Succession in Family Businesses Through Venture-Backed Management Buy-outs and Buy-ins

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Key Words: Management Buy-out, Management Buy-in, Information Asymmetry, Negotiation Behavior, Succession, Family Firm

Topic: Small Business Strategy and Organization

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Abstract

Data from 117 family firms across Europe reveals the impact of information flows on succession planning and the negotiation process of succession via a MBO/I. We find lowest information asymmetry in MBOs; the vendor controls most information in MBIs; lower information asymmetry problems if vendors and management involved in succession planning; greater involvement in succession planning by MBO management, greater emphasis on returns on shareholder equity and market value increments where prices mutually agreed. A mutually agreed price is less likely if: management control information; succession process is driven by vendor; the private equity firm is involved in succession planning.

Introduction

There is growing interest in studies that specifically focus upon the development of private family firms (Sharma 2004; Zahra and Sharma 2004). There is especially a need for greater understanding of the succession process (Shepherd and Zacharakis 2000). Many owners of family firms are concerned with ensuring continued independent ownership (Westhead 1997), with management control transferred to the next generation of family members (Morris, Williams, Allen, and Avila 1997; Lansberg 1999), drawn from the dominant family group that owns the majority of ordinary voting shares in the business. The prime rationale for intergenerational succession stems from the belief that family members are able to accumulate social capital, resources and specific knowledge of how to run the firm in an efficient and profitable manner (Bjuggren and Sund 2001).

Few family firms seem capable of successfully transferring their businesses to the next generation (Lansberg 1999). Evidence from the United States suggests that two-thirds of family firms fail to plan for generational succession (Cliffe 1998). Concern has been raised surrounding the reluctance of owners of family firms to effect intergenerational succession planning within the lifetime of the incumbent entrepreneur (Bachkaniwala, Wright, and Ram 2001). The inability of family owners to successfully transfer the business to new owners may lead to a rise in business closure rates, and more limited pools of entrepreneurial knowledge (Stokes and Blackburn 2001). The commitment of successors towards their family firms is also of interest and is related to levels of effectiveness and firm performance (Sharma and Irving 2005). To ensure the perpetuation of an enterprising organization, there may be a case for the dominant family owning the business to exit (Willard, Krueger, and Feeser 1992). Owners of independent firms have a variety of potential exit routes. The family firm can be sold through a trade sale. Initial public offerings (IPOs) are often out of the reach of many family firms (Poutziouris 2002).. Alternatively, a management buy-out or buy-in can provide a means of realizing the owner's investment and allows continued independent ownership of the firm. A management buy-out (MBO) is the purchase of a business by its management, usually in co-operation with outside financiers such as a venture capital firm. In a management buy-in (MBI), the firm is sold to managers who are external to the business, with this new management team taking a controlling stake. MBIs may occur where family firms have no internal successor. 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 a MBO/I is that the majority of the management team may remain intact (Wright and Coyne 1985). Additionally, members of the family can continue to be involved in the firm.

Previous studies have focused on inter-generational transfer of ownership and control (Handler 1994; Howorth and Ali 2001; Westhead 2003, Sharma, Chrisman, and Chua 2003a, Sharma and Irving 2005). However, there may not be suitable family members willing or able to take on the ownership and management of the business; this appears to be an international phenomenon (Wright, Thompson, and Robbie 1992). Hence, the transfer of the family firm either through a MBO or a MBI is assuming greater importance (Bachkaniwala, Wright, and Ram 2001). Empirical evidence gathered by the Centre for Management Buy-out Research (CMBOR) suggests that around a fifth all MBOs and MBIs in Europe relate to the take-over of private family firms. Despite the scale of this phenomenon, there is relatively little evidence relating to this aspect of family firm succession. For example, Howorth, Westhead and Wright (2004) only explored information relating to eight family firms in England. Yet, MBO/Is of private family firms introduce important challenges relating to the extent to which information is made available to the parties involved in planning succession and negotiating the deal. This study is the first to use a large dataset to examine these issues. A novel feature of the 117 responding MBO/Is is that they were located in several European countries.

