Europe's Silent Business Crisis: The Succession Planning Emergency — by Mukul Pandya

"Thinking about succession means thinking about your own demise," notes François Vigne, a managing partner at Sycomore Corporate Finance, according to a report in Le Figaro. This psychological barrier lies at the heart of Europe's mounting business succession crisis. As the continent grapples with an aging population, this reluctance to confront mortality is threatening the survival of hundreds of thousands of small and medium-sized enterprises (SMEs)—the backbone of the European economy.

This psychological barrier manifests in countless personal stories across Europe. In Hagen, Germany, brothers Hartmut (68) and Christian Petzold (66) embody this challenge. Having developed and distributed automotive care products since 1988, they now face the prospect of their expertise disappearing with retirement. "The knowledge will be lost. That's dangerous," says Hartmut Petzold, while arranging cleaning putty boxes in their warehouse. Despite years of searching for a successor, they've found no one to take over their life's work.

The numbers are stark. In France alone, 700,000 companies will need to find new leadership in the next decade, reports Le Figaro. Meanwhile, in Germany, Europe's largest economy, the situation is equally dire. According to KfW Research's February 2024 status report, some 224,000 business owners had planned to step down by the end of 2024, with 626,000 companies requiring succession solutions by 2027.

What's particularly encouraging, notes KfW's report, is that 41% (92,000) of businesses seeking immediate succession already have arrangements in place, with another 31% (69,000) in active negotiations. However, this positive development is overshadowed by broader challenges. Bpifrance Le Lab and the Family Business Network (FBN) France estimate that a quarter of business owners over 70 have done nothing to prepare for their succession. This proportion rises to an astounding 47% for family business owners over 60—a particularly worrisome statistic given that 71% of French companies are family-owned.

"If we don't find solutions to the issue of business transfers, a terrible wall will be erected in front of us," warns Alain Di Crescenzo, president of CCI France, as quoted in Le Figaro. This wall, he notes, could lead to "a loss of skills, jobs, and economic no-man's land" as failing successions lead to business closures that diminish the economic and sociological aspects of affected regions.

The obstacles to successful succession are multifaceted. According to KfW's research, the most frequently cited hurdles are: finding a suitable successor (74%), agreeing on a purchase price (30%), bureaucracy (30%), legal complexity (28%), and financing aspects (16%). The psychological barrier remains significant too. "It's very difficult for a head of a company—especially if he or she is the founder—to hand over the reins," explains Philippe Mutricy, director of studies at Bpifrance, as reported by Le Figaro.

Structural Factors

These surface-level challenges mask deeper structural factors driving Europe's succession crisis. Demographic shifts represent perhaps the most fundamental issue. The post-war baby boom generation that built many of Europe's SMEs is now reaching retirement age en masse, creating an unprecedented wave of necessary transitions. At the same time, falling birth rates mean there are fewer potential successors in younger generations, particularly within families where businesses have traditionally passed from parent to child.

Cultural shifts play an equally important role. It is widely believed that today's young professionals increasingly favour corporate careers or tech startups over taking over established family businesses. This preference reflects both changing values and practical considerations—many find the prospect of managing traditional businesses less appealing than the perceived dynamism of the digital economy.

Economic factors also contribute significantly to the crisis. The increasing complexity of global markets makes business succession more challenging than in previous generations. Successors today need not only traditional business acumen but also expertise in digital transformation, international trade, and rapidly evolving regulatory environments. This raises the bar for potential successors and makes the transition process more complex and costly.

Regulatory and tax environments in many European countries further complicate succession planning. Despite some mechanisms like France's Dutreil pact, the tax implications of business transfers often create significant financial burdens. Complex inheritance laws and regulations around business transfers can make succession planning a lengthy and expensive process, deterring both potential successors and current owners from engaging in proper planning.

The crisis is particularly acute in Germany, where demographic shifts are reshaping the traditional Mittelstand, which refers to the group of SMEs, often family-owned, that are considered the backbone of the German economy. They contribute significantly to the country's economic output and employment through their focus on innovation, quality, and niche market leadership. They are, essentially, the "middle class" of businesses in Germany.

DIHK expert Marc Evers highlights the severity of this challenge: "The number of business owners seeking succession solutions is three times higher than the number of interested buyers." The consequences are stark—more than 250,000 German companies risk closure within the next five years if they can't arrange successful transitions. The problem is compounded by emotional attachment—29% of companies seeking chamber of commerce consultation struggle to let go emotionally, while 20% delay transfer hoping for higher future sale prices.

KfW's 2024 report reveals that 30% of business owners in Germany are now over 60 years old—well over a million entrepreneurs. Dr. Fritzi Köhler-Geib, Chief Economist of KfW, emphasizes in the same report: "The succession gap in the SME sector is widening. We are now talking about some 125,000 businesses for which the current generation of owners is seeking a successor—every year."

The consequences can be severe. KfW's 2022 status report indicated that approximately 266,000 SMEs planned to shut down by the end of 2025 instead of organizing a succession, with another 199,000 at risk of involuntary closure due to insufficient planning. The primary reason for closure, cited by 63% of owners, was the lack of potential successors within the family.

