Emotional and Psychological Aspects during family firm business transfer

MSc-thesis

Author: **Tjerk Blik**

Supervisors: Dr. E.F.M. Wubben
Dr.mr H.J. Bremmers

Wageningen, November 2008

Emotional and Psychological Aspects during family firm business transfer

MSc-thesis

Author: Tjerk Blik,
840715-072-080

Study program: MSc Management Studies, Wageningen University

Specialization: Management

1st Supervisor: Dr. E.F.M. Wubben

2nd Supervisor: Dr.mr H.J. Bremmers

Module: MST-80430, 30 ECTS

Place of publication: Wageningen, November 2008

Acknowledgements

This thesis is written in the period of March 2008 till November 2008 for the Wageningen University of Research in Wageningen. With great joy I recap on the time in which I got the opportunity to write my thesis for this organization. In this acknowledgement, which is a suitable place to recap and thank people, I would like to do both.

After 2 years at Wageningen University and 4 years at the NHTV in Breda, this thesis represents the end of my ‘career’ as a student. Working on this thesis has been a turning point in the master phase of my study management and consumer studies. The gathering of knowledge and the experience of the student life transferred to applying the gathered knowledge and the distinction from the student life which I previously enjoyed. Through the interesting subject this has been a good transition.

First I would like to thank Richard Mossel from MKB Adviseurs, who made it possible to contact respondents who were willing to talk about this sometimes sensitive subject. Although sometimes hard to reach he has been of great help during my master thesis.

Apart from that I would like to thank all 16 respondents which have been of great help with the second part of this thesis. These people enabled to clear the fog that surrounded the topic of emotional value during family firm business transfer.

Last but certainly not least I would like to thank Emiel Wubben and Harry Bremmers; they guided me very professionally through the entire process. On moments that I seemed to get stuck in the search for a relevant approach and information for the specific topics was very scarce, Emiel and Harry gave me useful insights in how to deal with it in an appropriate way. Besides, Emiel really helped me in the thinking process and aided me very promptly when necessary. Thank you for all your efforts.

Tjerk Blik
Utrecht, November 2008

Management Summary

Almost 185.000 Small- and Medium-sized Enterprises in the Netherlands are owned by someone older than 55. It is estimated that these companies will be terminated or sold within the coming 10 years. Approximately 55% of these enterprises are assumed to be family firms. This provides an appropriate context to explore the somewhat neglected issue of takeovers of family firms.

Within family firm business transfer the family has two options. Selling the firm within the family or selling the firm to a 3rd party (outside the family). The focus of this study lies on family firm business transfer outside the family. As anyone can imagine, transferring a family firm outside the family comes with all sorts of emotional and psychological aspects. According to several studies an “emotional value” should be paid for the emotional and psychological aspects that a family has with its family firm. For this research the following research objective has been formulated:

To determine whether emotional and psychological aspects play a role in family firm valuation and what aspects play a decisive role in paying an emotional value, by combining theoretical and empirical evidence based on desk-research and interviews with stakeholders.

In order to reach the above standing research objective, the following central research question has been formulated:

Does emotional and psychological aspects play a role in family firm business valuation and what aspects play a decisive role in paying an emotional value?

In the literature study the emotional and psychological aspects that a family firm needs to deal with during family firm business transfer have been identified. A review on current valuation techniques and the criticism from a family firm point-of-view have been discussed and a review is made on the (dis-)advantages of the family firm over the nonfamily firm.

After analyzing theory about research instruments, qualitative face-to-face interviews turned out to be the most appropriate research instrument. The interviews were recorded and fully written down to ensure maximum validity and reliability. The literature led to several assessment criteria, which were assessed by means of a 5-point Likert scale during the face-to-face interviews. A total of 16 interviews have been conducted with stakeholders. The respondents were divided into two groups. Group A had experience with family firm business transfer outside the family firm and consisted of 6 respondents. Group B consisted of 10 family firms which did not have experience with family firm business transfer.

The face-to-face interviews led to surprising results. It was found that final transfer price was not the most important aspect of family firms. The most important aspects that determine the transfer price were the ‘click’ between the old and the new owner, continuity issues and the accountants report. Most respondents mentioned that they would be satisfied with a lower transfer price, if a perfect candidate was willing to takeover the family firm.

Overall, the face-to-face interviews managed to identify the most important aspects for family firm business transfer. In general the results tell that emotional and psychological aspects play a small role within business valuation. These aspects are negotiable and will often lead to a lower transfer price. The aspects that were identified as most important decisive factors are were the ‘click’ between the old and the new owner, continuity issues and the accountants report.

Content

Chapter 1: Conceptual Research Design

The amount of Mergers and Acquisitions within the Netherlands reached an total value of € 238 billion in the year 2007, an absolute record (Het Financieele Dagblad, 14 maart 2008). According to Roberto Flören almost 55% of the Dutch firms are family firms (1998, p.121). As a result one might expect that a large part of the M&A deals relate to family firms.

Furthermore, almost 185.000 Small- and Medium-sized Enterprises (SMEs) in the Netherlands are owned by someone older than 55. It is estimated that these companies will be terminated or sold within the coming 10 years (MKB Nederland, 2007). The results from MKB Nederland are confirmed by an article from ING Onderneming (2005), which stated that because of demographic aspects, the part that family firms take within this “merger mania” is rising.

As such, it provides an appropriate context to explore the somewhat neglected issue of takeover of family firms. This is in contrast with the abundance of articles on Mergers & Acquisitions (M&A) of large enterprises. However, it is not clear whether the research done for the large enterprises is applicable to family firms as well.

One of the few articles on M&A within family firms is the article from Steen & Welch (2006), where a case study on the Australian wine industry is performed. The Australian wine case demonstrates that “…under certain conditions, family influence can be maintained after takeover and that it can be a means of survival and growth. The case provides recommendations for both potential acquirers and family firms as takeover targets as to how the takeover situation might be approached to ensure a positive result for both parties” (2006, p. 289). One of the most important aspects according to the case are the relationships between the family firm and possible acquirer. In the end it was the firm with the strongest relationship and the lowest initial bid on stock who won the takeover process (2006, p297).

