Information Sharing, Price Negotiation and Management Buy-outs of Private Family-owned Firms

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Abstract

Perspectives relating to agency theory, information asymmetries and game theory were utilized to explore two outcomes associated with the management buy-out (MBO) or management buy-in (MBI) of former private firms: whether information was shared equally between vendors (i.e., family firm owners) and purchasers (i.e., MBO/I management teams) and whether a mutually agreed price was agreed. With reference to the themes of company ownership structure, governance structure and company objectives several hypotheses were derived. Survey evidence was gathered from the managers of 114 former private family-owned firms located across Europe that recently reported an MBO/I. Multiple logistic regression analysis detected that respondents in founded (first generation) family firms and those reporting a high focus on the strategic importance of the market value increment were more likely to report that 'information was shared equally between vendors and purchasers'. Respondents reporting no suitable successor had been identified, a high focus on the strategic importance of the market value increment, and the involvement of venture capitalists in succession planning were more likely to report that a mutually agreed sale price had been negotiated. Implications for practitioners and researchers are discussed.

Keywords: Family firms, succession, management buy-out, information asymmetry negotiation behaviour, corporate governance.

INTRODUCTION

Corporate governance and the ownership transfer process are attracting academic and practitioner attention. Prior ownership and governance configurations have been linked with the hostile bid takeover process (Song and Walkling, 1993; O'Sullivan and Wong, 1999), as well as in relation to leveraged buy-outs of listed corporations or their divisions (Thompson and Wright, 1995; Halpern et al., 1999; Weir et al., 2005). Currently, there is a dearth of empirical evidence relating to how private firms move across ownership thresholds, defined as the transition from one phase of a firm's life-cycle to another. Theorists suggest that the process of moving across thresholds needs to be explored with regard to contrasting governance structures (Lynall et al., 2003; Filatotchev and Wright, 2005. In this study, we focus on the ownership transition process relating to private family-owned firms that have reported an ownership transition through a management buy-out (MBO) or a management buy-in (MBI). An MBO is the purchase of a business by its management, usually in co-operation with outside financiers such as a venture capital firm. In an MBI, the firm is sold to managers who are external to the business, with this new management team taking a controlling stake. MBO/Is account for about half of all takeovers in the UK, and around a fifth of all MBOs and MBIs in Europe relate to the take-over of private family-owned firms (Centre for Management Buy-out Research (CMBOR), 2005). Several studies have focused on the ownership transition process relating to succession in private family-owned firms (Handler, 1994; Morris et al., 1996, 1997; Birley et al., 1999; Bjuggren and Sund, 2001; Sharma et al., 2003a; Westhead, 2003; Sharma and Irving, 2005). Scholars have, however, neglected the gap in the knowledge base relating to the MBO/I succession option; this study is the first to examine this context.

The purpose of the study is to provide fresh insights surrounding the links between ownership and governance structures of private family-owned firms and two aspects of the MBO/I transition process. Specifically, in this paper, ownership structure refers to the presence of the founder of the firm and non-family managers who have an ownership stake before the transition, whilst governance structure relates to the presence of non-executive or outside directors (NEDs) before the MBO/I and the influence of the venture capital firm (when present) in succession planning. The two specific aspects (or dependent variables) associated with the management buy-out (MBO) or management buy-in (MBI) of former private family-owned firms were monitored: whether information was shared equally between vendors (i.e., family firm owners) and purchasers (i.e., MBO/I management teams) and whether a mutually agreed price was achieved (as opposed to one or other party imposing a sale price that was to their advantage), as these have been shown to be associated with perceptions relating to whether the MBO/I was successful and the price paid had been fair (Howorth et al., 2004). The post-deal performance of the family firm after the MBO/I may depend on the nature of the business sale negotiation process. If both parties are not satisfied with the deal, the agreed (and in some instances contracted) relationships may not be exhibited in the post-deal period. The performance of the purchased family firm may be retarded if the MBO/I management teams are unable to incentivize the former family owners to transfer tacit knowledge (i.e. knowledge which is only known to the owners and is hard to share with someone else), provide legitimacy or to maintain crucial business relationships with former loyal suppliers and customers (Howorth et al., 2004).

Guided by insights from agency theory, game theory and negotiation theory, a conceptual framework is presented suggesting links between private family-firm ownership and governance structures and the two selected MBO/I process outcomes. Corporate governance theorists utilize the agency perspective to explore control issues in listed firms with diffuse ownership (Hart, 1995; Keasey et al., 2005). An agency perspective has been utilized to explore governance issues in venture-backed private firms (Sahlman, 1990; Lerner, 1995; Kaplan and Strömberg, 2001). The typical family firm has been assumed to be owned and managed by a concentrated group of family members where the firm's objectives are closely-linked to family objectives (Zahra et al., 2004). In these circumstances, the traditional agency cost issue may not apply. However, to grow and survive, some private family-owned firms may no longer have aligned ownership and management in the same 'family' hands, and this raises the potential for agency issues between separated family owners and non-family managers. Agency theory has already been utilized to explore the behaviour of family firms that do not have aligned ownership and management. Also, agency theory has been shown to be useful in understanding the relationship between family owners and non-family managers (Chua et al., 2003). Stewardship theory also has some relevance to the study of the family firm succession process. Family firm managers may act as stewards. The latter non-family managers would seek to protect the assets of the family firm rather than to pursue interests which maximize their own personal gain (Donaldson and Davis, 1991).

Recent studies (Schulze et al., 2001, 2002, 2003; Westhead et al., 2001) have highlighted the important influences of firm ownership and governance as well as firm objectives on the strategic behaviour of family firms (Brunninge et al., 2005). However, as noted above, there is scant evidence relating to the purchase of the private family-owned firm by existing (non-family) managers through an MBO, or the external purchase by outside managers through an MBI.

Game theory provides a formal way of analyzing competitive (or cooperative) interactions among people who are making decisions; in this case the vendors (i.e., the family firm owners) and purchasers (i.e., the MBO/I teams). Moreover, negotiation theory has been utilized to explore what makes people work together towards a cooperative solution as opposed to trying to maximize individual gains. The probability of a cooperative MBO/I negotiation process can be reduced in the following contexts: family firms have dispersed ownership and governance / management structures; there are high information asymmetries between vendors and purchasers; and the interested parties' objectives are not aligned (Axelrod, 1980; Friedman, 1990; Fudenberg and Tirole, 1991; Cable and Shane, 1997). This raises two key aspects of the family firm MBO/I negotiation process. The first relates to the extent to which information about the firm is shared between the vendors and purchasers. In an ideal situation, all information about the firm would be available to all parties. Both vendors and purchasers require diverse and accurate information surrounding the firm's assets and liabilities in order to set a mutually agreed purchase price for the firm. The second concerns the extent to which the parties cooperate in achieving a mutually agreed price, or whether each party attempts to impose a price that maximizes their own benefit. If information is not available or not disclosed, the vendor, for example, could be at an advantage by knowing what the firm is actually worth. Vendors seeking to maximize the sale price may not disclose all relevant information to purchasers. The presence of different parties in the ownership and governance of the firm prior to the sale, for example, through the active role of a venture capital firm, can increase the probability that a mutually agreed price is agreed between the vendors and the perspective purchasers.

