis has been on the situation in small and medium size enterprises.

The study has revealed significant differences between BSR countries with respect to the scale and awareness of the problem. It is found that the problems linked to the generation shift in SMEs have a high actuality in some parts of the region, but have not yet surfaced in others. In particular, these concerns have received considerable attention in Sweden, but not in Poland or in the Baltic countries. This is an interesting finding which can be attributed at least in part to the current age structure among company directors in the different countries. Due to the political developments in the 1990s, private companies are all comparatively young in the countries concerned, and so are their directors. It is possible that a smaller number of males in the generation of the Second World War in some countries also plays a role. This means of course not that the problem of competence transfer would be irrelevant in these countries, but that it will become acute only in a few years' time. It may be said that the present report while pointing at problems and solutions that have been addressed already is timely and makes it possible in the not yet affected countries to take preventive action.

There is a linkage between problem awareness, population development and structural characteristics. In rural, sparsely populated areas with a negative population development and lack of adequate infrastructure, closing of a key enterprise may be detrimental for the development of a whole township or municipality. This is illustrated in the case reports from Mecklenburg-Vorpommern, Norrbotten and Västra Götaland regions. Here companies, associations, and authorities have engaged in projects and programmes that aim at easing the effects of the demographic changes on the structure of business and trade, and on the conditions for the people living in the affected areas.

There are two separate but connected dimensions of the problem area addressed. The first one is the general danger of a competence crisis as key people retire; this may affect the organisation irrespective of size or nature. The second dimension is the specific problem that a small or medium size company faces when a company director wishes to step down and hand over the affairs to successors.

In the present study, we have identified ways to address the problem of competence transfer. It is noted that much has to do with awareness wakening; in the Randers study it was found that this was really the most important ingredient in an intervention. Once the organisation had analysed the current situation, and created a common understanding of it, there was a basis for action, which may take different routes in different organisations. The concept of "age management" has been found to represent a key to fruitful work with age related competence supply and growth. It is discouraging that also large organisations have failed to prioritize creation of processes so as to facilitate lifelong learning and competence transfer between generations.

It is common that the transfer of ownership of an SME company is problematic. Also here, awareness and careful planning are key elements, and also here, as noted in the Västra Götaland ALMI study, all companies are unique and must be treated individually. Unfortunately, SME owners and directors much too often fail to analyse the options adequately, for instance, they may have unrealistic views of the value of their business. Too many closures take place. Here the ALMI approach is innovative and shows how authorities may engage to support successful company transfers. This is an example of a regional development activity that may be benchmarked to other parts of the Baltic Sea Region.

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## Appendix.

From <http://www.agarskifte.nu/default.asp>, by permission (translated)



## Ownership transfer in Västra Götaland

A regional initiative to facilitate transfer of ownership in small enterprises

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