Synthesizing conceptual perspectives relating to agency theory and information asymmetries, succession in privately held family firms and negotiating behavior, we explore the following:

Q1 *Are information asymmetries less prevalent in private firms that select a MBO rather than a MBI succession route?*

Q2 *Do flows of information impact the succession planning process relating to private family firms that select MBO or MBI succession routes?*

Q3 *Do flows of information and the nature of succession planning impact the business sale negotiation process relating to private family firms that select MBO/I succession routes?*

This paper is structured as follows. The conceptual framework guiding the study is discussed in the following section. Several hypotheses are then derived. The data collection process and the research methodology are discussed in the next section. Results are then presented. Finally, conclusions and implications are discussed.

Conceptual Framework and the Derivation of Hypotheses

Context

Some believe that private family firms do not suffer from agency problems since ownership and control are aligned in the hands of a dominant kinship group related by blood and marriage. However, some family firms have diverse ownership and control structures (Westhead, Cowling, and Howorth 2001). Consequently, an agency perspective focusing on the impact of informational asymmetries arising from the separation of ownership and control may help explain the behavior of some private family firms.

Information flows between family firm owners and potential MBO/I teams can be affected by the complex inter-linkages between a family firm's family, ownership and management systems. Most notably, members of the dominant kinship group may solely discuss information relating to the family firm within the family system. The family firm ownership system may include individuals who are family members, management or both. The management system may include members of the dominant kinship group as well as managers who hold or do not hold ownership stakes in the family firm. There may be information asymmetries between the different systems, with family owner-managers having the greatest access to information compared to non-family managers. Schulze, Lubatkin, and Dino (2003) argue that the dispersion of ownership in family-held firms drives a wedge between the interests of those who lead a firm and other family owners. Further, the dispersion of family firm ownership may impact information flows between various actors in the business. There may be asymmetric information between family owner-managers and managers undertaking a MBO. The former may be reluctant to transfer their tacit knowledge to “outsiders”. These problems may be exacerbated if the original intention of the family firm owners was to pursue inter-generational succession. Chua, Chrisman, and Sharma (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.

Morris, Williams and Nell (1996) found that family business succession proceeds more smoothly where the family business engages in more succession planning. Sharma, Chrisman, and Chua (2003b) have found that the succession process is driven by the availability of a willing and trusted successor rather than a genuine desire to retain the business in the family. The family firm succession process itself can be problematical where the key owner of the firm refuses to let go or delegate responsibilities to successors. The process is difficult if there is resentment and jealousy among the offspring of the key owner, and where different generations of owners do not share the same values and traditions (Dyer and Handler 1994). To ensure business survival, family firms may need to develop succession and estate planning (Beckhard and Dyer 1983). Various succession options are available beyond passing the business to the next generation. Most notably, they include a trade sale (Cromie, Stephenson, and Monteith 1995) as well as MBOs and MBIs (Wright and Coyne 1985).

If various actors involved in a private firm engage in succession planning this may impact the negotiation process relating to the sale. Negotiation behavior may be influenced by whether the parties concerned emphasize individual or joint gains (Dabholkar, Johnston, and Cathey 1994). A distinction can also be made between competitive, command and coordinative behavior. Under competitive behavior, both vendor and purchaser are interested in maximizing their own positions, taking a short-term perspective. Under command behavior, the vendor may seek to maximize individual gains, but may be committed to the future success of the firm. With coordinative behavior, there is a focus on joint gains and the maintenance of long term relationships between purchasers and the vendors.

Prevalence of Information Asymmetries in Private Family Firms

Family firm owners seeking to secure the family fortune may involve key non-family managers in the succession planning process. The owners of the family firm may prefer to sell their equity in the business to managers who they already know (that is managers who are outside the family but who are already involved inside the firm in running the business). Inside management who have worked with the key owner-manager for some time may have developed relationships of trust that enable them to obtain rich flows of information. Further, incumbent managers may become familiar with the detailed operations of the firm, especially where the key founders/owners of the firm have become more distant from the business. Conversely, a management team that is both outside the family and external to the business may have less access to appropriate flows of information relating to key aspects of the organization, even though these external managers may have considerable in-depth industry knowledge (Robbie and Wright 1995). Also, external management is less likely to have developed relations of trust with the key founders/owners. Hence:

H1 Private family firms associated with a MBO succession route will report lower information asymmetry problems than firms selecting a MBI succession route.

