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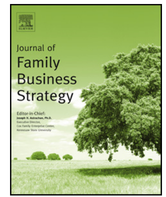

Family firm succession: Lessons from failures in external party takeovers

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ABSTRACT

This article focuses on the role of cognitive biases in failed external party takeovers. Our central issue is to understand how and to what extent external acquirers' cognitive biases could lead to managerial errors in small- and medium-sized external party takeovers. Our sample comprises five failed takeovers. We used narrative techniques and an interpretative approach through in-depth qualitative interviews conducted with both sellers and acquirers. Our study allows us to identify five common managerial errors that are associated with external acquirers' cognitive biases.

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Introduction

Succession in a family firm is not a straightforward process, even for a CEO who is approaching the age of retirement and has clearly stated his will to pass the baton. Difficulties inherent to this process can be all the more pronounced when the company is a small-sized family firm (as in the majority of cases) and when its profitability is strongly associated with the CEO's personality. While succession is one of the major topics in family business research (Astrachan, 2010; Handler, 1994; Le Breton-Miller, Miller, & Steier, 2004; Wrigth & Kellermanns, 2011), most of these studies address the intra-family succession process (Churchill & Hatten, 1987; Handler, 1990, 1994; Lambrecht, 2005; Lansberg, 1988; Le Breton-Miller et al., 2004; Sharma, Chua, & Chrisman, 2000; Ward, 1987) or the choice between a family or a non-family successor (Bennedsen, Nielsen, Perez-Gonzalez, & Wolfenzon, 2006; Burkart, Panunzi, & Shleifer, 2003). These studies are mainly carried out from the point of view of the incumbent. The case of a family business takeover by a third party represents one of the most critical situations in terms of family succession, as it leads to the family's mourning of its continuing involvement on the one hand (Cadieux, 2004) and contributes to the creation of tensions and passions in a context where there is a high level of information asymmetry on the other (Haspeslagh & Jemison, 1991). In this perspective, a new strand of research is also emerging, taking the successor's point of view and trying to understand his motivation and the determinants of his choice between taking over a business and starting a new venture (Bracci & Vagnoni, 2011; Deschamps & Geindre, 2011; Parker & Van Praag, 2012).

From the external party point of view, the takeover decision can be analyzed as an acquisition of a firm that happens to be a family firm and, as such, becomes a risky decision. Factors of the failure of an acquisition have therefore been identified, such as strategic misfit (Bettis, 1981; Salter & Weinhold, 1979), political errors (Hunt, 1990), cultural distance (Bjursell, 2011; Weber & Schweiger, 1989) or managerial errors (Datta, 1991; Gerpott, 1995; Shrallow, 1985; Shrivastava, 1986). However, to our knowledge, no study has addressed the key factors of failure of an external party takeover of a family business in the context of incumbent volunteer succession. In this article, we focused on failed takeovers to identify the individual-level managerial errors associated with the takeover process. Inherent to this issue is the relationship with the other party and the risks incurred by the acquirer in his relational management of an incumbent manager who has an emotional and personal tie to his organization, which can generate cognitive biases (Pieper, 2010). We then mobilized the conceptual work of Hogarth (1980) on cognitive biases and extended previous works made on acquisition by taking into account the specific nature of a family firm. Our central issue is to understand how and to what extent external acquirers' cognitive biases could lead to managerial errors in small- and medium-sized external party takeovers.

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Our research is based on five failed external party takeovers for which we were able to conduct in-depth qualitative interviews with both the seller and the acquirer. We used narrative methods to analyze our data. The aim of this paper is not to list all of the biases that may present themselves during the takeover of a family business by an external party but rather to select the most significant biases to understand how they function and then present how these biases can lead the external acquirer to observable errors. From a practical point of view, it is important to understand how the acquirer can approach such a project in a rational manner without losing sight of the emotional context and the psychological consequences for the target company's various actors. The structure of this paper is as follows. Section 'Psychological dimensions and cognitive biases associated with an external acquirer' presents a literature review of the potential cognitive biases associated with the transfer of a family business to an external acquirer. Section 'Methodology' presents the research methodology. Section 'Results: managerial errors of the external acquirer associated with cognitive biases' describes our main results: the main managerial errors of the acquirer associated with the cognitive biases identified in our sample. Section 'Discussion' discusses the results obtained and proposes some research perspectives.