Furthermore, there are several articles (Gisser & Gonzalez, 1993; Mickelson & Worley, 2003) that mention the dangers of ignoring the family perspective in takeovers of family firms. ”…to increase the likelihood of successful acquisition, both pre- and post-acquisition plans and activities must address family issues” (Gisser & Gonzalez, 1993). This is also the case when a family firm wants to sell its company, companies that would like to buy a family firm should take into account important emotional aspects, which is often a premises for a higher perceived company price (Flören, 2005)

On the basis of the number of articles vs. the importance of family firms in M&A, it can be concluded that the family business-related literature provides limited treatment of the characteristics of the acquisition of family firms. The previous articles present a few important aspects that determine differences between family and nonfamily firms. After a meeting with dhr. R. Flören the decision has been made to focus on the issue of emotional value. The topic is new and only few articles have been written on this subject. This provides an appropriate context to research the topic of emotional value and take a look at it from a practical point-of-view by means of interviews with stakeholders.

1.1 Research Description

This research aims to focus on the emotional attachment of the family to the family firm and the effects on the acquisition-process from a family firm point-of-view. Family firm business transfer within the family firm will be ignored, this study will look at family firm business transfer outside the family.
First, it needs to be determined why a family is emotionally attached to its firm and what the consequences are for transferring the family firm outside the family. Second, it is important to know how current valuation techniques work and what its limitations are. Third, it is important to identify the positive and negative characteristics that a family firm has in contrast to a nonfamily firm. By means of face-to-face interviews with several stakeholders I want to determine if emotional and psychological aspects play a role in valuating a business, and to determine which aspects play a big role in this matter.
In the end I hope to find empirical evidence that the emotional and psychological aspects attached to the family firm are of great value for an acquirer. When this hypothesis seems to be false I hope to find reasons why emotional and psychological aspects are not of great value to the acquirer and how the family firm deals with that conclusion.

1.2 Research objective

The following research objective has been formulated for the purpose of this research:

To determine whether emotional and psychological aspects play a role in family firm valuation and what aspects play a decisive role in paying an emotional value, by combining theoretical and empirical evidence based on desk-research and interviews with stakeholders.

1.3 Research Framework

The research framework provides the foundation for this thesis. It is a schematic representation of the research process and its stages. It defines the boundaries and forms the basis for the specification of research questions. In order to be able to formulate the research framework it is important to define the relevant research objects and key concepts.

Verschuren and Doorewaard (2007) define a research object as the phenomenon that is studied and that the researcher will be making statements about. For the purpose of this research the following research objects can be identified:

- Resource-Based-View theory
- Competitive advantages of family firms over nonfamily firms
- Competitive disadvantages of family firms over nonfamily firms
- Reasons for a family firm to sell to a nonfamily investor
- Emotional Value of a family firm

1.3.1 Key concepts

In order to create a transparent research project it is important to clarify key concepts. Key concepts are derived from the research objective and are used to design the research framework. The key concepts are also important in further delineating the research topic and formulation specific research questions. This is part of the research issue in chapter 3. The following key concepts are identified:

Key concept	**Sources of information**
Resource Based View (RBV) theory	Literature review on the Resource Based View
(dis-)advantages of the family firm over nonfamily firm	Literature review on the (dis-)advantages of the family firm
Emotional Value of the family firm	Theory on valuation of firms and the role of emotional value in this subject
Family Firm Business Transfer	Theory on family firm business transfer to a nonfamily investor
Psychological Aspects	Theory on the Psychological Aspects that play an important role during family firm business transfer

Table 1.1: Key Concepts

1.3.2 Research framework

The following research framework presents an overview of the subsequent steps taken in this research. The framework is divided into three distinct phases. A description per phase is provided below.

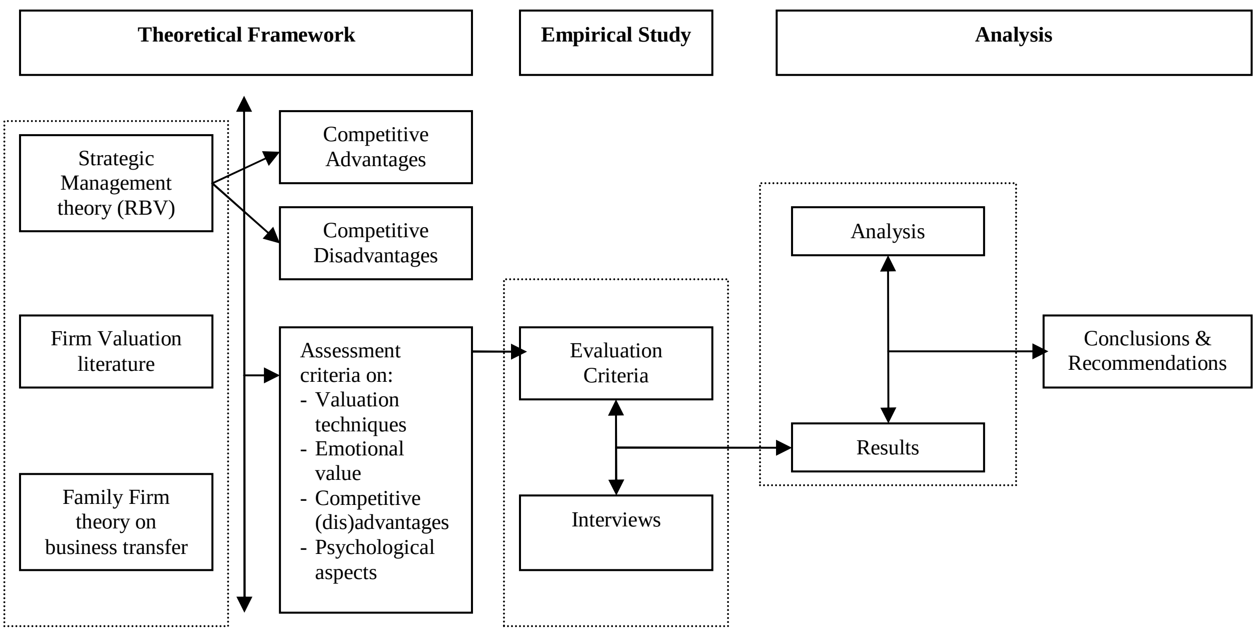


Figure 1.1: Research Framework

Phase 1: Literature Study
In the first phase the theory on Resource Based View (RBV), Firm Valuation and Family Firm theory on business transfer is set. The focus of this literature review will lie on family firms, from a nonfamily firm point-of-view. This will lead to a theoretical framework, in which the literature study will be assessed

