

External takeover of small- and medium-sized enterprises: What do we know?

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While a multitude of articles have focused on start-ups (new ventures) (e.g., Delmar & Shane, 2004; De Clercq & Arenius, 2006; Townsend, Busenitz & Arthurs, 2010) just a few articles consider external takeovers as an alternative way of embarking on entrepreneurial activities (Parker & Van Praag, 2011; Block, Thurik & Van der Zwan, 2010; Durst & Guldenberg, 2010). In Europe three doctoral theses have investigated external takeovers. One was conducted in France (Deschamps, 2000), one in the Netherlands (van Teeffelen, 2010), and one in Germany (Durst, 2011). Takeovers seem to be mainly discussed in the field of family businesses, where the focal point is still on intergenerational business transfers (e.g. Le Breton-Miller, Miller & Steier, 2004; De Massis, Chua & Chrisman, 2008; Salvato, Chirico & Sharma, 2010). Here we talk about Family Business Succession, yet this is a different topic.

The lack of academic interest in external takeovers is surprising for several reasons:

- The survival rate for company formations through business transfers is higher than that for new venture creations (Austrian Institute for SME Research, 2004; OSEO, 2006, Entrepreneurship Foundation, 2010).
- More jobs are created by already established rather than new firms (Pasanen and Laukkanen, 2006).
- There is an increasing number of small and medium-sized enterprises (SMEs) waiting to be transferred to new owners on a European level (Commission of the European Communities, 2006).
- The changing demographic trends and decreasing interest of family members will lead to a lack of successors of family firms (Entrepreneurship foundation, 2010).
- The majority of business transfers are non-family meaning run by external persons (van Teeffelen, Uhlaner & Driessen, 2011)

This paper focuses on external takeovers, an actual and crucial topic representing an under researched field of study. Against the reasons mentioned above, we argue that the fields of entrepreneurship and small business management could benefit from looking more closely at external SME takeovers. What actually is an external takeover? Who runs an external takeover? To answer these two fundamental questions, we will explore what is already known as this would help us to identify gaps in the literature and then formulate relevant areas for future research. In this paper we conduct a literature review based on the following issues: we address European **external takeovers** (meaning that internal takeovers, i.e. succession inside the firm are not considered), of **family or non family SME**, by a physical **person** (this could be an individual or a team). Having these issues in mind, we are interested in identifying what we already know about external takeovers of SMEs to highlight important gaps in our understanding.

In the field of entrepreneurship, recently scholars have started discussing business takeovers and new venture in the context of entrepreneurial entry (e.g. Parker & Van Praag, 2011; Block, Thurik & Van der Zwan, 2010). Unfortunately, they do not specify what they mean when they are talking about takeover. This is one aspect we would like to resolve in this paper. Other, more general, reasons why there is a need for more research on external takeovers are: (1) the number

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of takeovers is expected to raise as today's founders will not stay their entire life in the firm (Wright, Robbie & Ennew, 1997); (2) a better understanding of the topic would enable policy makers to introduce more closely targeted measures; (3) to better highlight an alternative route to become an entrepreneur; (4) to understand that taking over a SME is more than a financial operation. Understanding the human story which stands behind is crucial to succeed.

Our paper purpose is a theoretical point of view. It is organised as follows: in the next two sections we discuss the importance of takeovers and the classification of the topic into the entrepreneurship literature. What is new here is that we are considering external takeover as an entrepreneurial entry mode and thus it is a crucial part of the entrepreneurship field of research. After that, we present the methodology of our literature review. Then we provide a section that discusses the main findings and limitations identified in the research reviewed. At this step we will be able to define what an external takeover is. This proceeding allows us to identify relevant avenues for future research. The paper ends with a brief conclusion.

1 – Relevance and challenges of takeovers

Taking over a firm is a current challenge for all industrial countries. However it seems that until now, it does not exist any significant governmental incitation. We must notice that facing the micro and macroeconomics challenges and the demographic situation, some events have begun to be structured on this topic.

