THE IMPACT OF OWNERSHIP, GOVERNANCE AND OBJECTIVES ON THE LIFE CYCLE OF FAMILY FIRMS: EVIDENCE FROM MANAGEMENT BUY-OUT (SUMMARY)

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SUMMARY

THE IMPACT OF OWNERSHIP, GOVERNANCE AND OBJECTIVES ON THE LIFE CYCLE OF FAMILY FIRMS: EVIDENCE FROM MANAGEMENT BUY-OUTS

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Principal Topic

Family firms may face several thresholds during their life cycle and one of these is succession. The majority of family firms fail to plan for generational succession at all and at a macro level and this may increase business closures. The typical family firm has traditionally been assumed to be owned and managed by a small group of family members where the firm’s objectives are closely linked to family objectives. However, there is growing recognition of the need to analyze the behaviour of family firms from an agency perspective that takes into account that these dimensions are not necessarily homogenous or lacking in conflict. By examining aspects of information sharing and negotiation behaviour during the succession process, leading to a management buy-out, this study aims to add to the understanding of the influence of ownership, governance and firm objectives on the behaviour of private family firms at this important threshold.

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 family/private venture capital backed deals completed between 1994 and 2003. In total, 114 companies replied out of 1,645 contacted.

Results and Implications

The findings suggest that information sharing during a buy-out, and thus potentially the long-term survival of the firm, may depend on the ownership structure, the firm’s objectives and its governance structure. Company objectives and governance were also linked to negotiation behaviour during the buy-out process. The implications of this study are that succession (and potentially firm survival) is likely to be more successful if the owners are also managers, if they are concerned about the continued survival and performance of their firm and if external professionals, specifically venture capital firms, are involved at an early pre-transition stage.

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