

Managers' mental models of small business acquisition: the case of the SME French transfer market

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AIM OF THE PAPER

A study by the European Commission conducted in 2011 showed that 500,000 European companies, equating to 2 million jobs, may soon disappear for non-economic reasons. With nearly 20% of SME managers aged over 60 (BPCE, 2011), France faces the prospect of having to ensure the transfer of 100,000 SMEs a year. The total number of current transfers amounts to a mere 60,000 a year. The problem is even more pronounced in a period of economic crisis. With its ageing population of managers, France will need to find ways to promote fluidity on the SME transfer market, for at least four reasons:

- Transferred SMEs create more jobs and are more likely to survive and to be profitable than newly-created companies (BPCE, 2011);
- Family business transfer is uncommon in France (less than 10% of operations relate to companies with more than 10 employees, compared to 55% in Germany, 72% in Italy and 55% in Quebec; KPMG, 2007);
- The limited number of transfers may have an irreversible effect on spatial planning, with job losses in rural areas creating even greater economic imbalances;



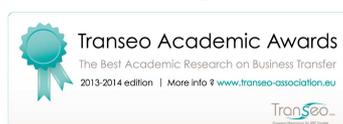
- Transfers are an opportunity for SMEs to grow; however, the size of SMEs appears to be a weakness of the French economy and has a negative impact on competitiveness.

The assumption is that ensuring the balance of the transfer market requires promoting SME acquisitions. In France, small business acquisitions cover two types of practices: acquisitions by a natural person and acquisitions by a company. This study is consistent with studies demonstrating the proximity of internal growth processes and business creation on the one hand and of external growth processes and acquisitions by a natural person on the other. The study examines both strategies, with the term “acquisition” being used to refer to both acquisitions by a natural person and external growth operations. It is important to note that the national databases listing acquisition operations and transactions in France – for example the INSEE’s SIRENE register – make no distinction between an external growth operation and the creation of a holding company, aimed at securing funds and at reducing the risk of acquisition by a natural person. From a legal perspective, a natural person who buy a company will often create a holding company to secure a loan and avoid having to bear all the risk. The holding company will then take over the company, resulting in a process similar to external growth (see Appendix 1).

From an empirical perspective, the study aims to operationalize the variables on which the model is based and to examine managers’ mental models of acquisition. Given the nature of the studied population, the 245 managers from the CJD who participated in the study may be said to represent a large sample. In addition, the position of the CJD and the many statuses of CJD members (e.g. founders, buyers, heirs, employees) reflecting a mode of governance emphasizing renewal provide a useful basis for appraising managers’ mental models of small business acquisition in all their dimensions. From a managerial perspective, this study has several implications. The assumption is that a better understanding of the roots of the acquisition process among managers will facilitate the work of the public policy actors whose job it is to develop tools designed to meet the socioeconomic challenges of company acquisition. This study also provides potential buyers with points of reference designed to foster reflection as a basis for action.

CONTRIBUTION TO LITERATURE

From a theoretical perspective, this paper aims to develop a model of the formation of managers’ mental models of small business acquisition. The model and the empirical study

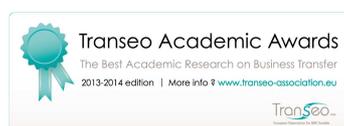


are designed to meet some of the needs and challenges of research on entrepreneurial cognition. While the field of entrepreneurial cognition has the potential to make significant contributions to entrepreneurship, progress is needed on several fronts (Bourion and Filion, 2008). This study contributes to the literature in two ways: theoretical conceptualization and methodological development.

Research on entrepreneurial cognition has tended to emphasize the socially constructed nature of entrepreneurial processes and has drawn on a range of mutually enriching perspectives and approaches. In different ways, they demonstrate the importance of the role of mental models in entrepreneurial processes.