- For instance, Transeo (European Association for SME Transfer) a European network was founded in 2009. The network's aims are to exchange good practices among professionals and to understand how business transfers are tackled in different European and overseas countries. Private, public and academic experts participated in the first edition of the Transeo Conference. In total, 200 participants from 18 countries attended the Conference.
- Chambers of Commerce, e.g. in France and Germany, have seized this problem too and organized workshops to inform and encourage individuals to takeover. They have tested a form of coaching for potential buyers: after identifying any lacks in competency they propose certain courses intended to reduce them.
- In the academic world, in 2006 in France a research convention on takeovers took place. It was organized by two French business schools¹ and sponsored by research associations and banks. The aim was to bring takeovers into the limelight. The main problem of this convention was that different transfer situations were discussed under one term. For instance no differences were made between very small takeovers of craftsman firms and mergers between two medium-sized companies. The convention's main conclusions were the following: (1) takeover is a worldwide phenomenon; (2) quantitative research is used to understand firm's performance after the transfer has taken place whereas qualitative research aims at explaining the diversity of takeovers; (3) the issue of takeover represents a research topic that can be qualified to be multidisciplinary and connecting (as it covers entrepreneurial entry and entrepreneurial exit); and (4) because of the urgent situation, the takeover process should be explained and facilitated (Bloch & Germain, 2007). The participating researchers seemed to agree that takeovers are part of the research field of entrepreneurship.

¹ HEC Paris and Normandie Business School.

2 – Takeover is an entrepreneurial topic

We aim to show that taking over a firm is an entrepreneurial mode. The literature review learns to us that for some authors entrepreneurship is not exclusively equal to starting a business from scratch. To sum up, we propose that external takeovers represent an entrepreneurial entry mode, are one of the answers to exit modes and are a critical part of entrepreneurship.

3 – Methodology

To identify scholarly articles concerning takeovers we used the database EBSCO Business Source Premier, reverted to the references used in the doctoral studies (Deschamps (2000) and Durst (2011)) as well as ongoing research activities by the authors. Concerning the database, we searched for any of the keywords: takeover, executive succession, business transfer, non-family succession and ownership/leadership transfer. Based on this proceeding we identified 56 articles/contributions covering the period 1986 – 2011. The articles were found across several journals: *Organization Science*, *Strategic Management Journal*, *Journal of Management*, *Journal of Management Studies*, *Managerial and Decision Economics*, *British Journal of Industrial Relations*, *The Leadership Quarterly*, *Small Business Economics*, *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, *Journal of Entrepreneurship and Small Business*, *Journal of Entrepreneurial Venturing* and Francophone journals such as *Revue Internationale PME*, *Revue Française de Gestion*, *Gestion 2000*, *Revue de l'Entrepreneuriat*. We carefully read all these papers and coded each contribution according to the following aspects: research objective, theoretical perspective/framework, empirical/theoretical article, main findings, size of firm, seller/buyer focus, and definition of term. After this step we removed the number of articles that deal with large listed firms and family firms (in the sense of family business succession), given our interest in external takeover of SMEs. Sometimes the review of the literature was somewhat troubling, as several papers do not provide any information about what type of company they are talking. In the end, 40 articles remained for analysis (refer to Table in Appendix).

4 – Discussion

The literature review suggests that the gaps in the literature can be grouped into five areas: (1) the research methods used, (2) the terminology (or definition of what is an external takeover), (3) the transfer process, (4) the actors involved and (5) the environment. For each topic we identify gaps that may become avenues for future research and we suggest questions to be tested. In the three figures, according to the literature review, we suggest our understanding of the phenomenon.