Phase 2: Empirical Study
In the second phase the theoretical framework will be input for the interviews. The interviews will be done with stakeholders like family firms and firms with family firm business transfer experience. The focus of these interviews will be on the emotional value of family firms, psychological aspects and (dis-)advantages of the family firm over the nonfamily firm.

Phase 3: Analysis
In the Analysis-stage of this study the interviews which were performed will be analyzed. The outcomes of the interviews will be compared with the literature research to ensure all topics have been discussed. An analysis is made on the current situation and the most important aspects during family firm business transfer will be identified. Conclusions and recommendations will be made on if emotional aspects play a role during family firm business transfer and what aspects play a decisive role in paying an emotional value.

1.3.3 Research issue

The research issue consists of a general research question, several main research questions and specific research questions. The research objective is translated into the general research question, the elements and phases that form the research framework are divided into main research questions. Answering the presented questions ensures that the research objective is achieved. The objective and research questions are open for further discussion and adaptation at this time.

The following general research question is a representation of the research objective:

Does emotional and psychological aspects play a role in family firm business valuation and what aspects play a decisive role in paying an emotional value?

1.3.4 Subdividing the Research Framework

The research framework forms the basis for the formulation of specific research questions. For each phase relevant research questions are presented below. They are categorized per element in each phase.

Phase 1: Literature Study

Q1.1: What is emotional value and what are the most important aspects of emotional value?

Q1.2: What is the M&A process and What are the most important psychological aspects during family firm business transfer?

Q1.3: What are the most common business valuation techniques and what are its limitations?

Q1.4: What are the limitations of current research according to family firm researchers?
Q1.5: What are the (dis-)advantages of a family firm over a nonfamily firm?

Phase 2: Empirical Study (input for the interviews)

Q2.1 Were there differences between business valuation and the eventual paid price?
Q2.2: Did the family firm which was taken over have any competitive advantages and disadvantages?
Q2.3: Were there emotional issues during family firm business transfer?
Q2.4: Did psychological aspects play a role during business transfer?
Q2.5: Do the stakeholders think that emotions should play a bigger role in determining the value of a (family) firm.

Phase 3: Analysis

Q3.1: What are the most important advantages and disadvantages of a family firm that have a role in the valuation of a family firm?
Q3.2: Does emotional aspects play a role in the valuation of a family firm?
Q3.3: Does psychological aspects play a role in the valuation of a family firm?
Q3.4: What do the stakeholders think about including emotional value within business valuation?
Q3.5: Which aspects are decisive in paying for emotional and psychological aspects or not?

1.3.5 Definition of concepts

This fourth and final chapter of the conceptual design deals with the definition of concepts. Throughout this research several key concepts are used which need to be defined clearly to ensure that all parties involved are on the same level of understanding. The definition of concepts also determines the scope of the research.

Emotional value

The emotional value surplus has two different definitions. The first definition is when the family firm is transferred within the family. The second definition is about transferring the company outside the company (Flören, 2005).

1. Transferring within the family

In this situation the family firm is transferred to a new generation within the family. What happens very often is that the family firm is sold for less then the family firm is actually worth according valuation techniques. In this case there is a negative emotional value surplus

2. Transferring outside the family

In this situation the family firm is transferred outside the company. In this case there are three scenarios possible:

1. The firm is sold for the appropriate price according valuation techniques (no emotional value)
2. The firm is sold for a price higher then valuation techniques. (emotional value surplus)

3. The firm will not be sold at all because the price is too high (endless emotional value)

It can be concluded that when the family firm is sold outside the family, emotional value lies between zero and endless. During this research the term emotional value is split up in emotional aspects and psychological aspect. Both these aspect have influence on the emotional value.

Family firm
Handler (1989) stated that there are as much definitions on family firms than that there are scientists researching the theory on family firms. Because this research will be conducted in the Netherlands, the definition of Flören (1998) will be used.

This definition states that an enterprise is a family business when it meets at least two of the following three criteria:
1. More than 50% of the shares or certificates are owned by a single family.
2. A single family can exercise considerable influence on corporate strategy or succession decisions.
3. A significant proportion or at least two of the members of the board of directors are from one family.

However, when a family firm is established less then ten years ago, the family firm has to employ at least one family member besides the CEO of the company

Mergers & Acquisitions (M&A)
Mergers can be defined as a transaction whereby two or more equally valued firms become one. This transaction is negotiated with the target's management and, when approved by its board of directors, the terms of the ofeer are submitted to a vote of a shareholders (in public companies) (Jensen, 1984).
An Acquisition occurs when there is a difference in equality between two or more firms, in which the dominant firm acquires the assets of the less-dominated firm (Sutton, 1980).

During family firm business transfer
During this study the "during family firm business transfer will be used. This term represents the whole M&A process as is described in chapter 2. This means from the preparations of the transfer to the aftermath of the deal.

1.4 Technical research design

The technical research design describes which steps have to carried out in order to 'effectively arrive at a sound answer to the questions of the research issue within a reasonable time span' (Verschuren and Doorewaard, 2007). The technical design is divided into three sections; the research material, the research strategy and finally the planning.