The theory of planned behavior (TPB) – which fed into the first studies that emphasized the central role of intentions in the entrepreneurial process (Bird, 1988; Bird, 1992; Katz and Gartner, 1988) – identifies the following as the three main foundations of an individual's intention: the individual's attitude toward the behavior in question, their perception of social norms and their perceived control over the situation. An individual's attitude toward a behavior relates to their appraisal of the behavior (Ajzen and Fishbein, 1980). This can be understood in terms of the attractiveness or appeal of a given situation and the beliefs underlying its attractiveness (Kolvereid, 1996). Social norms refer to the social pressure felt by an individual and that compels them to perform (or not perform) a given action. This will depend on the individuals' belief about the opinions of people in their environment or of certain reference groups in relation to a particular behavior and on the motivation to conform to the group. The attitude and the perception of social norms, which determine the attractiveness of the behavior, are similar to the concept of desirability used in the entrepreneurship model developed by Shapero (Shapero, 1975; Shapero and Sokol, 1982). Perceived entrepreneurial control refers to the perceived difficulty of a task or action. Here, there are similarities with the concept of feasibility in Shapero's model (Shapero, 1975; Shapero and Sokol, 1982) and the concept of personal efficacy in Bandura's model (Bandura 1977, 1982), referring to individuals' beliefs about their ability to perform a task.

Based on a complementary perspective to the TPB approach, a number of studies on entrepreneurial cognition have highlighted the central role of experience and the resulting mental models generated by experience, construed as the roots or founding elements of the entrepreneurial process.



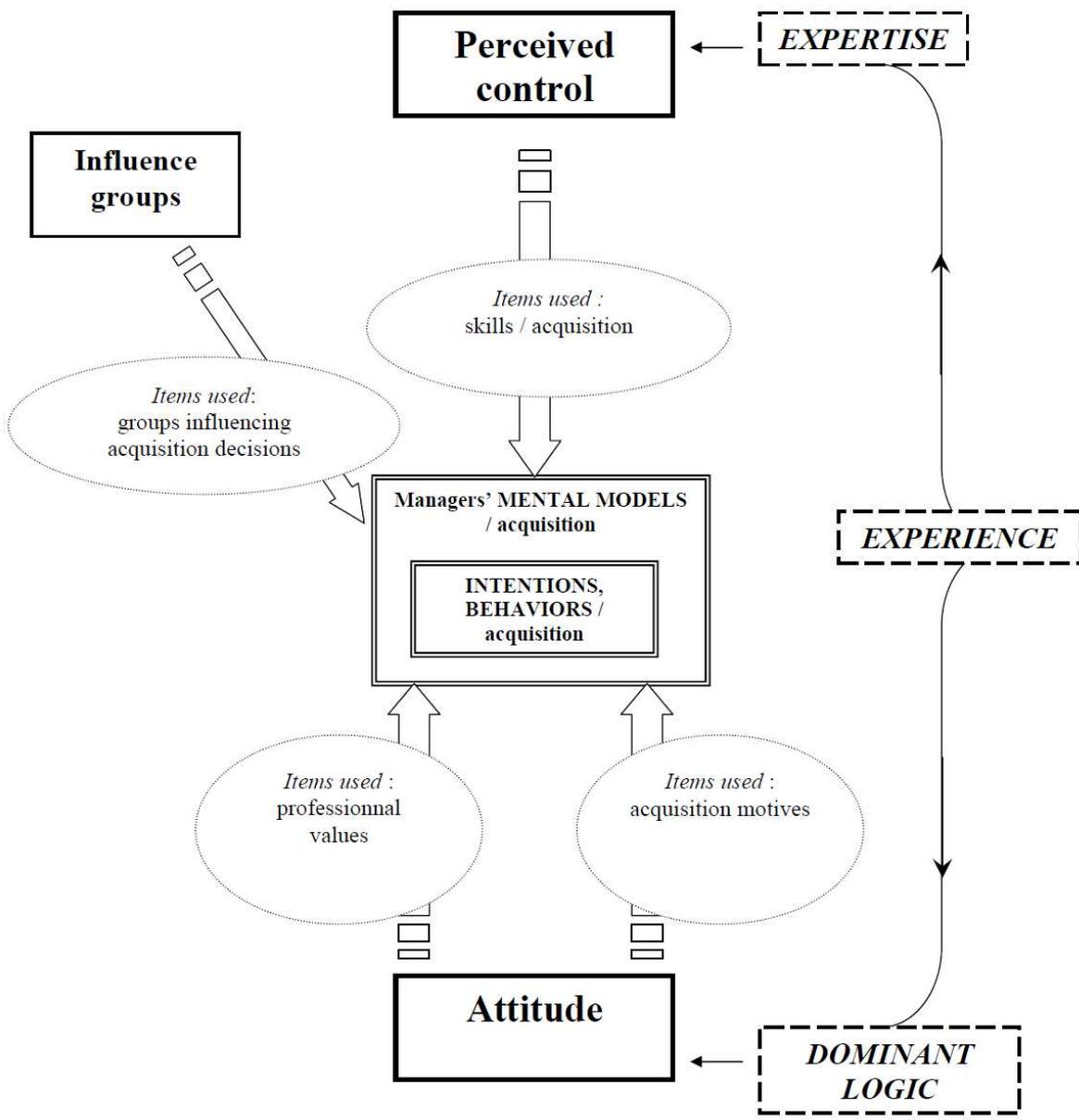
Following the pioneering work of Krueger (Krueger, 1993; Krueger, and Carsrud, 1993; Krueger and Dickson, 1993) – which took up Shapero’s model (Shapero, 1975; Shapero and Sokol, 1982) by emphasizing the impact of experience on two dimensions of the model, perceived desirability and perceived feasibility – Hill and Levenhagen (1995) introduced the concept of intuitive mental models in order to understand the process through which experience and other factors influence intentions and behaviors. Research indicates that the intuitive mental models at the root of entrepreneurial action stem essentially from four factors: 1) the structural characteristics of an environment as perceived by the entrepreneur; 2) the meanings associated with human relationships and behaviors; 3) experiences; and 4) language.