Succession Planning in Private Family Firms

Family firm owners, incumbent non-family management and external management and private equity investors could potentially 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 agreed outcome. Here, vendors as well as non-family managers and private equity firms can discuss and plan a mutually beneficial succession route. If a MBO succession route is selected, existing management, by virtue of being insiders, may have built up greater knowledge of the business and a relationship of trust with the vendor that leads to them being brought into discussions about succession. Conversely, external management who secure an MBI may not be privy to all appropriate information prior to their purchase of the family firm since they are less well-known and trusted (Wright and Robbie 1995). Hence:

H2 The MBO/I succession route will be associated with lower information asymmetry problems if private family firm vendors and the existing management team are equally involved in succession planning.

H3 Private family firms associated with a MBO succession route will report greater involvement by existing management in succession planning than firms selecting a MBI succession route

Business Sale Negotiation Behavior

Relationships between vendor and management can impact family firm sale negotiation behavior (Howorth et al., 2004). When participants have good relationships and are committed to the long-term future of the firm, they may be more likely to work well together and negotiations may be coordinative, that is involve flexibility, extensive information sharing and two-way communication. However, when participants are more interested in short-term personal gains, negotiations may be less productive. Owner-managers may be reluctant to share information if they are not to have some continued involvement in the business post-MBO. Conversely, greater information sharing is expected if owner-managers seek long-term involvement in the firm post-MBO. It may be difficult to negotiate a mutually agreed price when information is not shared. A paternalistic owner-manager may simply offer management a fixed price, which s/he believes to be a fair price. Conversely, a dominant family firm owner-manager focusing on short-term interests may propose a fixed price that maximizes their own (family) gain.

Similarly, management that is not involved equally in discussion about succession, is less likely to be involved in negotiating a mutually agreed price. Rather, the vendor may drive the negotiation process by offering management a fixed price that either maximizes the vendor's gain or which the vendor perceives to be a "fair" price, depending on the vendor's time-horizon.

Involvement of a venture capital firm in discussion about succession may impact whether a mutually agreed price is achieved. Venture capital firms experienced in negotiating MBO/Is may be in a stronger position to negotiate with the vendor than are management, who are likely to be undertaking a buy-out for the first time. Where a vendor attempts to propose a price that is in its own interest, a venture capital firm may be in a stronger position to challenge it; management may be concerned that if they challenge it themselves where the owner is dominant they could risk losing the deal and possibly their jobs (Wright and Coyne

1985). Where management is in a stronger position to drive the succession and negotiation process, for example where the vendor is less involved in running the business (Howorth et al. 2004), the venture capital firm may help negotiate a price that is more advantageous to them. In contrast, where the venture capital firm is not involved in discussions about succession, it may be more likely that a mutually agreed price is arrived at. Hence:

H4 *Co-ordinative forms of negotiation behavior between family firm owner(s) and management teams are expected if they are both committed to the future of the private family firm and they consider joint as opposed to individual gains.*

H5 *A mutually agreed sale price between the vendor and management teams is unlikely if information surrounding the private family firm is not equally shared.*

H6 *A mutually agreed sale price between the vendor and the acquiring management is unlikely if succession planning issues are not discussed equally between them.*

H7 *A mutually agreed sale price between the vendor and the acquiring management is unlikely if the private equity firm is involved in discussions regarding succession planning.*

Data Collection and Research Methodology

The sample was derived from the Center 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 new 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 as well as to validate information gathered from surveys. This study focuses on private family firms that received venture capital where the deals were completed 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 percent 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 private family firm succession through MBO and MBI. The questionnaire was designed in English. Variations in practice in each country in Europe were considered during the questionnaire design process. The questionnaires was translated into French, German, Italian and Spanish and then back translated into English. Face and content validity issues were considered during a pilot study. Twenty family firms that had been the subject of a venture-backed management buy-out or buy-in were contacted. After the pilot study, one question was slightly modified.

The postal questionnaire survey was conducted between June and September 2004. Senior management in the bought-out firms who were involved in negotiating the MBO/Is possessed the detailed information requested and were regarded as the key informant (Kumar, Stern, and Anderson 1993). The questionnaire was mailed to the chief executive officer (CEO) of these private family 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, 1,645 firms were sent a questionnaire. As a result of these efforts, information was gathered from 117 MBO/Is which equates to a seven percent response rate. This response rate is in line with surveys of this kind in Europe (Bygrave, Hay, and Peeters 1994). Information was gathered from the following: 84.3 percent were

CEOs/Presidents, 5.6 percent were Directors including Deputy CEO, and the remaining 10.1 percent were senior management.