1.4.1 *Research material*

In order to establish where to gather the relevant information required for the research project, it is important to establish the objects on which information needs to be gathered. Verschuren and Doorewaard propose to answer the following three questions to gain a better insight into the necessary information that needs to be gathered:

- What are the main categories of research objects that can be distinguished?
- What types of information on these objects are relevant to the research project, and how can this information be identified?
- Where can the information be gathered?

1.4.1.1 Research objects

Two main categories of research objects can be distinguished. For each of these main categories several research objects can be identified. The following table gives an overview of both.

Main Categories	Objects
Concepts / Theories / Literature	Competitive (dis)advantage (RBV) Valuation literature MBO / MBI literature
Family Firms	Competitive (dis)advantage Emotional Value Family Firm Business Transfer Psychological Aspects

Table 1.2: Research Objects

1.4.1.2 Types of information

The second question that requires answering is what types of information are relevant to research object and how this information can be identified. Verschuren and Doorewaard distinguish two types of information that are important in a research project:

- Data (or facts)
- Knowledge

Verschuren and Doorewaard state that these two types of information can be defined as data sources and knowledge sources. Within these two categories they distinguish five basic sources of information:

- People – respondent, informant, expert
- The media – printed/electronic: newspapers, magazines, brochures, radio, television, internet
- Reality – tangible objects
- Documents – addressed to a specific public
- Literature – scientific articles/papers/journals, books

In the following two figures these sources of information are linked with the categories of research objects, giving an overview of what source of information is required for each object category:

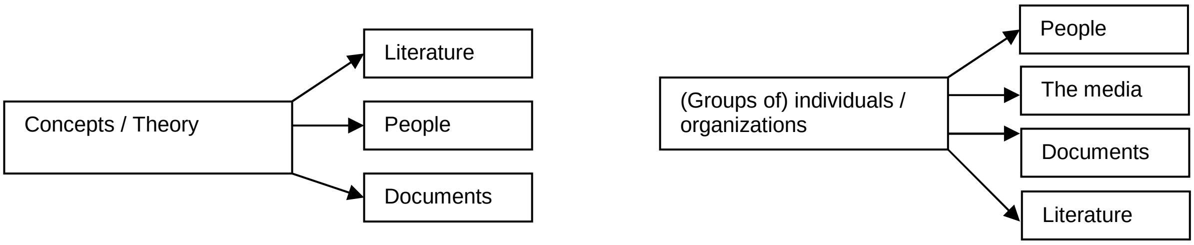


Figure 1.2: Types of information required for research object categories(adapted from Verschuren & Doorewaard, 2007)

As the figures shows, a wide range of types of information is accessed in order to provide the required data and knowledge necessary to complete this research. The table on the next page gives a more in depth overview of the sources of information and method of accessing required for each of the defined research objects. It gives a general answer to the third question; where can the information be gathered? A preliminary overview of specific sources of information is provided in table 1.3, which includes organizations and individuals suitable to act as market experts.

Triangulation of sources

In this research several different sources of information will be used, e.g. literature, people and media. Using several different sources of information, triangulation of sources, contributes to the validity of the research. Not only the different types of information contribute to this. Within each type of information several sources are used, e.g. market experts with distinct perspectives. This further contributes to the validity of the research.

Research objects	**Sources of information**		**Accessing**
Valuation literature	Literature	Scientific Journals and reviews on Finance. Valuation of the firm.	Content analysis
MBO / MBI literature	Literature	Scientific Journals, reviews on MBO / MBI, SME's, finance, managerial etc.	Content analysis Content analysis
Emotional Value	Literature	Literature on family firms, emotional aspects.	Content analysis
	People	Market experts and stakeholders	Face-to-face interviewing
Family Firm Business Transfer	Documents	Literature on M&A within family firms	Content analysis
	People	Market experts and stakeholders	Face-to-face interviewing
	Media	Financieele dagblad	
Post Merger Integration	Literature	Journals, reviews, scientific articles on integrating business and M&A.	Content analysis
Competitive (dis)advantage	Literature	E.g. Strategic management journal, Journal of Business Economics and management strategy books with regard to strategy and the family firm	Content analysis Content analysis
	Documents	Specific market reports	

Table 1.3: Research objects, sources of information required and methods for accessing

1.5 Research Strategy

According to Verschuren and Doorewaard, the research strategy is the coherent body of decisions about the way in which you are going to carry out your research project. Five major strategies which can be followed in a research project (Verschuren and Doorewaard 2007):

- Survey
- Experiment
- Case study
- Grounded theory approach
- Desk research

A subject that Verschuren and Doorweaard does not handle well are interviews. Because of the fact that interviews will be the most important empirical research tool further research material is found considering interviewing.

1.5.1 Strategies

In most research projects a combination of strategies is used. This is also the case for this project where *Interviews* and *Desk research* strategies are combined.
The desk research covers the research topics such as competitive advantages, literature on firm valuation, family firm business transfer, post merger integration and will provide input for the Survey part. During the survey several interviews will be done with family firms and important stakeholders, which will give a better insight in the research problem. A brief description of both strategies is provided in order to create a better understanding of the methods and steps involved.

Desk research
Verschuren and Doorewaard (2007) provide the following description. ‘Desk research is a research strategy whereby the researcher uses material produced by others’.
‘Desk research is characterized by:

- the use of existing material
- the absence of direct contact with the research object
- looking at the material being used from a different perspective than at the time of its production’

Interviews
Robson (2002) describes interviews as a method that involves the researcher asking questions and, hopefully, receiving answers from the people that are interviewed. It can be used as primary or only approach in a study, as in a survey or many grounded theories, but lend themselves well to use in combination with other methods. Interviews often take place face-to-face, but they can also be used in group sessions or by telephone and may differ from structured interviews to unstructured interviews.

1.5.2 Research methods

As table 1.3 showed, two main research methods can be identified for the purpose of this research:

- content analysis (of: scientific literature, documents, media)
- face-to-face interviews (market experts – stakeholders)

For each method a more elaborate description of how it will be applied in this research is provided below.

Content analysis
Analyzing existing literature, documents, media and interview reports is key in achieving the objective of this research. Results and conclusions should be supported by the empirical data uncovered, otherwise they should be disregarded in the final formulation of the strategic options.

