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The aim of this study is to examine the relationship between successor characteristics, transfer planning characteristics and post-transfer profitability within Dutch SMEs. On the one hand, based on the resource dependency view, it is assumed that successors with more knowledge and experience, derived from work experience from outside the target firm, will be able to extract higher rents from the firm than those with less (diverse) work experience. On the other hand, based on the knowledge management literature, and in particular, concepts such as *tacit knowledge*, this research makes the contrasting prediction that post-transfer profitability is likely to be higher in firms where the successor is an insider and is related to the predecessor. Moreover, this paper proposes, based on the theory of planned behaviour, that written plan and strategic intent have a positive association with post-transfer profitability. The study is based on quantitative analysis of a random sample of Dutch SMEs. Initial results from the current study suggest that determinants of post-transfer profitability may be quite different in the family-to-family ownership vs. nonfamily ownership transfer conditions (i.e. whether or not the successor is related to the predecessor). Significant interaction effect is found such that the effect of strategic planning, in particular, varies depending on the nature of the transfer relationship (family to family, vs family to non-family). Other results offer mixed support for the proposed theories.

Key words: business transfer, planning behavior, small business performance

1. Introduction

The importance of successful business transfer and the pervasiveness of the business transfer challenge among small businesses are well documented. In the early part of the millennium, the European Observatory for Small and Medium-Sized Enterprises estimated that approximately 6.3 million jobs that are at risk in Europe as a result of poor succession planning (European Commission, 2001). Within the Netherlands, for instance, research confirms a trend of a steadily aging ownership group: In 1998 the average age of the Dutch business owner was 46. By 2003 this figure had risen to an average age of 51 years (Kikkert, 2003).

In spite of a growing body of empirical research on this subject (e.g. Chrisman, Chua and Sharma, 1998; Morris, Williams, Allen and Avila, 1997; Morris, Williams and Nel, 1996; Sharma, Chrisman, Pablo and Chua, 2001; Sharma, Chrisman and Chua, 2003; and Venter, Boshoff and Maas, 2003) our knowledge of the topic of succession is still quite limited. This study aims to find which factors influence the success of business succession. More specifically, the primary research question in this paper is as follows: How important are the influences of successor and planning characteristics on post-transfer profitability in the closely-held SME?

This study concentrates on business transfers of SMEs within the Netherlands. A company is considered an SME in this study if it has less than 100 employees. Approximately 99% of all the businesses in the Netherlands are SME using this definition (CBS, 2008). Furthermore, an estimated 6 out of 10 jobs in the Netherlands are in an SME. Succession problems among SMEs can therefore have a large influence on economic growth and employment in the Netherlands.

Business succession and transfer have been used somewhat interchangeably in the literature but for the purpose of this study, a 'business transfer' is defined as a major change in ownership, rather than in management of the business. Business transfers can consist of a transfer to someone within the family, to a third party, or to another company. Management buy-ins and management buy-outs can be considered examples of business transfers as well, as long as the existing economic entity survives. The owner of the business who has passed the baton is referred to as 'the predecessor'. The person that has taken over the firm is referred to as 'the successor'.

Successor characteristics examined in the present study include gender, the relationship between the successor and his or her predecessor, whether or not the successor had worked in the business prior to taking over, and the number of years he or she had worked outside the firm. Formal planning characteristics include reliance on a written succession plan and strategic intent.

Two hypotheses are proposed regarding successor characteristics, drawing on assumptions from the resource dependency view, on the one hand, and the knowledge management literature on the other. On the one hand, based on the resource dependency view, it is assumed that successors with more knowledge and experience derived from work experience outside the target firm will be able to extract higher rents from the firm than those with less (diverse) work experience. On the other hand, based on the knowledge management literature, it is predicted that successors with work experience within the firm will acquire and retain the firm specific knowledge. The third hypothesis is based on assumptions from the knowledge management literature as well as theory of planned behaviour (TPB). In the light of both theories, formal succession planning contributes to the post-transfer profitability due to knowledge retention and identification of need for strategic change.

The remainder of this paper is organized as follows. Section 2 explains the problem of business transfer. Section 3 elaborates on the research model. Section 4 presents the method. Sections 5 and 6 present results as well as discussion and conclusions, respectively.