Response bias was considered. Responses to the survey were compared with the population of MBO/Is. No marked difference was detected when the survey responses were compared with national population patterns (Appendix Table A1). Also, the industrial distribution of survey response was generally in line with the overall population of family MBO/Is. Table A2, however, shows that firms engaged in construction activities are slightly over-represented, whilst firms engaged in computing / electronics are slightly under-represented. Information from the CMBOR database was used to classify the 117 total respondents to the survey. The survey gathered information from 66 MBOs (56 percent) and 51 MBIs (44 percent).

Information relating to information sharing was gathered from 115 surveyed respondents. Forty-nine respondents (43 percent) reported that the vendor and management shared relevant information equally. The remaining 66 respondents suggested information was not shared equally (57 percent), of these 24 (21 percent) suggested the vendor controlled all of the information, while a further 24 (21 percent) indicated that the vendor controlled most of the information. Fifteen respondents (13 percent) suggested that management controlled most of the information, while the remaining three (two percent) reported that they controlled all the relevant information. For over a fifth (21.7 percent) of respondents, there was no succession planning. In 45.3 percent of cases the planning had taken place one year or less before succession. Only 20.0 percent of respondents had planned succession two years beforehand with a further 13.0 percent planning for succession three or more years before.

Information relating to agreement about price was gathered from 114 surveyed respondents. Sixty-one respondents reported that a mutually agreed price was negotiated (54 percent), whilst the remaining 53 respondents indicated a mutually agreed price had not been negotiated (46 percent): 31 reported the vendor proposed a fixed price that maximized their valuation (27 percent), and a further 13 reported that the vendor had suggested a fair price that was in the best interests of the company (11 percent). We also detected the following responses: five respondents (four percent) reported that the management proposed a fixed price, three (three percent) reported the vendor required management to match an outside bid, and one (one percent) indicated that the vendor offered the company to management at a lower price than an external bid.

Questionnaire returns were analyzed using univariate non-parametric statistical methods. Chi-square analysis was used to analyze "yes" or "no" responses to a statement measured at a nominal level, whereas Mann-Whitney "U" tests were used in relation to variables measured on five point Likert scales.

Results

Prevalence of Information Asymmetries in Private Family Firms

In relation to five statement relating to information sharing, binary "yes" or "no" responses were gathered from the MBO and MBI respondents. Two statistically significant differences were detected between the MBO and MBI respondents (Table 1). A significantly larger proportion of MBO rather than MBI respondents indicated that the "vendor and management shared relevant information equally" (52 percent compared with 31 percent). Conversely, a significantly smaller proportion of MBO than MBI respondents reported that the "vendor controlled most of the relevant information" (13 percent compared with 31 percent). No statistically significant differences between the two groups were identified with regard to the following statements: "vendor controlled all the relevant information" (26 percent compared with 17 percent), "management controlled most of the relevant information (10 percent compared with 16 percent), and “management controlled all the relevant information (two percent compared with three percent). This evidence suggests hypothesis H1 is supported.

Succession Planning in Private Family Firms

A distinction was made between respondents reporting “information was not shared equally” and those that indicated that “information was shared equally”. In relation to each statement, binary “yes” or “no” responses were gathered from the respondents. Two statistically significant differences were detected (Table 2). A larger proportion of “information was not shared equally” respondents (43 percent) rather than “information was shared equally” respondents (25 percent) cited “management not involved at all” (significance = 0.05). A smaller proportion of “information was not shared equally” respondents (13 percent) compared with “information was shared equally” respondents (25 percent) suggested “management and vendors discussed succession, process evenly balanced” (significance = 0.1), supporting hypothesis H2

In relation to five statements concerning the role of management in the succession planning process, binary “yes” or “no” responses were gathered from the MBO and MBI respondents. Three statistically significant differences were detected (Table 3). A significantly larger proportion of MBO rather than MBI respondents indicated “management not involved at all” (50 percent compared with 23 percent). Conversely, significantly smaller proportions of MBO rather than MBI respondents reported that the “management and vendors discussed succession, process evenly balanced” (eight percent compared with 27 percent), and the “management and vendors discussed succession, process driven by management” (four percent compared with 16 percent). This evidence supports hypothesis H3.