Face-to-face interviews
Interviewing market experts / stakeholders is mainly performed in the *Empirical study* stage of the research. However some interviews with market experts might be performed in the second stage of the research, in case that the market analysis requires information from primary sources. The main aim of the interviews is to find out if an emotional value is being paid during business transfer and if it is worth the extra costs. The selection of suitable market experts will be partly based on the network of the scientific advisors and a preliminary market investigation. Key figures in the market will be approached for an interview. The initial focus will be on interviewing companies which have bought a family firm and market experts. For the purpose of this research a *market expert* is defined as an entity with a complete overview and thorough understanding of the market and its stakeholders.

Triangulation of methods
In order to improve the validity of this research, two distinct methods are used. This triangulation of methods ensures that multiple perspectives are used to approach the research issue.

1.5.3 Sampling method

The sampling methods utilized in this research are *theory based*-sampling (Verschuren & Doorewaard, 2007). The theory based sampling method is based on the expectations of the researcher about purposefully approaching the most information-rich sources to find the necessary information.

1.6 Research planning

The research planning consists of two distinct sections, the deliverables and a time planning. The term *planning* can be defined as an overview of activities and products that are subject to a time schedule (Verschuren & Doorewaard, 2007).

1.6.1 Deliverables

This research will deliver the following reports / presentations for Wageningen University.

- Research proposal (approx. second half May)
- Research proposal colloquium (approx. second half May)
- Concept literature review (approx. second half June)
- Final version literature review (approx. first half July)
- Concept version interview (second half July)
- Final version interview (first half august)
- Concept report (approx. half november)
- Final report (approx. end november)
- Final report colloquium (approx. second half december)

This research will deliver the following reports / presentation for MKB Adviseurs

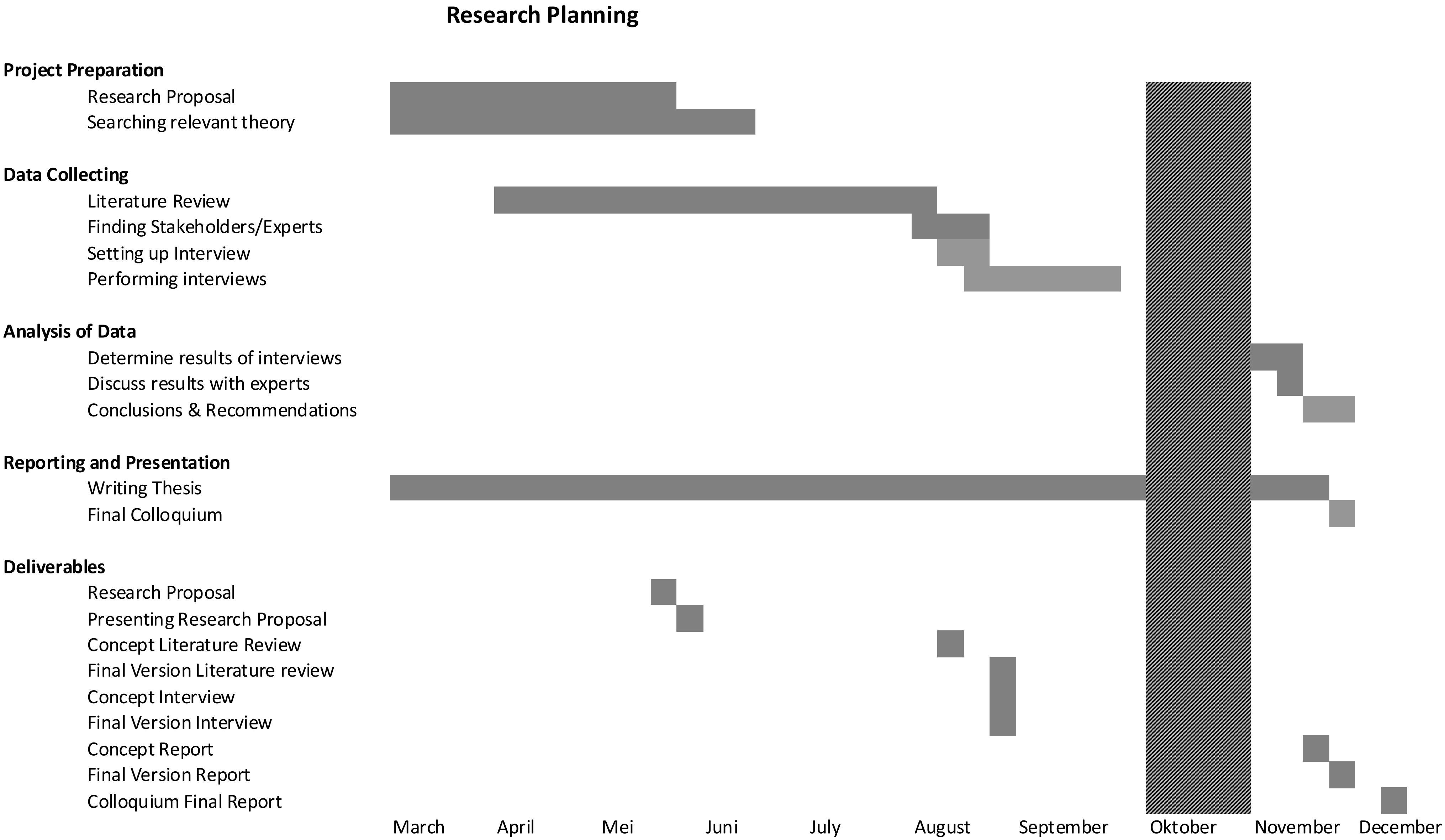
- Concept version interview (second half august)
- Final version interview (first half august)
- Final report (approx. end november)
- Final presentation (approx half december)
- Article in scientific journal / trade journal (undefined)

All files will be made publicly available in the WUR library in digital pdf format and hard copy.