2. The problem of business transfer

2.1. An overview of the business transfer process

Although a full review of existing models of business transfer are beyond the scope of this paper, it needs to be mentioned that transfer is often described as a process that usually includes aspects prior to the transfer, during the transfer itself, and especially for more recent research, also aspects of the post-transfer outcomes (Longenecker and Schoen, 1978; Harvey and Evans, 1995, Keating and Little, 1997; Le Breton-Miller, Miller and Steier, 2004). The current research is based upon a schema further developed in previous research carried out at EIM (Meijaard, Uhlaner, Diephuis, and Sanders, 2005; Meijaard, 2006; Uhlaner, Meijaard, and Flören, 2007). (See Figure 1). Similar to Meijaard, et al (2005), variables are identified in three phases (prior to transfer, during transfer and after transfer). Rather than resting the full model, the current study concentrates in particular on firm characteristics, planning and several successor characteristics. Variables marked with stars, in particular, are included in the current research. The relationship between these variables and post-transfer profitability are examined.

INSERT FIGURE 1 HERE

2.2. Successor characteristics and the post-transfer firm performance

For the purposes of the present study, the majority of successor characteristics can be grouped into two categories. A first variable can be seen as relating to bringing in new knowledge, professionalism and networks into the organization-thus being an outsider and/or years worked outside the firm. Geerts, Herrings and Peek (2004) find in their research that radical improvements by the successor best explain post-transfer profitability. Several scholars find that the probability of radical change, furthermore, is higher for successors coming from outside the firm (Wasserman, 2003; Haveman and Khaire, 2004; Lin and Li, 2004; Helfat and Bailey, 2005; Plaisier, 2007). In the present study we examine not only if the successor is an outsider but also the number of years worked outside the firm. In the family business literature, Ibrahim et al. (2003) find that one of the factors critical to an effective successor are his management skills and competencies. Thought the number of years of experience does not guarantee greater competences, it may be an useful indicator.

On the other hand, outside successors, especially in a stable environment, may have a negative effect on the firm due to a lack of industry and organization specific knowledge. Levitt and March (1988) point out that organizations lose part of their organizational memory in transfer. It is presumed that, especially in SMEs, much of knowledge remains uncodified or *tacit* i.e., noncodified information which is generally difficult to communicate orally from one person to the other. When the owner or other key director leaves, much of tacit knowledge is presumed to disappear unless knowledge management practices and related knowledge have been institutionalized within the firm. Over and above this tacit knowledge, the social capital literature also suggests that when the SME owner exits, in addition, the firm may lose part of the previous owner's relationship network as well as his or her personal reputation (Pennings, Lee, and Van Witteloostuijn, 1998). It could be however, that the disruption potentially caused by the transfer can be offset if the successor has worked within the firm prior to the transfer. Morris et al. (1996), for instance, find that the number of years the successor worked in the firm has a positive relationship with the smoothness of the succession. Family to family transfers may represent a special case where the insider not only learns from work experience but also from absorbing information and benefiting from the reputation and networks of the predecessor through family ties. We put forth this argument with some caution, however. In spite of the advantage of the family member with respect to access to tacit knowledge, Baring (1992) and Lank (1997) both find that it is not uncommon for successors to enter the family business with very limited work experience.

Finally, aaccording to Van Witteloostuijn (2003) successful succession is more likely when predecessor and successor characteristics are more similar in terms of style and competencies. Although such characteristics are not measured in the present study, it may be that indirectly, those bound by family ties may be similar in relevant ways.

2.3. Influence of planning characteristics on the success of business transfer

The business transfer literature offers two competing paradigms predicting post-transfer performance: the paradigm of change and the paradigm of continuity (Uhlaner at al., 2007). According to the first paradigm, business transfer is not limited only to the change of owners and/or management but it causes a chain of changes in the business, including, for example, change of strategy, management style or company culture. Those changes - if accurately designed - may have positive influences on post-transfer performance. In many cases the "fresh blood" - new managers and/or owners - introduces changes in order to ensure business survival and growth. This strategic change that takes place after business transfer is especially vivid in the case of first-to-second generation transfers. Very often the founder needs to decide whether the business should still operate after he or she steps down. The successor, on the other hand, needs to consider the chances that the businesses will be successful. Thus both successor and predecessor analyse whether the change is required in order to increase the possibility of business's survival and growth. If the interested parties will anticipate the need for change and plan thus for change, the business will have better chances of survival and better performance. This relationship is confirmed by empirical research. For example, in their study of 500 Dutch SME's, Van Teeffelen and Peek (2008) find that those firms in which changes where introduced in the area of innovation, organizational operations and marketing perform better than the firms where no changes occurred.