Reuber and Fischer (1999) showed that it was the stock of experience, understood as both the depth and the range of experience gained over time, that produces expertise and a dominant logic influencing entrepreneurs’ decisions and actions. The concept of expertise has affinities with the concept of perceived behavioral control and refers to the skills acquired through experience that lead to more informed or enlightened actions and decisions. The dominant logic, related to the concept of attitude, corresponds to a structure of beliefs operating as a filter and facilitating information processing and decision making (Prahalad and Bettis, 1986; Bettis and Prahalad, 1995).

This study aims to identify the mental models governing the entrepreneurial process that leads managers to acquire an SME. A classification is proposed based on different types or clusters of managers. In addition to highlighting several categories of mental models serving as heuristic markers stimulating reflection and action among practitioners, the proposed classification will be used as a basis for examining the relationships between the different types of mental models and the intentions and behavior exhibited by managers in the area of acquisition. Several variables were used to conduct the study.

Figure 1: Modeling the formation of managers’ mental models of small business acquisition





DATA AND RESULTS

Sample and data collection

The sample was composed of members of the CJD. The questionnaire was tested on 10 managers who were members of the CJD. Following the test, the questionnaire was amended and distributed by the association using an internet link. 245 usable responses were received without a reminder. The composition of the group of managers (representative of the population of the CJD) who completed the questionnaire in full is described in Table 1. The categories related to positions, statuses and company size (number of employees) are those used by the CJD.

Table 1: Description of the sample

	Answer	Percentage		Answer	Percentage
Gender	Man	80.0%	Level of education	CAP-BEP	1.2%
	Woman	20.0%		Baccalaureate	4.5%
Age	20-29	4.9%		Bac+2	15.9%
	30-39	42.0%		Bac+3	6.9%
	40-49	48.6%		Bac+4	16.3%
	50-60	4.5%		Bac+5	51.0%
Position	CEO	28.6%		Self-taught	4.1%
	GM	11.0%	Type of education/training	Technical education, engineering	40.0%
	Manager	38.8%		Management, business, law, finance	44.5%
	Other	21.6%		Technical education, engineering, management, business, law, finance	15.5%
Status	Founder	36.7%	Company size (number of employees)	1 employee	10.2%
	Buyer	27.8%		2-10 employees	24.9%
	Employee	23.3%		11-20 employees	16.7%
	Heir	11.8%		21-50 employees	21.6%
	Other	0.4%		51-100 employees	9.4%
				101-300 employees	9.4%
		more than 300 employees	7.8%		

The participants' answers (see Table 2) demonstrate the interrelatedness of the processes of external growth and/or acquisition by a natural person.

RESULTS



Table 2: References to acquisition by a natural person and external growth among CJD managers

QUESTION: IN YOUR CASE, IT IS MORE ACCURATE TO SPEAK OF ...?

...Acquisition by a natural person	37%
...Takeover of a target company by your company	32%
...One or the other	31%

Table 3 illustrates the participants' positive attitudes toward acquisitions, their confidence in their ability to engage in an acquisition, and their intention to acquire a company in the months ahead.