The study focuses on private family-owned firms that received venture capital and had completed an MBO/I between 1994 and 2003. Information was consistently gathered from the senior executives of 114 private firms in several European countries that had reported an MBO/I deal. The following two broad research questions are explored:

Q1 Are the ownership and governance structures of former private family-owned firms reporting 'information was shared equally' between vendors and purchasers during the MBO/I sale process different from those reporting 'information was not shared equally'?

Q2 Are the ownership and governance structures of former private family-owned firms reporting a 'mutually agreed price' between vendors and purchasers during the MBO/I sale process different from those reporting 'no mutually agreed price'?

This paper is structured as follows. Studies focusing on private family-owned firm succession routes are briefly discussed in the following section. The conceptual framework guiding the study is then discussed. In the following section, several hypotheses are derived relating to company ownership structure, governance structure and company objectives. The data collection process and the research methodology are discussed in the next section. Results are then presented. Finally, conclusions and implications are discussed.

PRIVATE FAMILY-OWNED FIRM SUCCESSION ROUTES

The survival of family firms is an important entrepreneurial sustainability issue (Westhead, 2003). Further, the failure to carefully consider succession issues may have a detrimental impact on the long-term survival of family firm economic units and the social cohesion of local communities (Wright et al., 1991). Transferring ownership beyond the founder and / or the dominant family group presents major challenges for private family-owned firms where the dominant family group owns the majority of ordinary voting shares in the business (Lansberg, 1999). The majority of family firms fail to plan for generational succession (Cliffe, 1998), and the process is not fully understood (Shepherd and Zacharakis, 2000). Most studies have exclusively focused upon succession within the family (Handler, 1994; Morris et al., 1996, 1997; Birley et al., 1999; Bjuggren and Sund, 2001; Sharma et al., 2003a; Westhead, 2003; Sharma and Irving, 2005). For the business to prosper, it may be appropriate for the dominant family owning the business to exit (sell) the firm (Willard et al., 1992). International evidence suggests that, in some instances, owners may perceive that there are no suitable family members willing or able to take on the ownership and / or the management of the family firm (Wright et al., 1992; Birley et al., 1999).

Various ownership succession options are available beyond passing the business to the next generation of members drawn from the dominant family or kinship group. The family firm can be sold through a trade sale[1] (Cromie et al., 1995), or through an initial public offering (IPO). Although family firm owners may be willing, in principle, to consider these options (Bleackley et al., 1996), IPOs are rarely feasible (Poutziouris, 2002) and trade sales may be unattractive to vendors if they may be associated with a loss of a firm's independent identity. A third option is the transfer of family firm ownership to internal incumbent managers through an MBO, or the transfer to external managers through an MBI (Bachkaniwala et al., 2001). Post-MBO/I there is a greater possibility that the firm's identity and ethos will remain the same, both of which are important for family firm owners (Westhead, 1997). An attractive feature of both MBOs and MBIs is that many incumbent managers may remain in place and family members can continue to be involved (Wright and Coyne, 1985). Family owners may make it a condition of the deal that they retain some involvement in the firm even though they relinquish both ownership and managerial control.[2] European evidence suggests that MBO/Is are viewed, in principle, by owners of family firms as a good way to solve ownership succession problems (Bygrave et al., 1994; Bleackley et al., 1996). In some countries, such as France, government schemes have been designed to ensure MBO/I exit routes (a means for the family to exit the business) are attractive succession options (Wright et al., 1991).

CONCEPTUAL FRAMEWORK

Context

Family firm owners can be viewed as principals whilst non-family managers can be regarded as agents. Agency theorists assume a performance-based system with a focus on financial objectives and self-serving owners who focus upon personal gains which can be achieved by maximizing firm performance. Agency problems may arise where there is separation of ownership and control (Jensen and Meckling, 1976; Fama and Jensen, 1983). It is frequently assumed that private family-owned firms do not suffer from agency problems because in many cases, ownership and control are aligned in the hands of a dominant kinship group related by blood and marriage who are organization serving (Davis et al., 1997; Arthurs and Busenitz, 2003; Randoy and Goel, 2003). Scholars guided by a stewardship perspective

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[1] This is a common method of exit involving sale to an existing trading corporation. This can either allow owners/management to withdraw from the business, or it may open up the prospect of working in a larger enterprise.

[2] Former family owners may retain minority equity stakes and advisory management positions in firms purchased through an MBO or MBI (Howorth et al., 2004). With reference to a MBI exit route, family owners may be reluctant to sell to completely unknown 'outsiders' who they do not trust to maintain the firm's ethos. Moreover, the performance of the purchased firm may be enhanced due to the employment of some former family firm members. The latter family members, for example, may have a role in reducing information asymmetry problems and transferring tacit knowledge to the new owners of the business.

assume that a family firm is a relationship-based system with a focus on non-financial objectives. A strong psychological ownership of the firm and a high occurrence of altruism are assumed (Schulze et al., 2003). The firm's objectives are entangled with family objectives with little outside influence (Zahra et al., 2004). A degree of overlap between the family, ownership and management sub-systems in terms of people and objectives is also assumed (Chrisman et al., 2003a). However, some family firms have diverse ownership and control structures (Litz, 1995; Westhead et al., 2001). If the objectives of owners and management differ there can be agency problems (Schulze et al., 2001; Morck and Yeung, 2003). Owners focusing on financial objectives (Smyrnios and Romano, 1994) may introduce agency control mechanisms such as performance-related pay (Schulze et al., 2003) and NEDs (Westhead et al., 2001) to enhance firm performance.

Family firms associated with 'family agendas' may be owned and managed differently (Dyer, 2003). In line with the stewardship perspective, stereotypical family firms that are closely held, family owned and family managed may focus on non-financial interests.[3] Their prevailing culture may be organization (family) serving. Conversely, in line with the agency perspective, family firms with more diluted ownership and management may focus on financial objectives and exhibit a self-serving culture.

The family firm succession process involves the negotiation of firm ownership transfer from family to a new set of non-family shareholders. Family vendors and non-family purchasers may emphasize individual or joint gains, and these goals may shape the negotiation behaviour (Dabholkar et al., 1994). The prisoner's dilemma in game theory focuses on the conditions under which parties will cooperate or defect in bargaining situations associated with asymmetric information (Axelrod and Dion, 1988). A cooperative strategy involves the seeking of mutual gains at the expense of short-term self-interest. Conversely, defection strategies emphasize the seeking of short-term individual gains at the expense of the other party, as well as long-term mutual benefits. Incentives to cooperation in negotiations between entrepreneurs and venture capitalists, for example, have been associated with goal congruence, relative power relations, trust and communication (Cable and Shane, 1997). The latter variables may also be relevant with regard to the family firm succession context.