Strategic intent, expressed in planning that takes place before the transfer can be seen as indicator of changes that will occur after the transfer. In the light of theory of planned behaviour (Azjen, 1991) actual behaviour is strongly predicted by intentions. Thus we argue that if interested parties are planning strategically (thus have an intention to change) they will indeed introduce the changes after the transfer.

Most of the research on succession planning comes from the family business literature and thus we draw on that literature heavily in this section. This is probably still helpful in understanding the SME more generally, however, since the majority of SME's have one or more characteristics of the family firm. The popular wisdom is that succession takes a significant amount of time (Donckels and Lambrecht, 1999). Failure to plan for succession has been cited as the primary cause for the poor survival rate of family firms (Beckhard and Dyer, 1983; Dyer, 1986; Handler, 1989; Poutziouris, 2000). However, consistent with patterns for planning more generally, SME owners are not likely to plan for succession. In the Netherlands, for instance, only 27 percent of all family businesses have prepared a succession plan (Flören, 1998). Even when the family business approaches a management transition, the succession planning continues to be limited. However, Astrachan and Kolenko (1994) find no correlation between succession planning and the long-term survival of the family business in their study of over 600 family businesses. Still, much attention in business transfer research has been paid to formal succession plans and the need for early estate planning (Kets de Vries, 1993; Ward, 1987; Ward and Aronoff, 1992). Morris et al. (1997) and Morris et al. (1996) find in their empirical research that a written succession plan is positively related to the smoothness of the transition. Nevertheless, past research is not altogether straightforward in predictions with respect to the effects of planning on post-transfer performance. For instance, Morris et al. (1997) also find that tax planning is actually *negatively* related to post transition performance.

3. The Research Model

Based on the resource dependency view, it is assumed that successors with more experience derived from work experience from outside the target firm, will be able to extract higher rents from the firm than those with less (diverse) work experience. Following this logic, Hypothesis 1 is stated as follows:

H1: The more work experience (outside the firm) of the successor, the more profitable the post-transfer period will be (H1).

On the other hand, based on the knowledge management literature, and in particular, concepts such as *tacit knowledge*, that is noncodified information which is generally difficult to communicate orally from one person to the other, Hypothesis 2 is stated as follows:

H2: In firms where the successor is an insider and in firms where the successor is related to the predecessor, the post-transfer period will be more profitable.

Written succession plans may also be seen as a way to capture existing knowledge of the predecessor about his or her job, and thus lead to better post-transfer performance. A long-standing position taken in the literature in the field of succession planning advocates for formal planning, although there is little empirical research to date to support or refute this claim. With respect to the strategic intent, furthermore, the literature shows that change of ownership is very often a good opportunity for the strategy revision and change implementation, if needed. Such a strategy check-up may have a positive effect on the business performance. Thus, based on the "best practice" literature, knowledge management arguments, and TPB we state Hypothesis 3 as follows:

H3: Firms with a more formal succession procedure (e.g. who rely more heavily on a written succession plan and strategic intent) in general will be more profitable in the post-transfer.

4. Methodology

4.1. Sample and data collection

This study was based on microdata collected from a longitudinal panel survey carried out in the Netherlands. From a total panel wave of 1964 firms, data were collected more specifically about business transfers from 799 firms, that are transferred within last 15 years or were in the process of transfer at the time of the survey. Surveying occurs primarily through a series of telephone interviews (three times per year). Data was collected in 2008. The current sample only included those firms furthermore in which ownership had been transferred at least three years before the data collection period for profitability to assure that 2006 and 2007 profitability reflected the post-transfer period. This further criterion resulted in a final sample of 146 firms for analysis. In all cases, the source of information was the current director, and thus the successor in the transfer process (as opposed to the predecessor).

4.2. Variables

Post-transfer profitability was based on a composite of 2006 and 2007 profitability data, based on self reports by the entrepreneurs. Furthermore, three clusters of independent variables were included in the study. Successor variables include gender, (familial) relationship (of the successor) with the predecessor, insider status (a number of years worked within the target firm) prior to the business transfer, and years worked outside the firm. As those characteristics seem to be a fundamentally different concepts, we decided to use the items separately, rather than building a scale. Formal planning characteristics, the second set, include a written succession plan and the strategic intent. Written succession plan is measured by asking whether the respondents formulated a written succession plan. Respondents who have strategic intent, that is have an intent to change, agree that they took the following steps in the process of ownership transfer: to identify the strengths, weaknesses, opportunities and threats of the business as well as to identify points for improvement in the business operations. Control variables include company age, company size, sector (manufacturing and wholesale used as dummy variables), and years since the transfer.