Table 3: Answers related to attractiveness, ability and intention

QUESTION: IN YOUR OPINION, THE IDEA OF ACQUIRING A COMPANY SEEMS... (on a 5-point Likert scale from "not at all attractive" to "very attractive"):	
...not at all or not very attractive	1.2%
...moderately attractive	27.2%
...extremely attractive	71.6%
QUESTION: TO WHAT EXTENT DO YOU FEEL ABLE TO ACQUIRE A COMPANY? (on a 5-point Likert scale from "not at all able" to "very able") :	
not at all or not very able	3.2%
moderately able	31.2%
very able	65.6%
QUESTION: HOW LIKELY ARE YOU TO ACQUIRE A COMPANY IN THE COMING MONTHS? (on a 5-point Likert scale from "not at all likely" to "very likely") :	
not at all or not very likely	39.6%
no opinion	6.8%
quite likely	26.4%
very likely	27.2%
QUESTION: IF IT WAS UP TO YOU, HOW LIKELY WOULD YOU BE TO ACQUIRE A COMPANY IN THE COMING MONTHS? (on a 5-point Likert scale from "not at likely" to "very likely"):	
not at all or not very likely	26.8%
no opinion	8.4%
quite likely	21.6%
very likely	43.2%

Cluster 1: Acquisition – an unattractive and difficult operation (19.6%)

→ **Interpretation:** Cluster 1 Managers do not see acquisition as an attractive entrepreneurial practice. This finding is consistent with the fact that participants in positions other than Manager, GM and CEO are over-represented in Cluster 1. Cluster 1 Managers also tend to feel that they do not need to acquire another company in order to advance their career, both in terms of their company's activities and in terms of their own professional achievements. Cluster 1 Managers also value stability and feel incompetent in the area of acquisition.

Cluster 2: Acquisition – a strategy for further entrepreneurial activity as part of a social objective (14.3%)

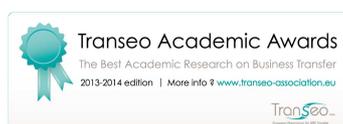
→ **Interpretation:** This view of acquisition is found among managers who are or have been entrepreneurs, who have a sense of professional fulfillment and who are primarily driven by the social dimension of acquisition. Representations of acquisition among Cluster 2 Managers involve a view of acquisition as a practice requiring entrepreneurial behavior, with acquisition being viewed as a potential avenue for promoting socioeconomic development. With little interest in profit and stability, Cluster 2 Managers tend to focus on personal fulfillment and achievement.

Cluster 3: Acquisition – an entrepreneurial practice seen as an independent avenue for professional fulfillment (23.3%)

→ **Interpretation:** The findings suggest that Cluster 3 Managers see acquisition as an attractive entrepreneurial practice for achieving professional fulfillment while enjoying a degree of independence. As founders and/or at the highest level in a company, Cluster 3 Managers tend to view acquisition as a means of advancing their career. The lack of influence of operational or internal stakeholders and of the personal sphere can be explained by the spirit of independence prized by Cluster 3 Managers and by the fact that they tend to view acquisition as an exclusively professional matter.

Cluster 4: Acquisition – an entrepreneurial practice aimed at achieving professional and personal success (42.9%)

→ **Interpretation:** Among Cluster 4 Managers, acquisition tends to be viewed as an entrepreneurial practice leading to professional and personal success. As such, Cluster 4



Managers tend to emphasize many different facets of acquisition, thereby demonstrating a good understanding of acquisition operations. This is probably related to the fact that managers with previous experience of acquiring a business are over-represented in Cluster 4.

DISCUSSION AND PRACTICAL IMPLICATIONS

The results have a number of *managerial and public policy implications*.

By examining the roots of the acquisition process based on a study of managers' representations of acquisition, this study helps to refocus the issue and suggests the need for effective strategies aimed at promoting acquisition and capable of being implemented and used in different ways by different actors. The implied conception emphasizes the cognitive role of public policies in promoting acquisitions among managers. Public policies in this area can potentially operate as institutional levers providing actors with stimuli leading them to reassess their perception of their positions and, potentially, to alter their knowledge structure. In terms of logic of action, acquisition is often seen as a way of saving jobs. Incentive measures and measures aimed at evaluating public policies focus largely on this particular aspect of acquisition. The results of this study suggest that the focus of messages aimed at managers needs to be shifted by taking into account types of motivations other than those related to social goals. Insofar as instruments convey specific representations of the issues and challenges to which they pertain, new public policies aimed at promoting acquisitions could be developed.