[3] This may include, for example, the provision of employment for family members at levels for which they are not fully qualified or high discretionary expenditures on company cars, second homes, etc.

In this study, we explore whether the likelihood of the two selected MBO/I succession process outcomes are linked to a private family-owned firm's company ownership structure, company governance structure and company objectives. These three themes are discussed, in turn below. In relation to these three themes hypotheses are derived in the following section.

Company Ownership Structure

To ensure business growth, owners of some family firms may sell ordinary voting shares to 'outsiders' who are not drawn from the dominant group of family shareholders. This dilution of ownership may enable non-family members to impact favourably on company objectives and development (Schulze et al., 2002). Where family objectives are important, the family may retain a majority stake in the business to ensure future family control and the retention of family members in key executive positions. As intimated above, separation of ownership and control of the firm provides the potential for changes to the management structure, and the possibility of agency control mechanisms (Randoy and Goel, 2003). As family firms progress from one generation to the next, the structural form of ownership and management may change (Lansberg, 1999). Where firms are characterized by complexity of ownership, shareholdings will become more diverse, introducing potential agency costs. Individual shareholders with less control may request extra monitoring to ensure that their interests are secured. This could lessen the emphasis on family objectives and there could be a move away from a stewardship towards an agency perspective.

Governance Structure

The size of the board is generally related to the size and the complexity of the business. Daily (1995) found that chief executive officers (CEOs) of smaller firms with larger equity holdings had smaller boards with less 'outside' representation. Agency issues may arise in family firms associated with large boards of directors and more outside directors, as well as firms with high proportions of non-family managers. Non-family professional managers with broad expertise may be recruited to deal with a principal's governance concerns (Ensley and Pearson, 2005). For example, the recruitment of NEDs may be initiated to formalize the family firm, to ensure 'family agendas' and to avoid conflict between the non-economic objectives of family owners and the economic objectives of non-family shareholders (Mitchell et al., 2003). Family firm owners may obtain external finance from venture capitalists to ensure business development. Representatives of a venture capital firm will join the family firm board as NEDs to protect the interests of the financier. These latter NEDs may, in addition, provide advice and expertise that can be leveraged by the board to address obstacles to business development (Sahlman, 1990; Pruthi et al., 2003). Such change can bring in diversity that may act as a counterpoint to the dominant perspective of the founders and family owners (Forbes and Milliken, 1999). However, evidence suggests that family firms are less likely to report entry and exit of team members (Ucbasaran et al., 2003). The evidence is also mixed regarding the nature of boards in family firms. Some studies suggest that few family firms employ NEDs (Westhead et al., 2001). Moreover, when boards exist they may not be functional in the conventional sense (Huse, 2000). Other evidence suggests that some family firms do have active boards with active non-family members (Corbetta and Salvato, 2004).

Company Objectives

Family firms may differ with regard to the extent that family objectives are emphasized (Leenders and Waarts, 2003; Steier, 2003). Wealth creation may not be the major objective cited by family firm owners (Chrisman et al., 2003b). Some family firms choose to exchange profit maximization for benefits relating to 'family agendas'. Owners of family firms generally cite the following objectives: transfer ownership to the next generation; maintain financial independence of the family and the business; favour family members in managerial positions; and to ensure the survival of the family business as a going concern (Westhead, 1997).

DERIVATION OF HYPOTHESES

Company Ownership Structure

As noted above, the nature of the ownership structure of the firm raises potential agency problems. A family firm's profile (i.e., ownership structure, governance structure and company objectives) may increase the likelihood of information asymmetry between family firm owners (i.e., vendors) and potential MBO/I teams (i.e., purchasers), creating agency costs. If solely family members own the firm, the information flow about the firm between owners and non-family management during the MBO/I sale process may be asymmetrical. While financial information may be known to incumbent management who may undertake an MBO, external managers undertaking an MBI may be less aware of future market threats and opportunities, the status of major contracts with customers and suppliers, and / or the objectives of family owners (Robbie and Wright, 1995; Howorth et al., 2004).[4]

Family owners may be reluctant to transfer their tacit knowledge to 'outsiders'. Problems may be exacerbated if the original intention of the family firm owners was to pursue inter-generational succession. Chua et al., (2003) suggest that relationships between family owners and non-family management increase in importance with greater business size, and with the criticality of non-family management to the business. Conversely, in some cases, non-family management may be more closely involved in the day-to-day running of the business (Howorth et al., 2004). The latter managers may have the most up to date information surrounding the firm's financial and market position. Non-family managers seeking to pay a lower price for the firm may not be willing to share this information with family owners. Information asymmetry, which as agency theory suggests is more likely when there is a conflict of interest due to the separation of ownership and management, may shape the business sale negotiation process. Most notably, the process may not be balanced if management seeks to leverage this additional information to their own advantage.

Both the above conditions suggest that family firm owners and non-family management are likely to defect from cooperative approaches involving information sharing during the business sale negotiation process, and the pursuit of a mutually agreed price for the firm. Family firm owners seeking to align the interests of non-family management with those of the family may disperse some shares to non-family managers. This decision may lead to the eventual take-over of the family business by non-family management shareholders.

Game theory suggests that cooperative solutions may be more likely where there is greater goal congruence (Apfelbaum, 1974), a more even balance of power (Pruitt and Kimmel, 1977), and more communication between the vendors and purchasers (Lindskold et al., 1986). Low levels of non-family management shareholdings may be associated with goal diversity, imbalance of power and weak communication (Schulze et al., 2002, 2003). It is, therefore, reasonable to assume that firms associated with higher levels of non-family management shareholdings would report fewer imbalances during business sale negotiations. Moreover, the subsequent business sale negotiation process may be associated with greater information sharing between family firm owners and non-family management shareholders,

[4] Suppliers, for example, may not provide favourable purchasing arrangements secured by family firm owners, to MBO/I business purchasers. Information relating to the latter issue may be difficult to uncover during due diligence.

and the pursuit of a mutually agreed price may be the goal of both parties. This discussion suggests the following hypotheses:

H1a *Private family-owned firms that cited higher proportions of non-family managers were shareholders prior to the MBO/I were more likely to report that 'information was shared equally' between vendors and purchasers (i.e., low information asymmetries).*

H1b *Private family-owned firms that cited higher proportions of non-family managers were shareholders prior to the MBO/I were more likely to report a 'mutually agreed price' between vendors and purchasers.*

Whether the private family-owned firm was founded rather than bought or inherited may be associated with the decision to pursue the MBO/I succession route. The succession process can be problematical if the key owner of the firm refuses to let go, or to delegate responsibilities to successors. Founded firms generally have founders who are still involved in the ownership and the management of their firms. This aligned ownership and management reduces agency costs and may ensure information flows between the owner/manager and the incumbent non-family management team prior to and during the business sale negotiation process. MBO/I negotiations may be cooperative if founders are committed to the long-term future of the firm, and they have good relationships with (non-family) management. Greater sharing of information is expected if owners/managers are seeking some long-term involvement in the firm after the MBO/I, implying greater goal congruence with management (Apfelbaum, 1974). Founders may be more likely to seek this involvement because they may be reluctant to fully let go of the firms they have created and nurtured. Emotional attachment to the family firm (Harveston et al. 1997), lingering doubts as to whether (non-family) management can run the business effectively (Westhead et al., 2001) and concerns about the loyalty and commitment of non-family managers (Chua et al., 2003), in part, explains the desire of some founders to maintain some involvement in 'their' business (Dyer, 1992; Lansberg, 1988). Conversely, owners that have inherited or purchased the private firm may be less likely to cite the values and traditions reported by firm founders (Dyer and Handler, 1994). In contrast to founders, these owners may have career interests, psychological needs and life-style needs that are met from outside the firm (Handler, 1992).