4.3. Data analysis

Bivariate relationships are first examined using Pearson product-moment bivariate correlation statistics. Sine one instrument are used in the current survey, the items measuring dependent and independent variables are checked for common method bias, using principal component factor analysis and single-factor test. The created scales were check for their reliabilities. A multivariate model is then developed using Ordinary Least Squares hierarchical regression analysis. First, the incremental contribution to total R-squared from each set of independent variables (e.g. successor characteristics, formal planning characteristics) is examined as a second block after controls are entered in a first step. Then in order to check for robustness of the model, all three sets of variables (plus the controls) are combined together in an all-variable model. As a last step, the interaction effect of the variable, Related to the Predecessor, x_r, is tested, in turn, with each of the other independent variables, x_i, by adding the product, $(x_r \text{ x } x_i)$ to the all-variable model, in order to test for moderator effects. For the main effects model, Variance Inflation Factor (VIF) scores are checked to avoid including variables with high multicollinearity.

5. Results

5.1. Descriptive statistics and bivariate relationships

Table 1 shows descriptive statistics and bivariate relationships as well as the mean and standard deviation for each variable included in the study.

INSERT TABLE 1 HERE

The test for common method bias is presented in Table 2. All items included in the orthogonally rotated factor analysis clearly load on four separate factors with the loadings ranging from .68 to .94. Furthermore, the first factor explains only 24% of the variance. Thus the data is free from the common method bias.

INSERT TABLE 2 HERE

The data is checked for the VIF scores. For the variables included in Model 3, Table 3, those indexes are between 1.10 and 1.78, which suggests that the variables are relatively free from multicollinearity.

5.2. Resutls for main effect

Results are shown in Table 3, Model 1 for the first hypothesis regarding Years worked outside the firm. This variable has a negative association with the dependent variable (B=-0.18) opposite to the predicted direction, although only on a trend level (p<.1). The variable Insider, which reflects working a number of years in the business prior to transfer, is found to have no effect on post-succession profitability (B=0.02, ns). A negative association is found for the relationship between the Related to Predecessor variable and post-succession profitability (B=-0.25, p<.01). Thus, the results do not confirm Hypothesis 1. Regarding Hypothesis 2, the results are somewhat inconclusive.

INSERT TABLE 3 HERE

Regarding Hypothesis 3 (Table 3, Model 2), none of the variables used to measure formal planning characteristics are associated with post-succession profitability, suggesting rejection of that hypothesis.

Comparing successors characteristics and planning characteristics, there is stronger support for the effects of successor characteristics (ΔR squared=.06, p<.1) though not always in the predicted direction. In particular, even in the all-variable model (Table 3, Model 3), results related to Years worked outside the firm (B=-0.20, p<.1) and Related to Predecessor (B=-0.25, p<.05) in predicting Post-Transfer Profitability are similar to these in the successor only related model (Model 1).

5.3. Resutls for interaction effect

Results with respect to interaction effects may explain the limited main effects found in Hypotheses 1-3. In particular, a strong, significant interaction effect is found for Related to Predecessor and Strategic Intent (p<.001; Table 4, Model 4), such that Strategic Intent has a positive influence for family-to-family ownership transfer but no effect in nonfamily transfers (see Figure 2). The interaction term explains 4% of the predicted variable (ΔR squared=.04).

INSERT TABLE 4 HERE

The interaction term between Related (to the predecessor) and Written Plan was also included in the analysis. The results, however, were not significant and thus are not reported in the current paper.

INSERT FIGURE 2 HERE

When it comes to control variables, overall size has a strong negative effect on Post-Transfer Profitability in the condition of both family-to-family transfers (i.e. predecessor and successor are related) and in nonfamily transfer.

6. Fruther discussion and conclusions

6.1. Summary of findings

This study examines the relationship between successor and planning characteristics and post-transfer profitability in SMEs. Research findings, first of all for the full dataset, suggest that there is a significant trend such that family-to-family transfers are slightly less profitable then family-to-nonfamily transfers. However, somewhat contradictory is the finding that transfers involving successors with more outside work experience are also somewhat less profitable after the transfer. It may be that the *type* rather than *length* of work experience may determine future success.

