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Family firm succession: the management buy-out and buy-in routes

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[Journal of Small Business and Enterprise Development](#)

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(International
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Abstract

Purpose

This exploratory study aims to provide fresh insights into the ownership transfer of private family firms through internal management buy-out (MBO) and external management buy-in (MBI) succession routes. The paper aims to explore if flows of information impact the succession planning process and if the nature of succession planning impacts the business sale negotiation process relating to family firms that select MBO/MBI succession routes.

Design/methodology/approach

Guided by insights from agency theory and theories relating to information asymmetries and negotiation behaviour six hypotheses were derived. Private family firms that had received venture capital and the MBO/I deals had been completed between 1994 and 2003 were identified. A structured survey was administered to 117 senior members of acquiring MBO/I management teams after the deal had been completed in several European countries. Non-parametric chi-square tests and Mann-Whitney “U” tests were used to test the presented hypotheses.

Findings

Evidence highlights the importance of information sharing and that the family owner(s) may not always be in the strongest position. MBOs reported lower information asymmetry. Also, lower information asymmetry was



was less likely when management controlled information and when personal equity providers (PEP) were involved in the process supporting the interests of the MBO/I team.

Practical implications

Family firm owners need to plan for succession planning. Vendors of family firms need to leverage external professional advice when negotiating the sale of their ventures to ensure “family agendas” are protected.

Originality/value

This study has extended the conceptual work of Howorth et al. surrounding the succession of family firms through MBOs and MBIs. Rather than relying on case study evidence alone, cross-sectional survey evidence was explored within a univariate statistical framework to explore gaps in the knowledge base relating to succession planning and business sale negotiation behaviour.

Keywords

- Family firms
- Management succession
- Management buy-outs
- Management buy-ins
- Negotiating

Citation

Scholes, L., Westhead, P. and Burrows, A. (2008), "Family firm succession: the management buy-out and buy-in routes", [Journal of Small Business and Enterprise Development](#), Vol. 15 No. 1, pp. 8-30.
<https://doi.org/10.1108/14626000810850829>

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