Owners of purchased firms may thus simply view the firm as a tradable asset that enables them to pursue these interests and needs. This discussion suggests the following hypotheses:

H1c *Founded private family-owned firms rather than bought or inherited family firms prior to the MBO/I were more likely to report that 'information was shared equally' between vendors and purchasers (i.e., low information asymmetries).*

H1d *Founded private family-owned firms rather than bought or inherited family firms prior to the MBO/I were more likely to report a 'mutually agreed price' between vendors and purchasers.*

Governance Structure

The governance structure of the family firm can consist of executive directors, NEDs and managers (i.e., family and non family). Barach (1984) found that many family firms had small boards and family directors dominated these boards. Larger boards of directors and more outside (non-family) directors may be associated with growing family firms and / or firms dealing with agency issues. Directors who are members of the dominant family group can exert pressure to ensure that family agendas and the cultural foundations of the business are uppermost in importance. Also, they can favour the recruitment of family members in relation to key executive positions. Owners and directors who focus more on wealth creation and business development may prefer to recruit non-family professional managers.

Goal congruence may lead to more cooperative bargaining solutions (Apfelbaum, 1974; Cable and Shane, 1997). Some NEDs can be employed to reduce conflict between the non-economic objectives of the family and the financial objectives of non-family owners. As earlier intimated, relatively few private family-owned firms employ NEDs. The presence of non-family NEDs on the firm's board, however, may shape information sharing and the business sale negotiation process. NEDs may help to align the interests and aims of owners and managers during the business sale negotiation process. This discussion suggests the following hypotheses:

H2a *Private family-owned firms that cited non-family NEDs were on the board prior to the MBO/I were more likely to report that 'information was shared equally' between vendors and purchasers (i.e., low information asymmetries).*

H2b Private family-owned firms that cited non-family NEDs were on the board prior to the MBO/I were more likely to report a 'mutually agreed price' between vendors and purchasers.

Family firm owners (i.e., vendors), incumbent non-family management, external management and private equity investors can be involved in the succession planning process. If this planning is carried out in an atmosphere of mutual trust and respect, balanced succession planning may be the cooperative outcome (Steier and Greenwood, 1995). From a game theoretic perspective, more even relative bargaining power between the parties may contribute to a cooperative solution (Pruitt and Kimmel, 1977). To ensure a mutually beneficial succession route, vendors may hold discussions with non-family managers and private equity firms. The involvement of non-family management in succession planning could ensure even information flows between vendors and non-family managers. However, for many non-family management teams, the MBO/I will be their first experience of the business sale negotiation process. Non-family management may, therefore, be reluctant to challenge a dominant family owner because they do not want to risk losing the deal or their jobs (Wright and Coyne, 1985).

The knowledge and experience of the venture capital firm can be leveraged by an MBO/I team to ensure that the non-family management team is in a stronger position to negotiate with the vendor during the business sale negotiation process, suggesting potential agency issues. The potential for asymmetric information problems between vendors and venture capital firms are, however, acknowledged (Amit et al., 1993). Venture capital firms employ various strategies to obtain information to enable them to make more informed investment and valuation decisions (Admati and Pfleiderer, 1994; Wright and Robbie, 1996; Manigart et al., 2002; Wright et al., 2002). An MBO/I team utilizing the experience of a venture capitalist firm will generally be in a stronger position than non-family management alone to challenge a vendor who has proposed a fixed price that maximizes their own (family) gain. To even-up the bargaining power between the vendor and the purchaser, a non-family management team may utilize a venture capital firm to facilitate a mutually agreed price between both parties (Howorth et al., 2004). This discussion suggests the following hypotheses:

H2c *Private family-owned firms that cited venture capital firms were involved in succession planning prior to the MBO/I were more likely to report that 'information was shared equally' between vendors and purchasers (i.e., low information asymmetries).*

H2d *Private family-owned firms that cited venture capital firms were involved in succession planning prior to the MBO/I were more likely to report a 'mutually agreed price' between vendors and purchasers.*

Company Objectives

As earlier intimated, game theory suggests that cooperative bargaining solutions may be reported in contexts where there is goal congruence between the parties involved (Apfelbaum, 1974; Cable and Shane, 1997). The objectives of the family firm owners can range from protecting purely 'family agendas' at one end of the spectrum to pursuing 'non-family agendas' focusing on the financial development of the business at the other end. Some family firm owners choose to exchange profit maximization for benefits relating to the family. Evidence suggests that wealth creation may not be the major objective for many family firm owners (Chrisman et al., 2003b). Family owners may align family and business objectives, reducing agency costs. For example, family firm owners may consider longer-term objectives but they may be reluctant to introduce changes, which reduce the probability of an inter-generational transfer (Schulze et al., 2002). If the objective of family firm owners is to develop the business in the future at the expense of family-oriented objectives they may need to utilize the experience of professional (non-family) managers to achieve this goal. Information sharing between owners and non-family managers may be poor if the firm's objectives are solely family oriented. High information asymmetries may lead to a biased succession planning process and the subsequent business sale negotiation process may favour the dominant family owners.