The results suggest, furthermore, that formal planning is important only in case of family-to-family transfer. Moreover, the positive and significant results for the interaction term between Related (to the predecessor) and Strategic Intent, but not for the Writing Plan, may mean that much more important for the family business is to plan for change (and, probably to introduce changes) than to strive for knowledge retention.

6.2. Shortcomings of the current study and directions for future research

Initial results from the current study suggest that determinants of post-succession profitability may be quite different in the family-to-family ownership vs. nonfamily ownership transfer conditions (i.e. whether or not the successor is related to the predecessor).

Future research should take this into account, either by taking broader samples to include both types of transfer situations, or by being careful not to generalize from one business subpopulation to the other, especially in case only family (or nonfamily) transfers are examined. The interaction effect of Strategic Intent and the variable which measures the familial relationship between successor and predecessor, in particular, suggests that tacit knowledge may be transferred more effectively in the family-to-family condition, thus reducing the need for a written succession plan. Instead, family businesses need to pay more attention to business strategy check-up and plan for future change. However more detailed research is needed to confirm this explanation.

It is clear that future research would benefit from more detailed measurement of the planning process than was possible in this study. In the current research we measured 9- of the 18 items of planning scale developed by Van Teeffelen (2007) but using factor analysis the items did not factor into one clear scale. Thus, the future research might explore the multiple factors (Van Teeffelen, 2007). Future research would also benefit from the use of varied effectiveness indicators. Past research shows that the predictive models vary for different business transfer criteria such as transfer time, satisfaction and emotional attachment after the transfer (Van Teeffelen, 2007).

Finally, the research would benefit from longitudinal data which more carefully measures the lag time between the moment of transfer and subsequent measurements of profitability. It may be that some of the indicators shown in this study to have a significant effect dissipate over time whereas other indicators become more significant.

All these limitations aside, one intriguing question remains regarding the balance of retaining local knowledge within the firm versus bringing new information and talent from outside the firm. There appears to be support for both arguments, and furthermore, potentially a very important positive role related to knowledge retention in family to family transfers. However, to confirm this finding, more longitudinal research is needed with more thoroughly measured variables.

Finally, the results show that in case of family-to-family transfer strategic intent is important factor determining post-transfer profitability. Results suggest that change of ownership is a proper occasion to revise business strategy and, if necessary, to introduce changes that would improve performance. The question, however remains: Is it, thus, the planning *per se* or the intention to change (for the better) for those family businesses, that chose to think about strategy before the transfer? Why strategic intent is more important for family-to-family transfer? Maybe because a new non-family owner is more likely to change anyway? As the research shows, in case of family-to-nonfamily transfer there is more freedom and willingness to change, whereas in case of family-to-family there is more tendency to keep *status quo* (Van Teeffelen and Peek, 2008).

6.2. Theoretical and practical implications of the current study

There are two competing paradigms in the business transfer literature-that of radical transformation and continuity. On the one hand, radical transformation is seen as a potential spur to innovation and productivity. Though not tested in the present study (since all companies in the sample had indeed transferred ownership), some recent results are beginning to support this view (Meijaard, 2006). Rather than predicting disaster, change of leadership appears to be a boost to sales growth and innovation (Meijaard, 2006). This is consistent with the empirically supported model presented by Burke and Litwin (1992), for instance, which argues for the benefits of transformational change in improving organizational performance.

On the other hand, there is an argument to be said for continuity. In an unpublished study carried out by ING Bank, reported on by the same authors, based on new owners of 1300 companies that had changed hands in the last ten years in the Netherlands, former West Germany and Flanders, the two top problems encountered included financing and problems with staff and culture. Especially in the latter case, one could easily make the argument that continuity of leadership could assist with the established relationships and insider knowledge related to the existing staff and its associated culture.

Reviewing the results of the present study, it would appear that although the type of transfer (family vs. nonfamily) does not itself directly influence post-transfer profitability, it serves as a potentially extremely important moderator variable.

Indeed these views need to be followed up with more extensive research that examines the type of planning that takes place and more detailed analyses of the nature of the characteristics of the successor and the planning process. But results from this study do confirm the importance of examining the nature of the transfer as a critical moderator variable which may help to untangle the growing empirical research in this area.

