THE EFFECT OF OWNERSHIP AND GOVERNANCE CHANGE ON THE STRATEGY OF FAMILY FIRMS: EVIDENCE FROM MANAGEMENT BUY-OUTS (SUMMARY)

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SUMMARY

THE EFFECT OF OWNERSHIP AND GOVERNANCE CHANGE ON THE STRATEGY OF FAMILY FIRMS: EVIDENCE FROM MANAGEMENT BUY-OUTS

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Principal Topic

The survival of family firms is an important entrepreneurial sustainability issue and thus the succession process in these firms is a much debated area in the literature. When there is no suitable family successor, alternative ownership succession options are available where, in particular, succession via management buy-out (MBO) or buy-in (MBI) is a popular alternative. The strategy of the family firm, in relation to performance improvements and growth, is expected to be different before and after an MBO/I but the presence of the founder, shareholding non-family managers or non-family non-executive directors before the buyout as well as the input of existing management and financiers in succession planning may not only affect the MBO/I process itself but also the business strategies adopted after the MBO/I. This study aims to add to the understanding of these effects.

Method

The sample for the survey was derived from the Centre for Management Buy-out Research (CMBOR) database which effectively comprises the population of buy-outs in Europe. The group of interest was former family firms who had had a buyout with the aid of venture capital between 1994 and 2003. In total, 114 companies replied out of 1,645 contacted and 108 of these were used in this study.

Results and Implications

We show that the strategy of family firms does indeed change significantly post MBO/I and that ownership and governance structures before the MBO/I do indeed play a part in the type and extent of change. Preliminary evidence suggests that when solely family are in control of the firm towards the end of this part of its life cycle, there is significant scope for growth and expansion but that this will only occur following a major change in ownership. Should a venture capitalist be involved in the process, the most likely outcome is a drive towards efficiency improvements in the existing business, rather than a major change in strategic direction.

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