Business Sale Negotiation Behavior

Information was gathered with regard to 11 strategic objectives relating to the sale process prior to the MBO/I. The "degree of importance" respondents attached to each objective was measured on a 5-point scale where "very low importance" = 1 and "very high importance" = 5. The responses made by "no mutually agreed price" and "mutually agreed price" respondents are summarized in Table 4. Two statistically significant differences were detected. "Mutually agreed price" respondents were significantly more likely to report "return on shareholder equity" (mean of 3.6 compared to 3.1 for "no mutually agreed price" respondents) and "market value increment" (mean of 3.7 compared to 3.0 for "no mutually agreed price" respondents). This evidence provides some support for hypothesis H4.

Five statements relating to information sharing and the sale process were gathered. A distinction was made between respondents reporting "no mutually agreed price" and those suggesting a "mutually agreed price". In relation to each statement, binary "yes" or "no" responses were gathered from the respondents. Contrary to expectation, evidence presented in Table 5 suggests hypothesis 5 cannot be conclusively supported. There is no statistically significant difference between cases where a mutually agreed price is achieved and those where it is not achieved on the basis of equal sharing of information between vendor and management. However, a statistically smaller proportion of "mutually agreed price" respondents (seven percent) rather than "no mutually agreed price" respondents (19 percent) suggested that the "management controlled most of the relevant information".

In relation to five statement relating to the role of management in discussing succession and the sales process, binary "yes" or "no" responses were gathered. Only one weakly significant difference at the 0.1 level of significance was detected (Table 6). A smaller proportion of "mutually agreed price" respondents (21 percent) rather than "no mutually agreed price" respondents (35 percent) suggested that the "management and vendors discussed succession, process driven by vendor". These results lend weak support to hypothesis H6.

In relation to five statements relating to the role of the private equity provider in discussing succession and the sale process, binary "yes" or "no" responses were gathered. Two statistically significant differences were detected (Table 7). A larger proportion of "mutually agreed price" respondents (50 percent) rather than "no mutually agreed price" respondents (30 percent) suggested that the "private equity provider was not involved at all". Conversely, a weakly significantly smaller proportion of "mutually agreed price" respondents (12 percent) rather than "no mutually agreed price" respondents (26 percent) suggested that the "private equity provider discussed succession with the vendor and the management". This evidence provides support for hypothesis H7.

Conclusions

This paper has extended the conceptual work of Howorth, Westhead and Wright (2004) regarding the succession of family businesses through MBOs and MBIs. The paper represents the first attempt to develop and test a number of hypotheses relating to this process on a novel, large representative sample of MBOs and MBIs across Europe. Our findings can be summarized as follows. With respect to our first research question, we find lower information asymmetry in MBOs than in MBIs (H1). In terms of research question two, we find a relationship between information flow, succession planning and the type of deal (buy-out or buy-in). We find lower information asymmetry problems if family firm vendors and the existing management team are equally involved in succession planning and greater problems if the management are not involved at all in succession planning (H2). We also find greater involvement by MBO management in succession planning than for MBI management (H3). Concerning research question three, we found flows of information and succession planning impact sale negotiation. There is greater emphasis on returns on shareholder equity and market value increments where negotiation involved mutually agreed prices (H4);

negotiations are less likely to reach a mutually agreed price where the succession process was driven by the vendor (H6); and a mutually agreed sale price between the vendor and the acquiring management is unlikely if the private equity firm is involved in discussions regarding succession planning (H7). Contrary to expectation, equality of information sharing did not significantly affect whether a mutually agreed sale price between the vendors and management teams was achieved (H5) but when management controlled most of the relevant information it was statistically more likely that no mutually agreed price could be achieved.

Our findings extend understanding of the succession process in family businesses (Sharma 2004) and shed light on the feasibility of alternatives to within-family succession (Stokes and Blackburn 2001). The results emphasize the importance of information sharing and that the vendor may not always be in the strongest position. Our analysis also extends the work of Chua, Chrisman, and Sharma (2003) who highlighted the criticality of non-family management to the business. Our results indicate how non-family management with greater access to information can influence the negotiation process and determine who is more likely to benefit from the price to be paid. Our evidence also extends the work of Sharma, Chrisman, and Chua (2003b) on the importance of identifying a willing and trusted successor rather than focusing solely on retaining the business in the family.