The official duration of this research is 5 months and 1 week (21 weeks). The proposed deadline for the final report is the **28th of November**, 2008. The official deadline for the final grade is the 14th of January. Between the 1st of November and the 3rd of December I am required to officially register for my thesis with the Central Student Administration.

1.6.2 Time schedule

The time schedule below gives an overview of the time required for the main research activities.



Chapter 2: Family Firm Business Transfer

The interest for the family firm is growing, which is logical considering the large influence of the family firm in the world. Family firms are the most dominate form of entrepreneurship in the world. Estimates vary widely, because of differences in definition. But it can be said that around 55% of all businesses is a family firm. Because it takes such a large aspect globally, family firms are also very important for around 50% of the current employment and Gross National Product (GNP). Another important aspect is the history of the family firm, the oldest family firm in the world is founded in the year 718 (Flören, 2005). It is therefore rather strange that acquisitions of family firms is a "…somewhat neglected issue" (Mickelson & Worley, 2006). This is in contrast with the abundance of articles on Mergers & Acquisitions (M&A) of large enterprises. It is however not sure that all M&A literature is applicable for the family firm. Important aspects within family firm business transfer are psychological aspects (van de Kimmenade, 2003) and emotional value (Flören, 2005). These aspects are often ignored because they are difficult to valuate when transferring a family firm to a nonfamily firm (Astrachan, 2008).

In this chapter an overview will be given of the current literature on family firm business transfer, emotional value and psychological aspects. In this chapter the following research questions will be answered:

- Q1.1: What is emotional value and what are the most important aspects of emotional value?
- Q1.2: What is the M&A process and What are the most important psychological aspects during family firm business transfer?

Because this study is performed in the Netherlands, Dutch scientists are seen as the most reliable source.

2.1 Definition family firm

Handler (1989) stated that there are as much definitions for family firms as there are researchers on family firms. Shankar & Astrachan (1996) stated that according to all the different definitions 22% - 83% of all businesses is a family firm (see figure 2.1). The outer layer is a broad definition of the family firm and takes in every company in which there exists a overlap between family and company. The inner circle is a very narrow definition of the family firm, the ties of the family firm and the company are very solid and involves several generations of the family. The middle circle is a definition where company, family and ownership influence each other. The family has influence on ownership, management positions and strategic choice. Flören (2002) uses the middle circle for defining the family firm for the Netherlands. Because this research will be conducted in the Netherlands, the definition of Flören (2002) will be used.

This definition states that an enterprise is a family business when it meets at least two of the following three criteria:
1. More than 50% of the shares or certificates are owned by a single family.
2. A single family can exercise considerable influence on corporate strategy or succession decisions.
3. A significant proportion or at least two of the members of the board of directors are from one family.

However, when a family firm is established less then ten years ago, the family firm has to employ at least one family member besides the CEO of the company

Definition Family Firm (Flören, 2002)

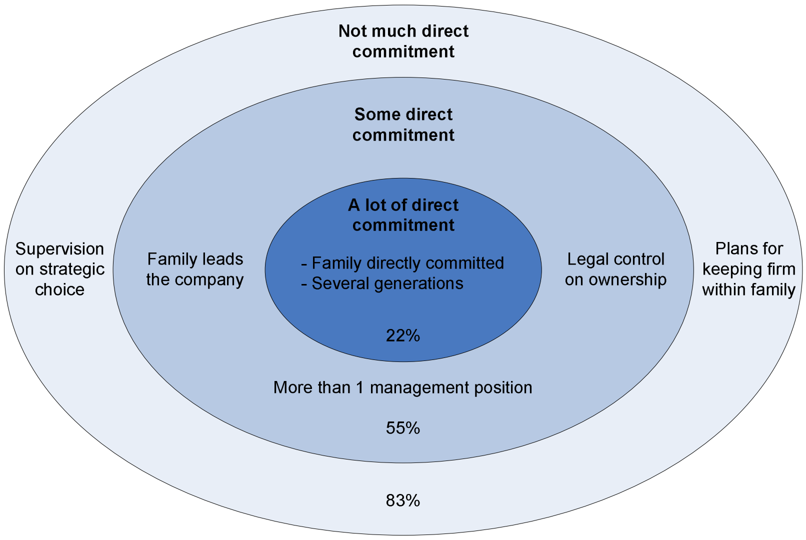


Figure 2.1: Concentric circles of the family firm (Shanker & Astrachan, 1996)

Combining the definition of the Family Firm of Flören and the figure from Shanker & Astrachan makes clear that around 55% of the companies within the Netherlands are a family firm. When comparing the literature with real figures this seems correct, understanding figures are from the year 2002 (CBS, 2002).

Number of employees	**Number of companies**	**Percentage family firms**	**Number of family firms**
1 – 9	266.225	55%	146.424
10 – 99	58.365	60%	35.019
100 or more	7.770	45%	3.497
Total	**332.360**	**55%**	**184.939**

Table 2.1 Amount of family firms within the Netherlands(CBS, 2002)

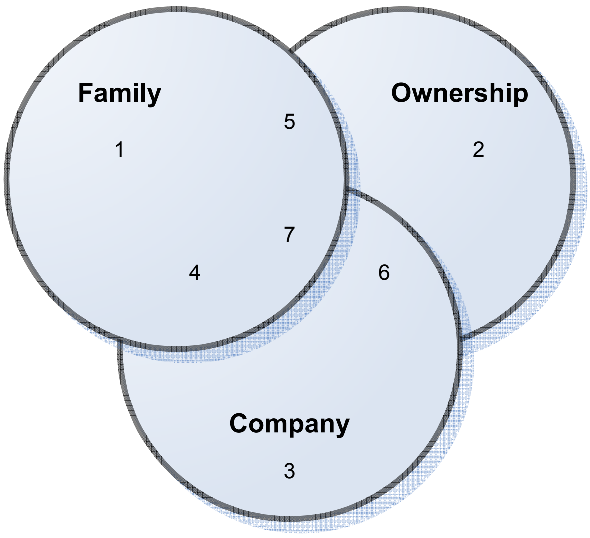
2.2 Family Firm ≠ Family + Firm

The strength of the family firm is partly based on the interaction between the company-, ownership- and family-system (Tagiuri & Davis, 1996). This is unique for the family firm compared with a nonfamily firm. Just like for other companies, the main goal of a family firm is guaranteeing continuity of the firm and creating prosperity by producing goods or delivering a service. To attain this goal, a firm employs workers with different backgrounds, capacities and personal goals, but they unite to attain the goals of the company, in the most efficient way. This is where the family firm is unique: the directors and managers work together as a family, which results in different ethics and behavioral patterns.