Figure 1: Different exit modes

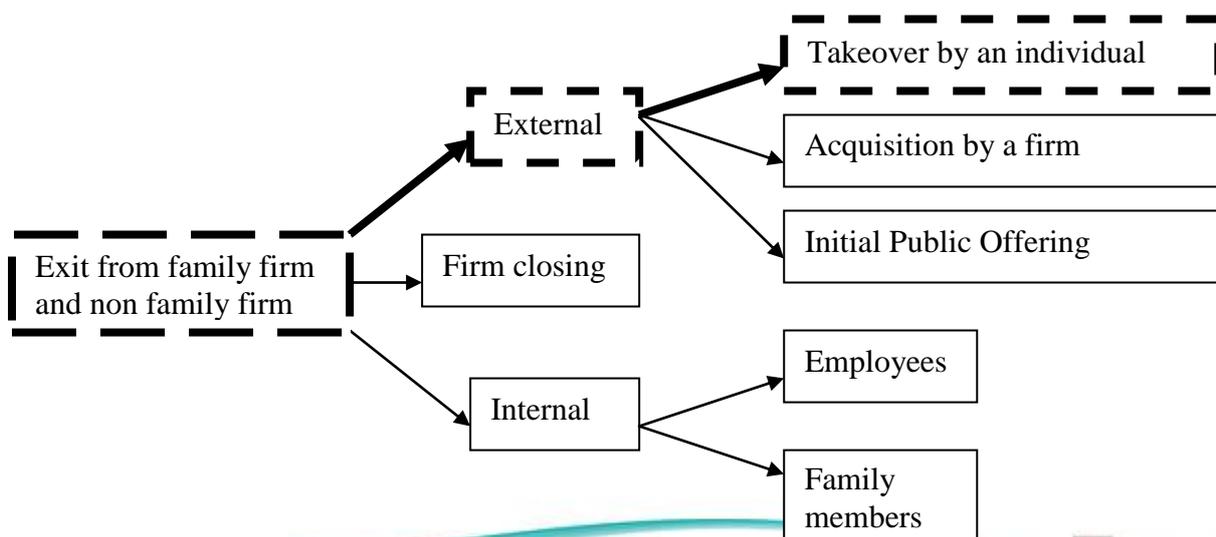


Figure 2: What is external takeover?

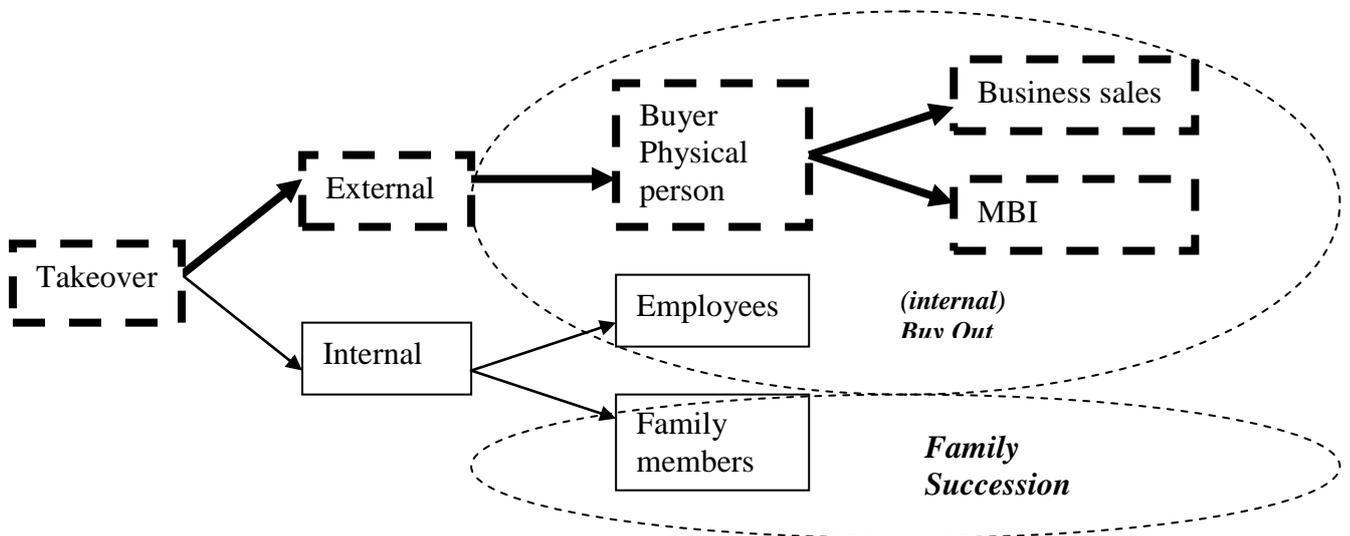
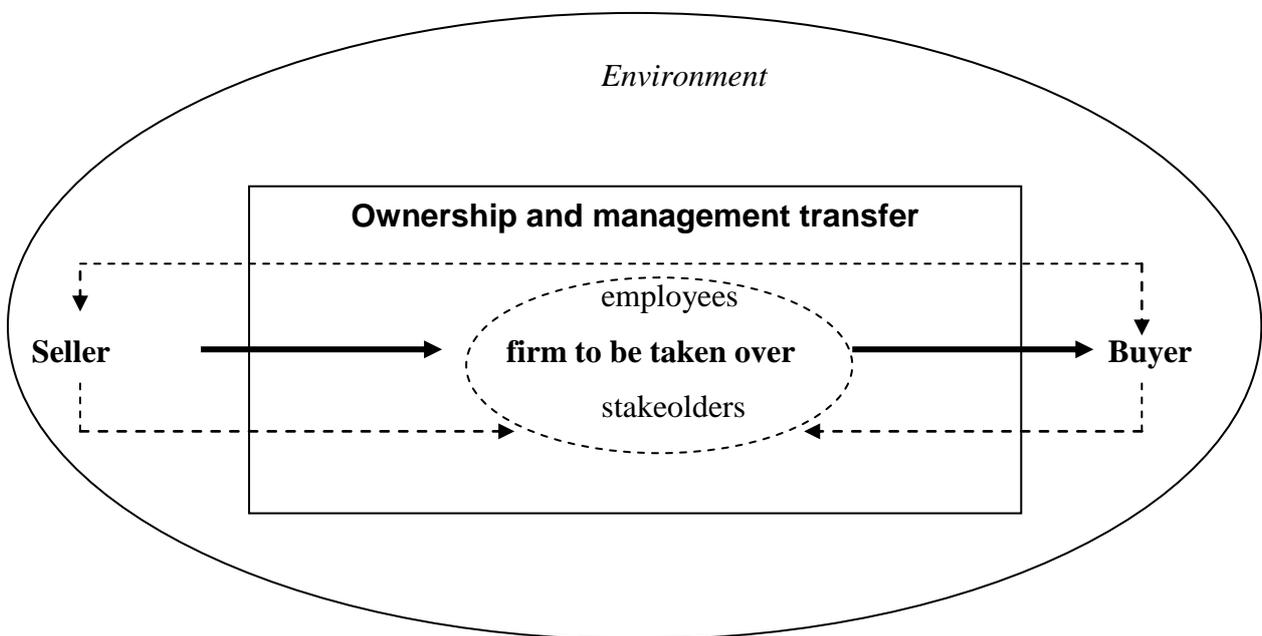