Limitations and Implications for Further Research

There are a number of limitations that introduce opportunities for further research. First, the study focused on the perspective of the management involved in buying-out or buying-into the family firm. Further research might provide comparisons of these perspectives with those of the family and venture capital participants. Second, the study is cross-sectional. Further research involving longitudinal case studies of the process may obtain insights from vendors, financiers and management that shed light on the stages of negotiation from pre-succession decisions concerning the selection of the MBO/I option through to post-succession effects. Third, a particular issue is to explore the extent to which the information imbalance between vendors and external management may be linked to the observed higher failure rate in MBIs (CMBOR 2004). The failure rate for MBOs of family firms completed in 1990-1995 is the same for all MBOs at 13.3 percent but higher for family firm MBIs at 19.4 percent as against 17.5 percent for all MBIs (CMBOR 2005). The reasons for the higher failure rate in family firm MBIs needs to be explored. Fourth, we have focused solely on succession through venture-capital backed MBO/Is. Future research needs to consider differences between the processes of sale to a 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.

Fifth, the study has not considered what effect an owner may have if s/he remains in the business as an advisor post buy-out. Finally, there may be differences across countries and institutional environments with respect to the acceptability and feasibility of succession outside the dominant kinship group. Where takeover markets are relatively weak, as in some continental European countries, acceptability that a family business is an asset that is transferable in the market place may be difficult (Wright et al. 1992). Wider family networks may be more important in some countries, raising issues about the sale to distant relatives in preference to incumbent managers. In addition, there may be greater reluctance in some contexts to sell to unknown external management in preference to incumbents. These factors may influence the nature of the negotiation process and the continuing involvement of the family in the future of the business. Further research might consider differences in the negotiation process in different institutional contexts.

Implications for Family Firms

Our study has also highlighted that a difficult relationship between the family firm owner and the incumbent or external management who are about to take over the company can impact succession planning and the sale process and may not be in the best interest of the family/owner or the firm. In such cases an advisor could prove useful in terms of mediation.

When management and vendor discuss succession equally there are fewer problems associated with information asymmetry, highlighting the importance of succession planning. Evidence that where management control most of the relevant information it is significantly less likely that a mutually agreed price will be agreed, reflects qualitative evidence that in some family firm successions it is management that is in the stronger position (Howorth, et al. 2004). Vendors may thus need independent advice in negotiating the sale. Our evidence also suggests that the experience of venture capital firms in negotiating buy-outs and buy-ins may put them in a stronger position to negotiate with the vendor.

Implications for MBO and MBI Managers

Our findings suggests incumbent managers need to make themselves aware of the aims of the vendor family regarding the future of the business. Does the vendor family want to have a continued involvement in the business, does it want to maximize the value from its investment or does it want to be "fair" to management? What do these different objectives imply about the information being made available by the vendor family and the price they are seeking to achieve? Management may also need to identify what information relating to the firm they possess but which is not available to the vendor family. Can this information asymmetry be used in their favor? To what extent might exploiting this asymmetry lead to loss of trust by the family vendor?

Our findings regarding vendor control of the relevant information in MBIs highlights the need for thorough due diligence by the incoming management team pre-purchase.

Information asymmetry faced by outside managers buying into private firms is particularly problematical (Robbie and Wright 1995). External management may be able to obviate some of these difficulties by targeting family firms with whom they have developed relationships as well as involving some incumbent management as equity-holders in the transaction.

Implications for Consultants

Consultants could play a proactive role in highlighting the need for planning by discussion with family firms before succession becomes imminent. In cases where lack of inter-generational options leads to delay, consultants can help identify the ownership transfer options. Where there is traditional reluctance to accept that a family business is an asset that is transferable in the market place, consultants can be crucial in convincing owners that a MBO/I may be both feasible and acceptable in ensuring the continuation of the business.

Where existing management is in a stronger position, vendors may need to take advice in order that a fairer deal can be reached. Information asymmetries may be reduced by the intervention of a consultant/advisor. Family firm vendors may need advisors who have specialist skills in negotiating MBO/Is that go beyond the provision of tax planning and similar services.