Family firms consist of systems which have a certain overlap: the family and the company itself. The family-system is based on emotions. The family members are connected through emotional connections which can help the family firm to be superior, but can also help the firm to the ground. The family system is more internally oriented, and great value is attached to loyalty and care for family members. It is also a conservative structure which is focused on limiting the amount of changes and to enforce the balance between the family (Flören, 2005)

The company-system is based on realizing tasks. Behavior is externally oriented and has as main goal to produce goods or deliver services, putting emphasis on performance and results – which is, capabilities, competences and performance of the employees. The company-system will try to cope with changes as fast as possible to be effective and in the end, to survive.

In nonfamily firms the family-system and the company-system work independently, but in family firms they do not only overlap each other, they are also both mutually dependent. The different goals and priorities of the systems can cause specific tensions within family firms. Therefore, a third system called ownership-system exists within family firms. Especially in family firms who already experienced the process of declaring a new successor, have a big change of having stock-owners who are not working in the family firm any more. A new model originates with 3 circles which sketches the family firm as three independent, but overlapping systems: Company, Ownership and Family. Every individual in a family firm can be placed in one of the sectors, which exists because of overlapping systems (See Figure 2.2).



1. Son who does not work for the company and does not own shares

2. A friend who does not work for the company, but owns shares

3. Employee who is not a family member, and does not own shares

4. A daughter who works for the company, but does not own shares

5. Partner of the CEO who does not work for the company, but does own shares

6. A fellow CEO who does not belong to the company, but does own shares

7. The CEO/Owner who belongs to the family

Figure 2.2: Overlapping systems within family firms (Tagiuri & Davis, 1996)

2.3 Emotional Value

Creating Value

Family entrepreneurs characterize themselves generally by vision and entrepreneurship. As a stockowner of an own company a family entrepreneur is not really concerned with its company value. This however, cannot be concluded as that family entrepreneurs are bad financial managers, but it is just as important as it is for a regular stockowner of a publicly listed company (Flören, 2005).

Since the end of the ‘70s, thinking about company value increased in importance. According to Copeland et al. (2003) there are several factors responsible for increasing the importance of company value. The following five factors can be described:

Social development accelerates: The Product life cycle of products decreases as a result of increasing social developments. Companies should therefore be focused more on product-innovation, adapting production-process and even “re-engineering the production and logistics facilities”.
More for less: Research is being performed on finding possibilities to reach maximum result with minimum effort. A good example is the music industry. Download platforms like Napster and Kazaa make sure that people can download a lot of music, without paying a lot of money for it. Minimum effort for maximum result.
IT encourages transparency: The (economic) world becomes more transparent because of the extreme developments in the IT-business. Business becomes more global.
Rewarding with options: The salary of managers from large publicly listed companies is increasingly being paid in stock-options. This influences short-term and long-term decisions.
Rise of private investor: Large professional investing-companies are not the only stockowners on the exchange market. The private investor is gaining influence on the market floor. Companies are trying their best in pleasing the private investor, which is focused more on short-term results.

The family firm behaves differently. Prior research has shown that family firms are less responsive to economic cycles and are therefore less likely to fire employees (Ward, 1997). Owners are more likely to eat into their company capital, than that they will fire employees. This is understandable, because family firms have a more personal connection with their employees (Ward, 1988), but they also expect that the company will rise again and employees will become scarce. Because of the large time horizon a CEO of a family firm has (20 – 30 years instead of 5 – 10 years), it has its influence on strategic thinking. A family firm will be satisfied with lower profits.

Entrepreneurs need to know about all different valuation techniques and its suppositions and its basis. Each valuation technique will lead to another financial value of the firm. It is also very important to know that valuation specialists make forecasts about future cash flows and profits. It is therefore not strange that valuation specialists always take a bandwidth into account when valuating a firm. The influence of the kind of acquirer seems to be of much importance for the final valuation. That is why the concept “Emotional Value” has been created. Emotional value is the difference between the middle of the bandwidth of several valuation techniques and the final price which is paid for the firm.

According to Flören (1997; 2002) there appears to be substantial price differences between succession within the family or succession externally. In figure 2.2 it appears that most family firms accept a price difference when compared to the real financial value. With 25% of the family firms, acquisition price of stocks lies around or below 75% of the real financial value. In agricultural companies even 98% of the companies are sold for a lower value than valuated. The average acquisition price that a family member should pay within agricultural companies, is 50% of the price that a nonfamily member should pay. In non-agricultural companies the acquisition price for family members lies around 90%.