Objectives cited by family owners may be markedly different from those reported by non-family owners. The desire to retain the family link with the firm may not be strongly cited by some non-family owners. Similarly, non-family managers with no equity stakes in their family firms may report objectives that are not strictly aligned with those cited by family firm owners, indicative of agency issues. Most notably, non-family managers may seek to maximize financial rather than family objectives. The strategic objectives of the family firm may, therefore, shape the succession planning process and the business sale negotiation process. Further, strategic objectives of the firm may differ depending on the ownership and governance structures of the family firm. This discussion suggests the following hypotheses:

H3a *Private family-owned firms that stressed financial strategic objectives prior to the MBO/I were more likely to report that 'information was shared equally' between vendors and purchasers (i.e., low information asymmetries).*

H3b *Private family-owned firms that stressed financial strategic objectives prior to the MBO/I were more likely to report a 'mutually agreed price' between vendors and purchasers.*

A central objective of family owners may be to ensure the survival of the business (Westhead, 1997). With respect to the succession planning process, even if the owners take the view that there are no suitable family members to take-over the business (i.e., no suitable family successor), founders and other family owners may still seek to ensure the firm's survival as an independent entity, rather than succession involving sale of the business to another corporation, for both social and emotional reasons. A favourable external perception of the family's standing in the local community may be ensured if the employees are seen to be treated fairly. Conversely, a negative external perception may be reported if the family firm fails, or is taken-over by a larger group that has no emotional commitment to the local community. To protect the family's standing in the local community, family owners may actively seek a cooperative solution. If the inter-generational ownership transfer solution within the family cannot be achieved, some family firm owners will seek to ensure there is a more even balance of power between the vendors and the MBO/I team (Pruitt and Kimmel, 1977). To ensure the survival of the independent firm, founders and family firm owners may be more willing to share information with prospective MBO/I purchasers. In addition, vendors may be more willing to negotiate a mutually agreed purchase price rather than one that maximizes the sale price in favour of the family vendors alone. Numerous family firm owners have reported philanthropic behaviour. Generosity may also encourage a cooperative solution (Axelrod, 1984). Family firm vendors may signal that they are not hiding information and they are not seeking to maximize the sale price. These signals may be seen as an act of generosity that leads the MBO/I purchasers not to defect by concealing information they possess, or to press for a lower price that maximizes their interests. This discussion suggests the following hypotheses:

H3c *Private family-owned firms that stressed there was no suitable family successor prior to the MBO/I were more likely to report that 'information was shared equally' between vendors and purchasers (i.e., low information asymmetries).*

H3d *Private family-owned firms that stressed there was no suitable family successor prior to the MBO/I were more likely to report a 'mutually agreed price' between vendors and purchasers.*

Data Collection and Research Methodology

The sample was derived from Nottingham University Business Schools Centre for Management Buy-out Research (CMBOR) database that effectively comprises the population of MBOs and MBIs across Europe. A twice-yearly survey of private equity and venture capital firms, intermediaries and banks is conducted to obtain details on all MBOs and MBIs completed. Respondents are incentivized to supply data with a free copy of a quarterly review of the market. Press and annual corporation reports are used to gather additional data and to validate information gathered from surveys. This study focuses on private family-owned firms that received venture capital and had completed an MBO/I between 1994 and 2003.

A growing consensus suggests that a family firm is one that is owned by a dominant kinship group where the owners operate their firm as a family business (Westhead and Cowling, 1998). A broad definition was adopted, with a family firm defined as having more than 50% of the ordinary voting shares owned or controlled by a single family group related by blood or marriage and the firm is perceived to be a family business.

Guided by the literature as well as discussions with practitioners, a questionnaire was designed to explore several issues relating to the private family-owned firm succession process and the selected MBO or MBI ownership succession option. The questionnaire was designed in English. Variations in practice in each country in Europe were considered during the questionnaire design process. The questionnaire was translated into French, German, Italian and Spanish and then back translated into English. To reduce measurement error, face and content validity issues were considered during a pilot study. Twenty private family-owned firms that had been the subject of a venture-backed MBO or MBI were contacted. After the pilot study, one question was slightly modified.

The postal questionnaire survey was administered between June and September 2004. To reduce measurement error (Hair et al., 1995), respondents were selected who had detailed knowledge surrounding the MBO/I events. Senior management in the purchased private family-owned firms was contacted and they were regarded as the key informants (Kumar et al., 1993). Respondents had been involved in the MBO/I business sale negotiation process and they possessed the detailed information requested. The questionnaire was mailed to the CEO of former private family-owned firms that had effected succession through a venture backed MBO or MBI. Two weeks after the first mailing, a reminder was sent. A week later each non-respondent was contacted by telephone by skilled interviewers located in CMBOR. Further reminders were administered from the European Private Equity and Venture Capital Association (EVCA). In total, CEOs in 1,645 firms were sent a questionnaire. As a result of these efforts, information was gathered from 114 MBO/Is, which equates to a 7% response rate. This response rate is in line with surveys of this kind in Europe (Bygrave et al., 1994). Information was gathered from the following respondents: 83.8% were CEOs / Presidents, 5.7% were Directors including Deputy CEO, and the remaining 10.5% were senior management.

Response bias was considered. Responses to the survey were compared with the population of private formerly family-owned MBO/Is. Table 1 shows that the country distribution of survey respondents does not markedly differ from the national population distribution. Also, Table 2 shows that the industrial distribution of survey respondents was generally in line with the industrial population distribution. However, respondents engaged in construction activities were slightly over-represented, whilst respondents engaged in computing / electronics were slightly under-represented.

Information from the CMBOR database was used to classify the 114 respondents to the survey. With reference to information sharing during the business sale negotiation process data was gathered from 112 respondents. Forty-seven respondents (42%) reported that the vendor and management shared relevant information equally. In contrast, sixty-five respondents (58%) suggested that information had not been shared equally. Twenty-four respondents (21%) suggested the vendor controlled all of the information, while a further 23 respondents (21%) indicated that the vendor controlled most of the information. Fifteen respondents (13%) suggested that management controlled most of the information, while the remaining three respondents (3%) reported that they controlled all the relevant information.

Information relating to the prices paid for the private family-owned firms was gathered from 113 respondents. Sixty-one respondents (54%) reported that a mutually agreed price had been negotiated, whilst a further fifty-two respondents (46%) indicated that a mutually agreed price had not been negotiated. The latter response relates to a situation where, typically, the vendor had imposed a 'take it or leave it' price. In total, 29 respondents (26%) reported that the vendor proposed a fixed price that maximized their valuation, 12 respondents (11%) reported that the vendor had suggested a fair price that was in the best interests of the company, five respondents (4%) reported that the management proposed a fixed price, three respondents (3%) reported that the vendor required management to match an outside bid, and a further two respondents (2%) indicated that the vendor offered the company to management at a lower price than an external bid. One respondent selected the 'Other' option and indicated that the company had been sold by public sale.

Measurement error is more prevalent when single-item scales are explored and when respondents are provided with several options on a single scale (Hair et al., 1995). This exploratory study focused on two dependent variables and each related to a single-item scale. To reduce the problem of measurement error, each ranked dependent variable was re-coded into a dichotomous dependent variable. Respondents reporting 'information was shared equally' between vendors and purchasers during the business sale negotiation process were allocated a value of '1', whilst those reporting 'information was not shared equally' between vendors and purchasers were allocated a value of '0' (INFOSHARE). Further, respondents stating that a 'mutually agreed price' was reported by both vendors and purchasers after the business sale negotiation process were allocated a value of '1', whilst respondents reporting 'no mutually agreed price' were allocated a value of '0' (PRICE). The likelihood (or the probability) of the INFOSHARE and PRICE events was explored within multivariate logistic regression analysis frameworks. This technique is appropriate to explore '… assumed relationships between dependent and independent variables…' (Hair et al., 1995, p.131). An independent variable with a positive coefficient in the multivariate logistic regression model suggests that this independent variable increases the probability of the selected event (or dependent variable), whilst a negative coefficient suggests the independent variable decreases the predicted probability of the event. This technique is appropriate to test the presented hypotheses. In the implications section, we acknowledge that structural equation modelling techniques are warranted to explore causality issues, and the impact of interactions between selected independent and control variables. The latter issues were not specified in the presented hypotheses.