Vendors may also need advice on which venture capital firm to approach as each has different strengths in terms of reputation, business sector and general management experience. Our evidence has highlighted that the relationship between family owners, non-family management and the venture capital firm can be difficult in terms of negotiating a mutually agreed price. This is also an area where a consultant experienced in negotiating with venture capital firms could help provide an intermediary between the parties concerned.

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Table 1
Information Sharing Reported by MBOs and MBIs

Variable	MBI (n=51)		MBO (n=64)		Degrees of freedom	Chi-squared	Sig.[a]
	Number	Percent	Number	Percent			
Vendor controlled all of the relevant information: yes	13	25.5	11	17.2	1	1.185	0.28
Vendor controlled most of relevant information: yes	16	31.4	8	12.5	1	6.121	0.01
Vendor & management shared relevant info. equally: yes	16	31.4	33	51.6	1	4.731	0.03
Management controlled most of relevant information: yes	5	9.8	10	15.6	1	0.848	0.36
Management controlled all of the relevant info.: yes	1	1.9	2	3.1	1	n.a. [b]	

[a] Pearson chi-squared asymptotic significance (2-sided).
[b] The assumptions of the test were violated and it was not possible to compute a chi-squared statistic.

Table 2
Information Sharing and Succession Planning

Variable	Information not shared equally (n=63)		Information shared equally (n=48)		Degrees of freedom	Chi-squared	Sig.[a]
	Number	Percent	Number	Percent			
Management not involved at all: yes	27	42.9	12	25.0	1	3.812	0.05
Management & vendors discussed succession, process driven by vendor: yes	16	25.4	15	31.3	1	0.464	0.50
Management & vendors discussed succession, process evenly balanced: yes	8	12.7	12	25.0	1	2.791	0.10
Management & vendors discussed succession, process driven by mgmt: yes	7	11.1	5	10.4	1	0.014	0.91
Management instigated process by approaching vendor with an offer: yes	5	7.9	4	8.3	1	n.a.	

[a] Pearson chi-squared asymptotic significance (2-sided).
[b] The assumptions of the test were violated and it was not possible to compute a chi-squared statistic.

Table 3
The Role of Management in the Succession Planning Process

Variable	MBI (n=50)		MBO (n=62)		Degrees of freedom	Chi-squared	Sig.[a]
	Number	Percent	Number	Percent			
Management not involved at all: yes	25	50.0	14	22.6	1	9.169	0.00
Management & vendors discussed succession, process driven by vendor: yes	17	34.0	14	22.6	1	1.803	0.18
Management & vendors discussed succession, process evenly balanced: yes	4	8.0	17	27.4	1	6.852	0.01
Management & vendors discussed succession, process driven by mgmt: yes	2	4.0	10	16.1	1	4.256	0.04
Management instigated process by approaching vendor with an offer: yes	2	4.0	7	11.3	1	n.a.	

[a] Pearson chi-squared asymptotic significance (2-sided).
[b] The assumptions of the test were violated and it was not possible to compute a chi-squared statistic.

Table 4
Strategic Objectives Cited During the Sale Process Prior to the MBO/I

Variable	No mutually agreed price				Mutually agree price				
	Mean[a]	Number	Median	S.Dev.	Mean [a]	Number	Median	S.Dev.	Sig. [b]
Sales growth	4.24	49	4	0.85	4.10	58	4	0.91	0.42
Net profit from operations	4.33	51	5	0.89	4.43	58	5	0.88	0.39
Cash flow from operations	4.14	51	4	0.98	4.26	57	5	0.86	0.58
Return on shareholder equity	3.10	51	3	1.27	3.61	56	4	1.12	0.04
Capital restructuring	2.26	50	2	1.29	2.21	56	2	1.20	0.94
Short-term profitability	3.25	51	3	1.37	3.11	56	3	1.30	0.63
Long-term profitability	4.12	51	5	1.11	4.14	57	4	0.99	0.88
Market value increment	3.04	50	3	1.37	3.67	57	4	1.39	0.02
Market share expansion	3.14	51	3	1.31	3.40	57	4	1.15	0.30
To accumulate family wealth	3.30	50	3	1.30	3.13	55	3	1.56	0.69
To increase employment	2.14	50	2	1.09	2.14	56	2	1.00	0.88