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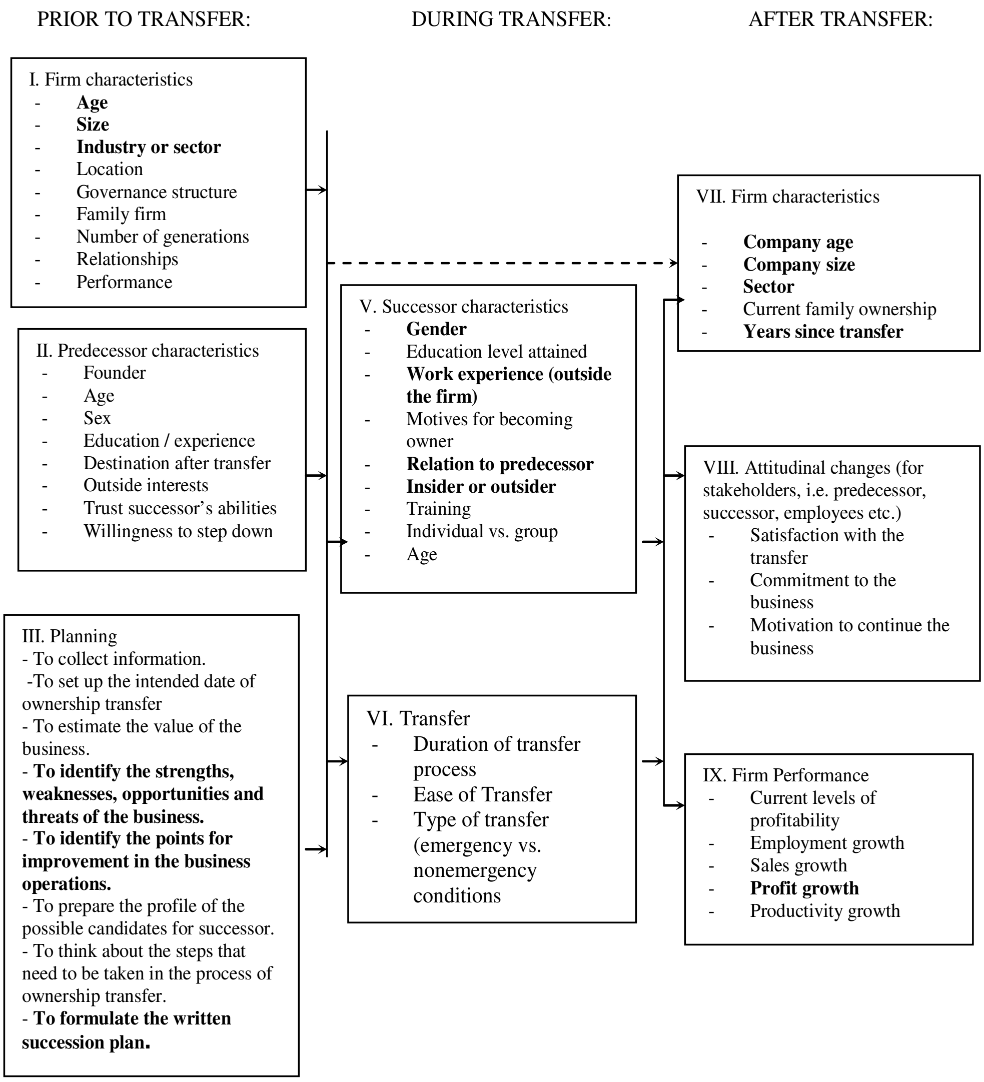
Figure 1: Business transfer schema (Meijaard, et al., 2005)



Note: Relationships and dependencies between categories I through IV are left out for transparency. Also for the links between categories V and VI, and for the links between categories VII, VIII and IX.

Figure 2: Strategic Intent and Post-transfer Profitability in case of family-to-family and family-to-nonfamily business transfer.