Six independent variables were selected. First, each respondent reported the percentage of shares owned by non-family management shareholders before the MBO or MBI (NFM). Second, respondents reporting that the family business had been founded and not purchased were allocated a value of '1', whilst respondents reporting the business had not been founded were allocated a value of '0' (FOUNDED). Third, respondents reporting that non-family an NED had been employed before the MBO or MBI were allocated a value of '1', whilst respondents reporting no NEDs had been employed were allocated a value of '0' (NONEX). Fourth, respondents reporting that a venture capitalist firm had been involved in succession planning were allocated a value of '1', whilst respondents reporting that no venture capitalist firm had been involved in succession planning were allocated a value of '0' (VCSP). Fifth, respondents were asked to rank the strategic importance of the market value increment before the MBO or MBI on a five point likert scale ranging from (1) low, (3) average and (5) high (MVI). Sixth, respondents were asked to report whether no suitable successor had been identified on a five point Likert scale ranging from (1) low, (3) average and (5) high (NSS).[5]

One control variable was operationalized in the reported logistic regression models.[6] Manufacturing firms were allocated a value of '1', whilst non-manufacturing firms were allocated a value of '0'.

RESULTS

Table 3 provides means and standard deviations for the continuous independent variables. Correlation coefficients between the continuous independent variables are also summarized.

[5] Robustness tests were conducted. Each continuous variable reported in Table 4 was log-transformed. For space reasons, the logistic regression models relating to the log-transformed continuous variables are not reported. No difference in results at the 0.1 level of significance was detected.

[6] The logistic regression models reported in Table 4 relate to respondents who provided complete information for all the selected control variable and independent variables. Due to limited degrees of freedom, it was decided to include only one control variable in the presented logistic regression models. Although not reported, logistic regression models were computed including two control variables. Robustness tests were conducted with the inclusion of alternative control variables. For space reasons, the additional logistic regression models are not reported. A control variable relating to the type of exit route selected was considered. MBO firms were allocated a value of '1', whilst MBI firms were allocated a value of '0'. The negotiation behaviour model was not affected by the inclusion of this control variable but the information sharing model was affected: Venture capital firm involvement and a lack of suitable successor became more important at the expense of founder

The variance inflation factor (VIF) scores suggest that the multivariate logistic regression models were not distorted by multicollinearity.

Multivariate logistic regression analysis models are reported in Table 4. Model 1 focuses on whether respondents reported 'information was shared equally' between vendors and purchasers during the business sale negotiation process (INFOSHARE). This model has a pseudo R^2 of 0.15 and is significant at the 0.05 level. Two independent variables were significant. In line with expectation (H1c), founded family firms (FOUNDED) were more likely to report that 'information was shared equally between vendors and purchasers'. Also, as expected (H3a), respondents reporting a focus on the strategic importance of the market value increment (MVI) were more likely to report that 'information was shared equally between vendors and purchasers'. Contrary to expectation, hypotheses H1a, H2a, H2c and H3c were not supported.

Model 2 focuses on whether family firm respondents reported that a 'mutually agreed price' had been negotiated after the business sale negotiation process (PRICE). Model 2 has a pseudo R^2 of 0.20 and is significant at the 0.01 level. Three independent variables were significant. As expected (H2d), respondents reporting venture capitalist firms had been involved in succession planning (VCSP) were more likely to report that a mutually agreed sale price had been negotiated. In line with expectation (H3b), respondents reporting a focus on the strategic importance of the market value increment (MVI) were more likely to report that a mutually agreed sale price had been negotiated. Also, as hypothesized (H3d), respondents reporting that their firms' had no suitable successor (NSS) were markedly more like to report that a mutually agreed sale price had been negotiated. Contrary to expectation, hypotheses H1b, H1d and H2b were not supported. The control variable was, however, significant. Manufacturing firms (MANUF) were weakly more likely to report that a mutually agreed sale price had been agreed.

CONCLUSIONS AND IMPLICATIONS

Key Findings

Guided by insights from perspectives relating to agency theory, game theory and negotiation theory, this study utilized multivariate logistic analysis to explore whether private family-owned firms citing specific variables relating to their ownership structure, governance

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presence. A business age variable was also considered and it was not found to be significantly associated with either dependent variable.

structure and company objectives pre-MBO/I were more likely to report two outcomes: whether 'information was shared equally' between vendors (i.e., family firm owners) and purchasers (i.e., MBO/I management teams) during the business sale negotiation process and whether a 'mutually agreed price' had been negotiated after the business sale negotiation process. Smoother ownership transitions, as reflected in low information asymmetries between vendors and purchasers, were more likely when the family owners were the original business founders. Moreover, if the vendors exhibited a desire to focus on financial strategic objectives relating to increasing the market value increment there was more likely to be information sharing between the vendors and purchasers. We hypothesized that respondents citing non-family management in the ownership of the family firm pre-MBO/I, venture capital firm involvement, the absence of suitable successor and firms citing the employment of non-family NEDs would be more likely to report 'information was shared equally' between vendors and purchasers . However, these relationships were not statistically significant.

Three hypotheses relating to governance structure and company objectives were supported with reference to the mutually agreed price outcome. As expected, respondents reporting venture capital firm involvement in succession planning, those reporting a focus on the strategic importance of the market value increment, and those citing that no suitable successor had been identified were more likely to report that a 'mutually agreed price' had been negotiated. We hypothesized that respondents citing non-family management in the ownership of the family firm pre-MBO/I, those employing non-family NEDs and founded firms would be more likely to report a 'mutually agreed price'. However, these relationships were not statistically significant.

Presented findings shed light on the neglected area of private firms crossing thresholds in the development of their life-cycle (Filatotchev and Wright, 2005). In particular, we extend understanding of the succession process relating to private family-owned firms (Sharma, 2004), and shed light on the feasibility of alternatives to inter-generational succession (Stokes and Blackburn, 2001). We extend the work of Chua et al., (2003) by highlighting the role of non-family management in providing a succession route for private family-owned firms. However, our analysis indicates that non-family management (and indeed NEDs) may be less critical in the negotiation process than the role of the founder. Also, presented evidence extends the insightful views of Sharma et al., (2003b) relating to the importance of identifying a willing and trusted successor (in this study an internal or external management team), rather than focusing solely on retaining the business in the single dominant family related by blood or marriage.