Figure 3: The process of external takeover



6 – Conclusion: Toward “Takeovership”?

The purpose of this study was to shed light on what is known about external takeovers of SMEs and what is missing. Prior research has tended to underestimate respectively overlook this aspect. However, it is important to expand our understanding of this area of research, as demographic

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developments will increase the relevance of this mode of entrepreneurial entry. More precisely, we investigated the topic by conducting a literature review of the work that has been done so far.

Whereas, the succession literature has mainly been developed in the English-speaking countries, research on takeover has emerged in the Francophone environment. Bau et al. (2010) notice that there is a necessity to go more in depth in the analysis of European firms, where small and medium sized enterprises play a preeminent role in the national economies. In that context, the topic of takeover takes an important role. In addition, the problematic of family succession outside the family members is increasing. So far, most scholarly attention to the issues of succession and transition has been paid by family businesses research. There is an opportunity to discuss the relation between leadership and ownership takeover outside the family members and in using a multilevel perspective. In this paper we propose a definition of external takeover as well as promising avenues for future research.

Taking over a firm implies that buyer and seller constitute a necessary duo to succeed (Cadieux and Deschamps, 2011). This underlines the critical role of the human side of SME transmission. However, it does not only refer to the main actors, such as seller and buyer, but should include the other stakeholders of the firm (e.g. employees) too. Thus we particularly highlight to investigate the stake of each actor involved in the takeover process as this would enable us to better understand the linkage between the period before the takeover and the one after (which is initiated by the buyer's signature). Here we see an important and fundamental new avenue for (entrepreneurship) research, which let us pose the following question: Are we going on a new field called "takeovership"?

Our findings suggest that policy makers too are required to stronger engage in the topic of external takeovers. Here we see mainly two issues that may form the basis for new policies:

- Countries should to be able to trace the number of external takeovers. To date European countries do not dispose of means to clearly identify takeovers. The existence of such databases would facilitate the execution of large scale survey and thus in turn would provide more generalizable findings which could lead to more precise conclusions and thus measures.
- In Quebec, a survey revealed that 20% of entrepreneurs within the age group of 35 to 54 years think about closing their firm once the decision is made to exit the firm as they perceived the succession process as too difficult (Entrepreneurship Foundation, 2010). This number is alarming as it points the danger that well established firms are about to close, which could not be in the interest of governments. In turn this finding calls for a stronger analysis of how company succession is prepared respectively takeover happens in practice and the development of improved approaches / measures in case of obvious difficulties.