Some business owners are taking proactive steps. Pierre Guillet, who runs Hesion, a tech-focused SME, began preparing five years ago for his retirement, according to Le Figaro. His approach includes preparing his children for possible succession and implementing gradual employee ownership programs. "All this takes time," he emphasizes, "for the project to mature in their minds too. You can't rush it."

The financial aspects present another hurdle. François Vigne notes in Le Figaro a critical shortage of investment funds capable of supporting business takeovers in France. This gap is particularly problematic given that successful transitions typically require seven to 10 years of preparation, according to FBN France.

A Challenge Across the Continent

The severity of the succession crisis varies significantly across European countries, with some regions facing particularly acute challenges. As described above, the situation in Germany is especially worrisome given the country's reliance on its Mittelstand. According to KfW's research, the combination of an aging business owner population and a shortage of young entrepreneurs creates a perfect storm. The situation is exacerbated by Germany's complex regulatory environment and high business transfer taxes, which can make succession prohibitively expensive even when willing successors are found.

In France, the crisis manifests differently but with equally serious implications. Le Figaro highlights how the country's tradition of family businesses—representing 71% of all companies—makes it particularly vulnerable to changing generational attitudes toward business ownership. The concentration of businesses in family hands means that the failure to arrange proper succession doesn't just affect individual companies but entire supply chains and regional economic ecosystems.

Italy faces perhaps the most severe challenges among major European economies. The country's aging population, combined with a significant youth exodus to other EU countries, has created a particularly acute succession crisis. Many of Italy's renowned craft-based businesses and specialized manufacturing firms risk disappearing entirely as aging owners struggle to find successors who can maintain their unique traditions and skills.

The Nordic countries, while generally better prepared in terms of succession planning, face their own unique challenges. In Sweden and Denmark, high levels of regulation and social security costs can make business transfers particularly complex and expensive. However, these countries have also been more successful in implementing innovative solutions, including employee ownership schemes and professional management transitions.

In Eastern Europe, the succession crisis takes on additional complexity due to the relatively recent transition to market economies. Many successful businesses were founded in the 1990s during privatization, meaning their owners are now reaching retirement age simultaneously. This creates a concentrated wave of succession needs in economies that haven't yet developed robust mechanisms for business transfer.

The impact on national economies could be substantial. As Guillet points out in Le Figaro, "If the State wants to secure its budget, it has every interest in companies being passed on. Because a company that doesn't pass on means fewer taxes." Beyond tax revenues, there's the risk of losing technical knowledge and industrial capabilities built over generations.

Innovative Solutions

The crisis has sparked innovation in succession solutions. The KfW report shows encouraging signs that more business owners are actively engaging with succession planning, with the share of owners aspiring to hand over their business increasing from 35% to 41% over the past six years.

Business transfers require extensive preparation. Experts recommend owners begin positioning their company for the next generation three to 10 years before the planned handover. This involves evaluating whether offerings are future-oriented, margins are sustainable, production facilities are modern, and organizational structures are optimized.

One particularly promising approach is the management buy-in (MBI), where experienced executives acquire and run existing businesses. This model proves especially effective for businesses where the current owners are looking for successors with proven management experience.

More broadly, the entrepreneurship through acquisition (ETA) movement is gaining traction in this space. Industry experts note that ETA clubs at leading business schools are becoming increasingly active in developing the next generation of business leaders through this route. The model is particularly appealing because it combines fresh management perspectives with preservation of existing business operations.

Some innovative practitioners are taking this concept further. One approach, described by an industry insider, involves creating an ecosystem where experienced entrepreneurs identify promising young MBAs, provide funding for acquisitions, and offer ongoing mentoring and training support. This model addresses not just the immediate succession need but also helps build a sustainable pipeline of future business leaders.

The evolution of these models reflects a growing recognition that traditional family succession may not be enough to address the scale of the challenge. While family transitions remain important—and indeed often preferred by several existing owner-managers—alternative models like MBI and ETA offer viable paths forward, especially for businesses where family succession isn't feasible.

Such innovations are particularly relevant given that, as Dr. Köhler-Geib notes in KfW's report, "The foreseeable demographic development suggests that finding suitable successor candidates will become increasingly more challenging. The following generations are simply less numerous as a result of persistently low birth rates."

The path forward requires addressing both practical and cultural challenges. On the practical side, better financial instruments, simplified regulatory frameworks, and improved support systems for succession planning are needed. Culturally, Europe needs to foster an environment where business succession is viewed not as an admission of mortality but as a natural part of business evolution and growth.

Without decisive action, Europe risks losing not just individual businesses but the accumulated knowledge, relationships, and economic vitality that these SMEs represent. The crisis presents both a challenge and an opportunity. While the risks are significant, the situation also creates space for innovation in business transfer models and the emergence of new approaches to entrepreneurship. The success of these efforts will play a crucial role in determining the future shape of Europe's business landscape.