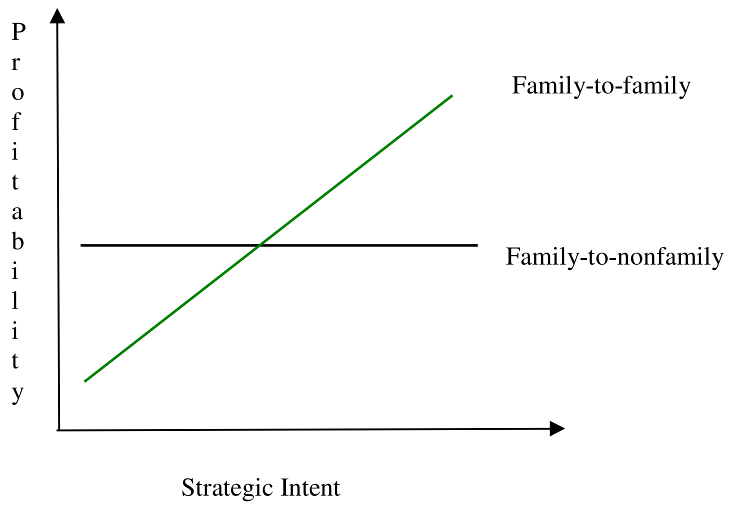


Table 2: Factor loadings of all variables using Varimax rotation

	Factor 1: Successor characteristics	Factor 2: Post-transfer profitability	Factor 3: Strategic intent	Factor 4: Written succession plan
Planning: Strengths, weaknesses, opportunities en threats identified.	-0.06	-0.07	0.84	0.22
Planning: Points of improvement of business operations indicated.	-0.07	0.15	0.83	-0.20
Written succession plan	-0.01	-0.01	0.01	0.94
Insider	0.78	0.10	0.08	0.04
Relationship to predecessor	0.68	-0.22	-0.17	-0.24
Years worked outside the firm	-0.86	-0.09	0.10	-0.10
Profit/sales 2006	0.06	0.84	0.15	-0.20
Profit/sales 2007	-0.02	0.85	-0.06	0.17
Cronbach's reliability alpha's		0.63	0.58	

Table 3: Individual effects of successor characteristics and formal planning characteristics on post-transfer profitability of the firm (2006-2007)

	Model 1: Successor effects + Controls		Model 2: Planning effects + Controls		Model 3: Successor effects + Planning effects + Controls		Entered First/Last after Controls
Explanatory variables	β (beta)		β (beta)		β (beta)		
Successor characteristics							0.06#/0.06#
Gender (0=female; 1=male)	0.10				0.08		
Related to predecessor (0=no;1=yes)	-0.25	**			-0.25	*	
Insider (0=no;1=yes)	0.02				0.02		
Years worked outside the firm	-0.18	#			-0.20	#	
Formal planning characteristics							0.02/0.01
Strategic intent			0.11		0.09		
Written succession plan			-0.06		-0.08		
Control variables							
Company age (natural log)	0.04		-0.01		0.03		
Company size (natural log)	-0.30	***	-0.27	**	-0.30	***	
Manufacturing	-0.07		-0.04		-0.07		
Wholesale	-0.15	#	-0.17	*	-0.16	#	
Years since transfer	0.08		0.09		0.09		
R-square	0.15		0.11		0.17		
Adjusted R-square	0.10		0.06		0.10		
F-statistic	2.70	**	2.42	*	2.40	**	
DF (*df1*, *df2*)	(9, 136)		(7, 138)		(11, 134)		

# $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
Note: β (beta) refers to the standardized coefficients of the explanatory variables.

Table 4: Overall model and interaction effects of successor characteristics and formal planning characteristics on post-transfer profitability of the firm (2006-2007)

	Model 4: All variables + interaction effect		Model 5: All variables + interaction effects		Model 6: Family to family ownership transfer		Model 7: Nonfamily ownership transfer	
Explanatory variables	β (beta)		β (beta)		β (beta)		β (beta)	
Successor characteristics								
Gender (0=female; 1=male)	0.11		0.11		0.02		0.13	
Related to predecessor (0=no;1=yes)	-0.78	***	-0.79	***				
Insider (0=no;1=yes)	0.02		0.02		0.10		-0.01	
Years worked outside the firm	-0.19	#	-0.19	#	-0.20		-0.17	
Formal planning characteristics								
Strategic intent	-0.11		-0.11		0.46	***	-0.12	
Written succession plan	-0.10		-0.12		-0.05		-0.13	
Control variables								
Company age (natural log)	0.05		0.05		0.14		0.01	
Company size (natural log)	-0.32	***	-0.32	***	-0.33	*	-0.33	**
Manufacturing	-0.07		-0.07		-0.30	*	0.03	
Wholesale	-0.19	*	-0.19	*	-0.23	#	-0.21	#
Years since transfer	0.09		0.09		0.07		0.11	
Interaction terms relationship								
Related x strategic intent	0.56	*	0.55	*				
Related x written succession plan			0.04					
Δ R-square of interaction terms	0.04	*	0.04	*				
R-square	0.20		0.20		0.32		0.19	
Adjusted R-square	0.13		0.13		0.17		0.08	
F-statistic	2.76	**	2.54	**	2.23		1.76	#
DF (*df1*, *df2*)	(12, 133)		(13, 132)		(10, 48)		(10, 76)	

# p < 0.1; * p < 0.05; ** p < 0.01; *** p < 0.001.
Note: β (beta) refers to the standardized coefficients of the explanatory variables.