Psychological dimensions and cognitive biases associated with an external acquirer

The selling of a family business involves both the incumbent CEO and the future acquirer in a dyadic relationship in which emotions and psychological dimensions play an important role. If the seller/acquirer relationship is always embedded with some psychological dimensions at the individual level, these dimensions are even more important if the target is a family firm due to specific organizational ambiguity (Davel, 2006). Ambiguity, complexity and uncertainty are the main common circumstances that generate cognitive biases at the individual level in a strategic decision such as an acquisition. This section presents a review of the literature on the psychological dimensions of the external acquirer as well as a selection of the cognitive biases that could be associated with an external party takeover. In this study, we define a family business as one in which the majority of shares or voting rights is held by the members of a single family and where the power of management and control are in the hands of one or more of the family members (Commission Européenne, 2009). We apply the definition of cognitive bias offered by Le Ny (1999, p. 116): "a bias is a distortion (a systematic deviation from the norm) of information entering or leaving the cognitive system. In the first case, the subject operates a selection of information, in the second case; he carries out a selection of responses."

Psychological dimension of the acquirer in an external party takeover

The external acquirer's situation is fundamentally different from that of the internal successor in the sense that his motivations are extrinsic to the target company (Abdellatif, Amann, & Jaussaud, 2010; Grundström, Öberg, & Öhrnwall Rönnbäck, 2012). According to Meier and Schier (2008), we can identify the following key differences between the motivations of the internal successors (a sense of duty, need to be useful, desire to carry out the job, recognition within the system, and the need to preserve the atmosphere at work) and external acquirers (an individual need for realization and a desire for ambition/power or social status, among others.). The environment in which the potential acquirer evolves is essential to his decision-making, whether it concerns the takeover project or functions on a personal or professional level. However, acting out will depend above all on the events of a given period. For example, takeovers can occur in many stages during the life of a company, such as during a retirement, succession, illness or death of the company director or a judicial receivership or upon a shareholder's or director's decision to withdraw from the company. The triggering factor of the takeover must consequently resonate with the acquirer's background (personal history, beliefs, and values) and deep motivations (search for meaning, ambition, and aspirations) for him to make the decision to take over the target company (Deschamps & Geindre, 2011). The external acquirer cannot disregard the context of the takeover and the risks associated with the incumbent's perception of the latter (Bah, 2009; Guieu, 2010; Pieper, 2010). If the acquirer is to remain true to himself and respond above all to the needs of the new company, he must also try to show that despite the differences between the incumbent and the successor, certain symbolic or structural elements of order will be preserved both in terms of the company's cultural aspects and its management style and criteria. In this regard, we develop hereafter the biases associated with the seller/external acquirer relationship during the periods when the two get to know each other and interact with a view of reaching an agreement, that is to say, the preparation and negotiation phases. The psychological dimensions of both the incumbent and the acquirer are then at the heart of the family business external party takeover. The asymmetric nature of the relationship between these two main actors and the presence of a strong level of ambiguity, uncertainty and complexity both in the family firm as an entity and in the specific dyadic relationship should enhance the cognitive biases during the takeover process.

The authors agree that the risk for an acquirer under pressure to make wrong decisions (a bad choice of target, for example) is higher in acquisitions, given the context of urgency around this type of operation, its high degree of visibility and the highly skewed nature of the relationship (Haspeslagh & Jemison, 1991). Many studies have focused on managerial errors associated with the cognitive biases present during acquisitions. Three main streams of research have been mobilized to describe this phenomenon: (a) works on the judgment in decision-making at the individual level that helped to highlight a number of heuristics and cognitive biases (Goldstein & Hogarth, 1997; Slovic, Fischhoff, & Lichtenstein, 1977; Tversky & Kahneman, 1974); (b) studies on managerial decision-making and strategy have identified a set of managerial errors common to all decision-making processes (Barnes, 1984; Schwenk, 1985, 1995), and finally, (c) studies on acquisitions were conducted to identify the specific errors made by the acquirer and the seller during these operations (Duhaime & Schwenk, 1985; Haspeslagh & Jemison, 1991; Hayward & Hambrick, 1997; Jemison & Sitkin, 1986).

In our study, we address this issue in a specific situation where the target is a family firm and the acquirer is an external party. Our literature review on cognitive biases shows that the authors are unanimous in their agreement that when an individual is faced with complex, ambiguous and uncertain choices, the decisions made could be strongly biased (Ghiglione & Richard, 1999). These biases occur because individuals have limited cognitive capacity to memorize and address information (Simon, 1959). Therefore, numerous works of research list a multitude of heuristic methods and cognitive biases that can be adopted by the decision-maker (Hogarth, 1980). Our central issue is then to understand how and to what extent external acquirers' cognitive biases could lead to managerial errors in small- and medium-sized external party takeovers.

Cognitive biases associated with the external acquirer

Our presentation of the selected biases follows that recommended by Hogarth (1980), who maintains that the decision-maker

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