Implications for vendors, management and practitioners

Empirical evidence presented raises several important implications for vendors of private firms, potential internal and external management team purchasers, and practitioners including venture capital firms. Issues relating to information sharing and the facilitation of a mutually agreed price are discussed, in turn, below.

i. Information sharing

The finding that the presence of the founder rather than second or later generation family owners was more likely to increase the likelihood that information was shared equally between vendors and purchasers suggests that incumbent managers need to make themselves even more aware of the aims of the vendor with regard to the future of the business post MBO/I. Managers need to understand and to differentiate between the aims of founders as opposed to later generation family owners. Most notably, managers need to consider whether family owners are seeking continued involvement in the business, or are they seeking to maximize the value from the sale of the family firm. This finding may also have implications concerning the extent to which management possess information relating to the firm that is not available to the vendors, and how to use any information asymmetry in their favour. For example, if management withheld information on future major orders, this could undermine trust with the vendors who may change their attitude to achieving a mutually favourable deal with management.

If incumbent management is in a stronger position, vendors may need to take advice to ensure that a fairer deal can be reached. Vendors may need to identify advisors who have specialist skills in negotiating MBO/Is. Advisors who focus on tax planning and similar services may have insufficient knowledge to leverage with reference the MBO/I process. A consultant experienced in negotiating with venture capital firms could help provide an intermediary role between the parties involved in the private family-owned firm sale negotiation process.

The employment of a NED was not found to significantly increase the likelihood that information was shared equally between vendors and purchasers. This finding raises questions for vendors surrounding the presence and role of independent NEDs in private family-owned firms. More family firm owners need to be encouraged to consider the potential benefits of developing their governance structures and processes. Family firms need to leverage the expertise of independent professionals who can provide supportive advice surrounding alternative ownership transition options that will meet the objectives of the family owners and the business. As intimated above, vendors seeking smooth ownership transitions should leverage the knowledge of consultants with considerable experience in negotiating trade and MBO/I deals prior to formal discussions with internal or external management teams.

As discussed above, family owners seeking to protect family agendas may resist attempts to open up the share capital of the private family-owned firm to non-family managers. The findings that non-family management shareholdings did not significantly increase the likelihood that information was shared equally between vendors and purchasers raises questions surrounding the extent to which incumbent management are brought into the strategic leadership of the family firm prior to succession planning and ownership transition options are discussed. Vendors may seek to develop cooperative relationships with management well in advance of the ownership transfer event. For example, vendors may more proactively engage internal managers in discussions surrounding the ownership transfer options available, which consider the interests of both parties.

ii. Mutually agreed price

Over a fifth of respondents reported no succession planning had been conducted. The finding that respondents citing that no suitable successors had been identified were more likely to report a 'mutually agreed price' suggests that vendors may need to consider the succession planning process carefully well in advance of it becoming a necessity. For example, vendors may find it appropriate to build cooperative relationships with management and prepare managers with regard to the possibility of owning as well and managing the business. Family firm founders may also need to obtain external advice which can suggest alternative succession options in the absence of family successors. Most notably, more private family-owned firm owners should be made aware of the MBO/I ownership transition options.

For incumbent management who envisage that an MBO may be possible, our findings suggest that it may be important for managers to build a dialogue with the founder regarding ownership transition options. This dialogue should identify the founder's longer-term expectations surrounding their involvement with the business, and their likely stance with reference to negotiating any future MBO. Also, this dialogue may highlight the need for managers to secure independent advice for themselves to protect their interests and to ensure a smooth ownership transition, which could be in the interests of both vendors and purchasers. Managers should consider leveraging the finance and knowledge of venture capital firms. Evidence presented in Table 4 highlights that the likelihood of a 'mutually agreed price' was increased when a venture capital firm was involved in the business sale process. However, venture capital firm involvement was not found to significantly increase the likelihood of information sharing between vendors and purchasers. This evidence suggests that both family firm owners and MBO/I teams need to consider utilizing the expertise of venture capital firms, particularly if a concern is to achieve a win-win price solution for both vendors and purchasers. In addition, we can suggest that more venture capital firms should pro-actively develop adviser or intermediary relationships with more family firm owners that are likely to face succession issues. The lack of significance attached to the role of NEDs may reflect evidence from elsewhere that they are often appointed by owner/managers because of their close association with them rather than for their independent perspective or professional expertise. This raises a wider question regarding the role of and appointment process for NEDs but perhaps adds to suggestions that owner/managers of private firms might benefit from appointing outside directors who are able to contribute independent expertise.

Limitations and Implications for Further Research

A number of research strands are emerging with reference to the family firm phenomenon (Sharma, 2004; Zahra and Sharma, 2004). Appropriate databases are required to explore issues relating to how private family-owned firms move across ownership thresholds, particularly those relating to MBO/I succession options. Information relating to the business sale negotiation process is difficult to collect (Birley and Westhead, 1993; Howorth et al., 2003). Several data sources need to be utilized to identify private firms that have been sold (Birley and Westhead, 1990a, b). This study has drawn upon a unique and relatively large database relating to the population of MBO/Is across Europe. Family firms that selected an MBO or MBI were detected with reference to a number of data sources. Additional research is warranted surrounding the data sources that can be utilized to detect the population of family firms considering alternative ownership transitions.

The business sale process can involve several actors. Information from even a single actor is difficult to collect. This study focused on the perspective of the management involved in buying-out or buying-into the private family-owned firm. Attempts were made to reduce measurement error. Selected key informants had been involved in negotiating the MBO/Is and they possessed the detailed information requested. Respondents had been former CEOs / Presidents and Directors of former private family-owned firms. Fresh insights relating to the process may be provided when several actors involved in the process are consistently contacted over time. Longitudinal studies need to be conducted prior to the MBO/I, during the MBO/I and after the MBO/I. The perspectives of family owners, non-family managers, venture capitalists, and independent consultants could be compared to ensure valid and reliable evidence is collected.

Guided by several theoretical perspectives, a number of hypotheses were tested with reference to cross-sectional survey evidence. Logistic regression analysis is an appropriate technique to explore cross-sectional data. Structural equation modeling techniques, are, however, more appropriate if the aim of the study is test hypotheses that suggest directions of causality between independent and dependent variables, as well as interactions between variables. Additional studies should seek to gather responses from large and representative samples of respondents. Information relating to single-item variables was explored in this study. The latter single-item variables could be associated with measurement error. We acknowledge that some of the reported findings may have been more powerful if more robust variables had been analyzed.[7] Additional studies are warranted that ask several questions relating to firm profile characteristics (i.e., ownership structure, governance structure and company objectives) and the business sale negotiation process and outcomes (i.e., 'information was shared equally' and a 'mutually agreed price'). Factor analysis should be used to detect valid and reliable constructs, which can be considered as dependent and / or independent variables in future studies.[8] Information should be collected at more than one point in time with reference to the 'process' and not solely the 'outcomes' from the business sale process. Potential differences between MBOs and MBIs, in relation to information sharing and/or negotiation behaviour, should be investigated further using larger data sets. Additional quantitative studies will provide insights. Several complimentary theoretical

[7] Hair et al (1995, p.9) have asserted that, "… the 'true' effect is partially masked by the measurement error, causing correlations to weaken and the means to be less precise".
[8] Hair et al., (1995, p.9) suggest that "Reducing measurement error, while taking effort, time and additional resources, may improve weak or marginal results and strengthen proven results as well".

perspectives should be considered to explore the factors (i.e., ownership structure, governance structure and company objectives) associated with the business sale process issues and outcomes. Additional theory testing studies are also warranted.