[a] Mean calculation based on a 5-point scale from 1 = very low importance to 5 = very high importance
[b] Mann-Whitney Asymp. Sig. (2-tailed)

Table 5
Information Sharing and the Sale Process

Variable	No mutually agreed price (n=52)		Mutually agreed price (n=61)		Degrees of freedom	Chi-squared	Sig.[a]
	Number	Percent	Number	Percent			
Vendor controlled all of the relevant information: yes	12	23.1	11	18.0	1	0.441	0.51
Vendor controlled most of relevant information: yes	11	21.2	13	21.3	1	0.000	0.98
Vendor & management shared relevant info. equally: yes	19	36.5	30	49.2	1	1.827	0.18
Management controlled most of relevant information: yes	10	19.2	4	6.6	1	4.154	0.04
Management controlled all of the relevant info.: yes	0	0.0	3	4.9	1	n.a.	

[a] Pearson chi-squared asymptotic significance (2-sided).
[b] The assumptions of the test were violated and it was not possible to compute a chi-squared statistic.

Table 6
The Role of the Management with Regard to the Sale Process

Variable	No mutually agreed price (n=52)		Mutually agreed price (n=58)		Degrees of freedom	Chi-squared	Sig.[a]
	Number	Percent	Number	Percent			
Management not involved at all: yes	16	30.8	22	37.9	1	0.622	0.43
Management & vendors discussed succession, process driven by vendor: yes	18	34.6	12	20.7	1	2.681	0.10
Management & vendors discussed succession, process evenly balanced: yes	8	15.4	13	22.4	1	0.877	0.35
Management & vendors discussed succession, process driven by mgmt: yes	7	13.5	5	8.6	1	0.661	0.42
Management instigated process by approaching vendor with an offer: yes	3	5.7	6	10.4	1	n.a.	

[a] Pearson chi-squared asymptotic significance (2-sided).
[b] The assumptions of the test were violated and it was not possible to compute a chi-squared statistic.

Table 7
The Role of the Private Equity Provider with Regard to the Sale Process

Variable	No mutually agreed price (n=50)		Mutually agreed price (n=58)		Degrees of freedom	Chi-squared	Sig.[a]
	Number	Percent	Number	Percent			
Private equity provider (PEP) not involved at all: yes	15	30.0	29	50.0	1	4.449	0.04
Vendor approached PEP to discuss succession: yes	9	18.0	8	13.8	1	0.358	0.55
PEP discussed succession with management: yes	9	18.0	10	17.2	1	0.011	0.92
PEP discussed succession with the vendor and the management: yes	13	26.0	7	12.1	1	3.454	0.06
PEP made proactive approach to vendor before succession: yes	4	8.0	4	6.9	1	n.a.	

[a] Pearson chi-squared asymptotic significance (2-sided).
[b] The assumptions of the test were violated and it was not possible to compute a chi-squared statistic.

Appendix

Table A1
Response by Country

Country	Total number vc-backed family/private buy-outs	Percent vc-backed family/private buy-outs	Total number sent	Total number returned	Percent 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	2.56%
Eire	5	0.25%	5	0	0.00%
Finland	20	1.00%	19	2	1.71%
France	282	14.11%	193	9	7.69%
Germany	110	5.51%	88	7	5.98%
Italy	87	4.35%	71	8	6.84%
Lithuania	1	0.05%	0	0	0.00%
Netherlands	58	2.90%	43	1	0.85%
Norway	8	0.40%	7	1	0.85%
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	2.56%
Sweden	30	1.50%	28	3	2.56%
Switzerland	28	1.40%	25	3	2.56%
UK	1242	62.16%	1056	77	65.81%
Total	**1998**	**100%**	**1645**	**117**	**100%**

Table A2
Comparison of Industrial Distribution

Industrial Sector	Survey Responses (percent)	CMBOR Database (percent)
Biotechnology	0.0	0.1
Computing/electronics	8.6	12.5
Consumer related	23.1	23.1
Construction	9.4	3.1
Energy	0.0	0.4
Industrial products/services	10.3	13.4
Manufacturing	22.2	19.9
Medical/Health related	6.0	3.6
Services	10.3	13.4
Transportation	2.6	2.5
Other	7.7	8.1