Table 1: Pearson Correlation between all variables and mean and standard deviation of all variables

	1	2	3	4	5	6	7	8	9	10	11	12
1. Post-transfer profitability	1											
2. Company age (ln)	-0.06	1										
3. Company size (ln)	-0.25[c]	0.32[d]	1									
4. Manufacturing	-0.07	0.14[a]	0.21[b]	1								
5. Wholesale	-0.13	-0.13	-0.12	-0.18[b]	1							
6. Years since transfer	0.05	0.18[b]	0.06	-0.12	0.10	1						
7. Gender	0.04	0.09	0.14[a]	0.10	-0.03	0.02	1					
8. Related to predecessor	-0.13	0.35[d]	0.01	-0.08	0.09	0.23[c]	0.10	1				
9. Insider	0.06	0.28[d]	0.06	0.06	-0.10	-0.03	0.05	0.26[c]	1			
10. Years worked outside the firm	-0.07	-0.28[d]	-0.09	-0.06	-0.03	-0.25[c]	-0.01	-0.46[d]	-0.52[d]	1		
11. Strategic intent	0.09	0.01	0.08	0.19[b]	-0.10	-0.11	0.22[c]	-0.16[a]	-0.02	0.15[a]	1	
12. Written succession plan	-0.06	-0.05	0.07	0.18[b]	-0.12	0.04	-0.03	-0.12	-0.03	-0.02	0.00	1
Mean	9.19	3.17	2.75	0.19	0.12	7.85	0.96	0.40	0.77	7.91	2.19	0.27
Standard deviation (SD)	8.90	0.90	1.13	0.40	0.32	3.48	0.20	0.49	0.42	8.59	0.81	0.44

N=146, a: $p < 0.1$, b: $p < 0.05$, c: $p < 0.01$, d: $p < 0.001$

Appendix 1: Description of variables

Variable	Description	Score
Successor characteristics		
Gender	Gender of the successor.	0=female; 1=male
Related to predecessor	Respondents were asked the following: Q: Do you have a family relationship with your predecessor?	0=no; 1=yes
Insider	Respondents were asked the following: Q: How many years did you work in this firm before the succession?	0=never working within the firm; 1=any answers greater than zero
Years worked outside the firm	Respondents were asked both for number of years work experience altogether and also inside the firm. This variable is based on the difference between the two answers: total years worked in the firm minus years worked within the firm before the succession.	Scale.
Formal planning characteristics		
Strategic intent	Respondents were asked the following: *Have you taken the following step in the process of ownership transfer?* Q1: To identify the strengths, weaknesses, opportunities and threats of the business. (0=no, 1=more or less, 2=yes) Q2: To identify the points for improvement in the business operations. (0=no, 1=more or less, 2=yes) This variable is based on the average of the scores of both questions.	Average score of *Q1* and *Q2*
Written succession plan	Respondents were asked the following: Q: Did you formulate a written succession plan?	0=no; 1=yes
Performance		
Post-transfer profitability	Respondents were asked the following: Q1: What was your profit in 2006? Q2: What was your turnover in 2006? Q3: What was your profit in 2007? Q4: What was your turnover in 2007? This variable was computed as the average score of Q1 divided by Q2 and Q3 divided by Q4.	Average score.

Variable	Description	Score
Control variables		
Company age (natural log)	Respondents were asked the year of the firm's founding. Age was computed by substracting the answer form the year of the study (2008) and the converting to the	Scale.

	natural logarithm.	
Company size (natural log)	Respondents were asked the following: Q: How many employees are working in the firm, including this establishment, at the moment? Answers were converted to the natural logarithm to reduce the skewedness of the distribution.	Scale.
Manufacturing/wholesale	The sector in which the firm operates. Dummy variables were created for the manufacturing and wholesale sectors.	0=otherwise, 1=mentioned
Years since transfer	Respondents were asked the following: Q: In which year was the last succession? This variable was computed by substracting the answer form the year of the study (2008). (Note this variable was also used as a filter to exclude firms that had made a transfer less than three years before the study, since profitability data was from the previous two years.)	Scale.

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