Theory building studies also need to be conducted surrounding the private family-owned firm MBO/I succession options. In-depth longitudinal phenomenological studies that monitor family owners, non-family managers, venture capitalists and independent consultants in relation to ownership thresholds, ownership transitions and critical incidents relating to the MBO/I exit route may provide fresh insights. The latter studies may guide subsequent qualitative and quantitative studies. The pre- and post-MBO/I succession effects of family firm ownership structure, governance structure and company objectives need to be explored in a variety of industrial, national and cultural contexts.

This study highlighted that respondents relating to founded family firms rather than purchased family firm were more likely to share information. Additional research relating to the attitudes and cognitive profiles of key founders / managers may provide insights into MBO/I ownership transitions, and the subsequent development of the purchased firm after the deal. More fine-grained research may be needed to explore the nature of founders' attitudes towards their businesses. Founders may vary in their intention to carry over to the next generation; some may plan from the start to sell or harvest the firm, while others may intend from the outset to hand the firm on to the next generation of family members. Future studies should explore whether younger founders of family firms desire a career in entrepreneurship, and whether they leverage their family firm ownership experience to become serial or portfolio entrepreneurs (Westhead et al., 2005a). Additional studies could explore whether individuals with prior business ownership experience relating to the private family-owned firm context identify and exploit business opportunities in specific sectors, whether they transfer the former family firm ethos as well as governance and management structures on the subsequent firms they establish and / or purchase, and whether the experience and knowledge accumulated during the ownership of prior private firms is leveraged to enhance the ability of subsequent firms owned to be associated with superior levels of firm and entrepreneur performance (Westhead et al., 2003, 2005b). Another area worthy of exploration is the impact the pre-MBO ownership structure has on the post-MBO strategy and performance of the firm.

Future research on ownership and governance and the link with information sharing and mutually agreed business sale negotiation could consider differences between the processes of sale to an MBO/I, sale to a corporate acquirer, and succession to family members. Comparative studies may also shed light on differences in negotiations between vendors and management in the absence of private equity investors. Finally, it would be very interesting to look at performance differences post-MBO/I associated with different pre-MBO/I ownership and governance structures.

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Table 1: Survey Responses by Country

Country	Total number of venture capital backed MBO/Is of former private family firms	Per cent venture capital backed MBO/Is of former private family firms	Total number of questionnaires sent out	Total number of questionnaire returns	Per cent of all returns
Austria	6	0.30%	5	0	0.00%
Belgium	28	1.40%	25	0	0.00%
Denmark	15	0.75%	15	3	2.63%
Eire	5	0.25%	5	0	0.00%
Finland	20	1.00%	19	2	1.75%
France	282	14.11%	193	9	7.89%
Germany	110	5.51%	88	7	6.14%
Italy	87	4.35%	71	8	7.02%
Lithuania	1	0.05%	0	0	0.00%
Netherlands	58	2.90%	43	1	0.88%
Norway	8	0.40%	7	1	0.88%
Poland	2	0.10%	1	0	0.00%
Portugal	5	0.25%	2	0	0.00%
Romania	2	0.10%	2	0	0.00%
Slovenia	1	0.05%	0	0	0.00%
Spain	68	3.40%	60	3	2.63%
Sweden	30	1.50%	28	3	2.63%
Switzerland	28	1.40%	25	3	2.63%
UK	1242	62.16%	1056	74	64.91%
Total	1998	100%	1645	114	100%

Table 2: Survey Responses by Industrial Distribution

Industrial Sector	Survey Responses (%)	CMBOR Database (%)
Biotechnology	0.0	0.1
Computing/electronics	8.8	12.5
Consumer related	22.8	23.1
Construction	9.6	3.1
Energy	0.0	0.4
Industrial products/services	10.6	13.4
Manufacturing	22.8	19.9
Medical/Health related	6.2	3.6
Services	10.6	13.4
Transportation	1.8	2.5
Other	7.0	8.1

Table 3: Correlation Matrix Relating to the Continuous Independent Variables

	Mean	Std. Dev.	NFM	MVI	NSS	VIF
NFM	5.478	10.884	1.000	-0.095	0.073	1.050
MVI	3.365	1.403	-0.095	1.000	0.359	1.061
NSS	2.747	1.682	0.073	0.359	1.000	1.034

Notes: NFM = percentage of shares owned by non-family management shareholders before the MBO or MBI; MVI = strategic importance of the market value increment before the MBO or MBI on a five point likert scale ranging from (1) low, (3) average and (5) high; NSS = whether no suitable successor had been identified on a five point likert scale ranging from (1) low, (3) average and (5) high; and VIF = variance inflation factor scores.

Table 4: Logistic Regression Models of Independent Variables Associated with Information Sharing Relating to the MBO/I Business Negotiation Process and the Reporting of a Mutually Agreed Price

Variables	**Model 1: INFOSHARE**	**Model 2: PRICE**
	β	**β**
Independent		
NFM	0.029	0.023
FOUNDED (yes)	1.289*	-0.244
NONEX (yes)	-0.909	0.131
VCSP (yes)	0.656	1.110*
MVI	0.451*	0.527*
NSS	-0.261	0.540**
Control		
MANUF (yes)	-0.214	1.112#
Constant	-0.990	-4.280
Pseudo R^2	0.150	0.204
NagelKerke R^2	0.246	0.329
Overall predictive accuracy (%)	77.8	75.3
Model χ^2	14.644	20.613
Model χ^2 significance	0.041	0.004
n	72	73

Notes: INFOSHARE = information was shared equally between vendors (i.e., family firm owners) and purchasers (i.e., MBO/I management teams) during the business sale negotiation process (1 = yes, 0 = no); PRICE = mutually agreed price was reported by family firm respondents after the business sale negotiation process (1 = yes, 0 = no); NFM = percentage of shares owned by non-family management shareholders before the MBO or MBI; FOUNDED =the family business had been founded and not purchased (1 = yes, 0 = no); NONEX = non-family non-executive directors had been employed before the MBO or MBI (1 = yes, 0 = no); VCSP = venture capitalist involved in succession planning (1 = yes, 0 = no); MVI = strategic importance of the market value increment before the MBO or MBI on a five point likert scale ranging from (1) low, (3) average and (5) high; NSS = whether no suitable successor had been identified on a five point likert scale ranging from (1) low, (3) average and (5) high; and MANUF = manufacturing firm (1 = yes, 0 = no).

Significance # $p<0.1$ * $p<0.05$; ** $p<0.01$.