In addition, developing the skills required to acquire a company appears to be an effective managerial lever for encouraging managers to acquire a company. Information and training provided by the public authorities and other actors in the area of acquisitions could potentially help to change the perceptions and representations of their target audience and to improve their skills. However, it is important to note that managers who choose to undergo such training are likely to have already developed a taste for acquisition as an entrepreneurial practice. The question that arises is how to make training attractive to managers who are not naturally drawn to acquisitions. In addition, since perceived difficulties vary in different types of managers, there is a need for personalized training.

Based on a sample of managers from the CJD, the results of this study indicate that employees are not the type of managers most disposed to acquire an SME. The results



indicate that the fact of having previous entrepreneurial experience as a result of creating or acquiring a company has a significant influence on the process leading managers to acquire a company. The central role of experience in the entrepreneurial process is thus confirmed. More generally, these characteristics help to better define the potential population of managers disposed to acquire or take over a company and to better define the measures needed to encourage managers to acquire or take over a company. In order to meet the challenge of the SME transfer market in France, the public authorities also need to identify strategies to promote external growth between very small enterprises (VSEs) or SMEs. The assumption is that these operations contribute to VSE and SME growth.

From a theoretical perspective, in the field of entrepreneurial cognition, the first theoretical contribution of this study is that it provides a methodology for identifying the roots of the entrepreneurial project (Bourion and Filion, 2008), thereby providing a better understanding of entrepreneurial mental processes in the context of acquisitions and takeovers. As noted by Bourion and Filion, the study of entrepreneurial representations can contribute significantly to theoretical conceptualization in entrepreneurship. However, methodological advances are needed in this area. The results of the chi-square tests, particularly those relating to the relationships between attractiveness and competence and between intention and competence, demonstrate the relevance of the model.

This study has several ***limitations***. The first limitation is that the study was restricted to CJD managers. There is no evidence that CJD managers are representative of the potential population of buyers in France, particularly since they appear to illustrate a proactive entrepreneurial dynamic despite the economic crisis.

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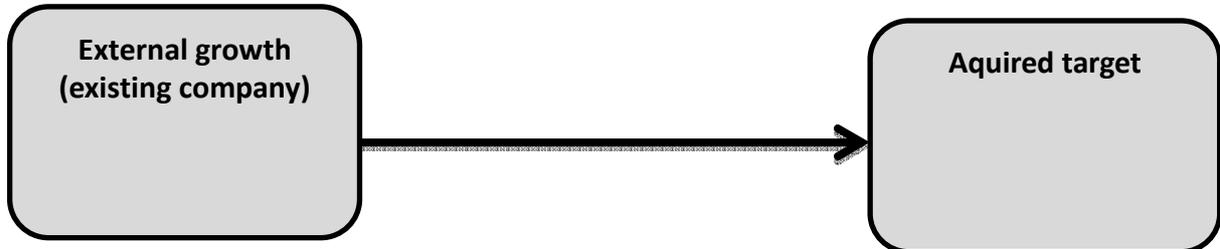
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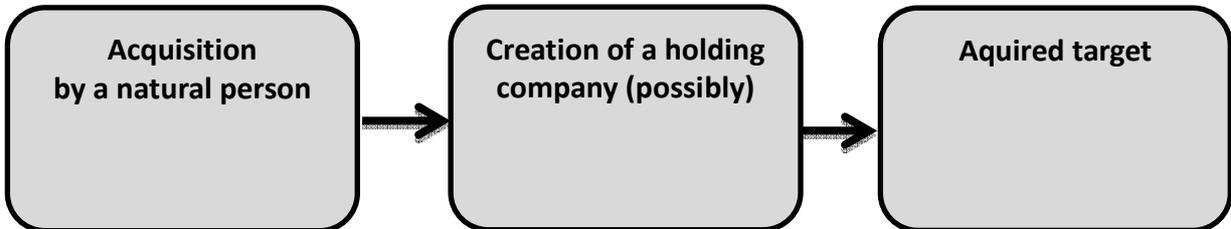
Appendices

Appendix 1: Modes of acquisition

External growth process



Process of acquisition by a natural person



Complex acquisition process involving entrepreneur(s) and companies