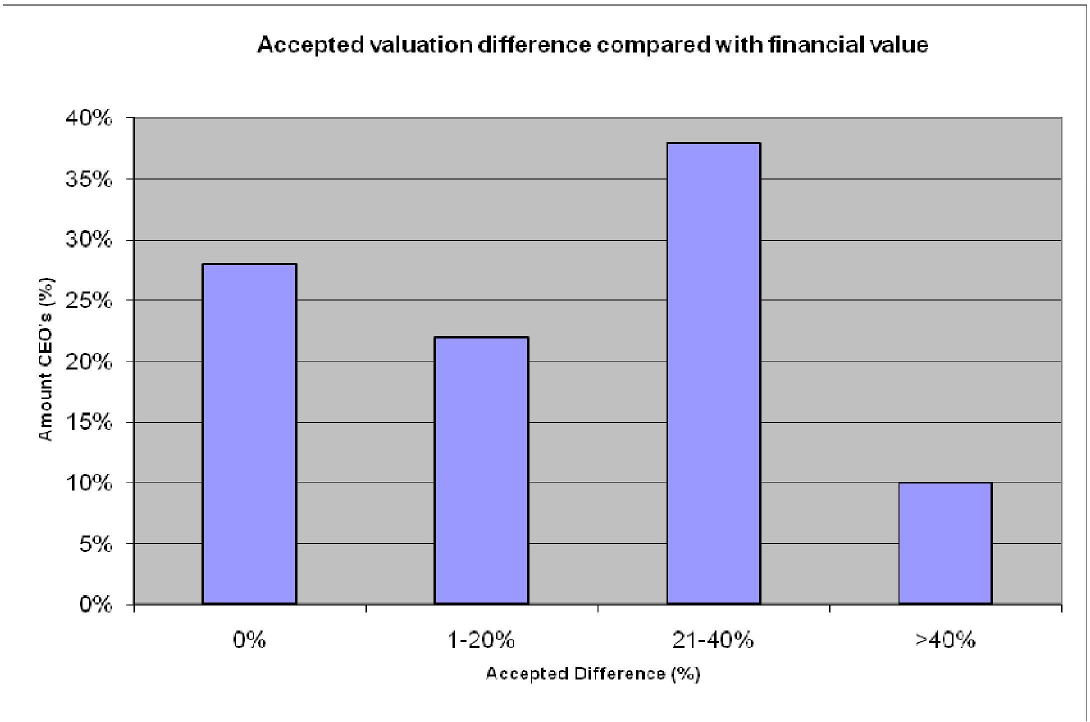


Figure 2.2: Accepted difference between financial value and fiscal value (Flören, 1997; 2002)

Selling the family firm within the family for a low price has several advantages and disadvantages. An important advantage of this lower valuation is that it becomes easier for the following generation to take over the company. It is however also important to take the Tax Authority into account, a valuation that is too low will not be accepted. A disadvantage of lower valuation is that other children who do not get a part of the company will not be treated unfairly. They should be financially compensated. However, the majority of family firms do not compensate the other children. Most CEO's are not aware that, when they sell the firm to a family member for a lower valuation, they also donate a fortune for one of the children without compensating other family members. There are several known cases in which this led to family disputes. Although several advantages and disadvantages, most family firms seem to be prepared to handover the firm to other family members for a lower price than the valuated price.

In the following paragraph five different scenarios will be described. Two scenarios are based on when the family firm is sold within the family and three scenarios are based on when the family firm is sold outside the family. In the first case the family will receive less money than the financial value of the firm, in the second case the family will receive more money than the financial value of the firm.

2.3.1 Transferring the firm within the family

Scenario 1: In the first scenario (See figure 2.3) the family firm is sold within the family for the fiscal value. This situation is very common for family firms which are being sold. Family members are satisfied with a smaller profit of selling the firm when the firm is sold to a family member.
In figure 2.3 it is possible to see that the company is sold for the fiscal value. There is however a big difference between fiscal value and financial value (the value according to valuation techniques. The difference between both values is called *"Emotional Value"*.

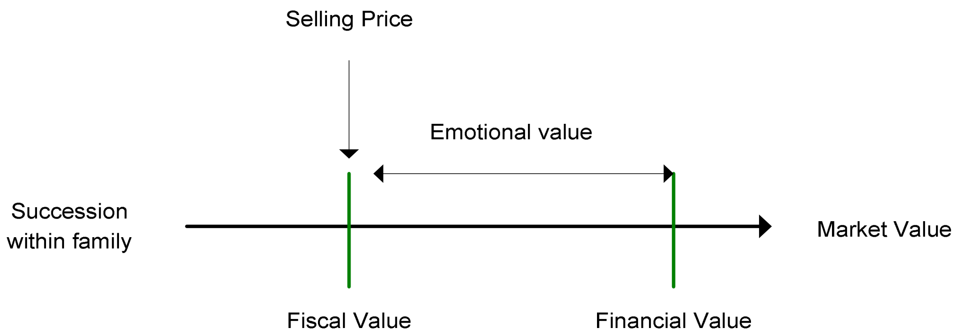


Figure 2.3: Succession within the family, sold for Fiscal Value (Flören, 2005)

Scenario 2: In this scenario the family firm is sold within the family for the financial value. There are several reasons for this. It might be that the former owner does not want to disadvantage other family members. It is also possible that the owner could use the money for his retirement.
In figure 2.4 a schematic overview is given of the second scenario. In this scenario the selling price is the same as the financial value. According to this figure, the emotional value is zero.

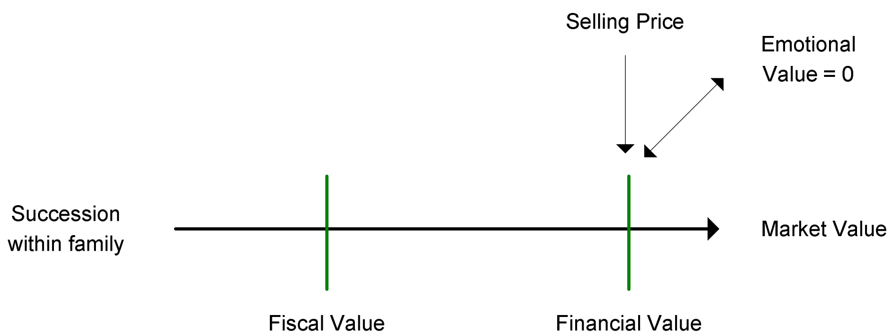


Figure 2.4: Succession within the family, sold for Financial Value (Flören, 2005)

It can be concluded that when a family firm is transferred within the family, the emotional value can fluctuate between zero and the difference between fiscal and financial value.

2.3.2 Transferring the firm outside the family

Scenario 3: In this third scenario (see figure 2.5) the family is sold to someone outside the family for the financial value. This happens most of the time during a Management Buy-Out situation. The family owner often knows the new owner very well and wants to give the employees and new owner a financially healthy start. In this case the emotional value is zero.

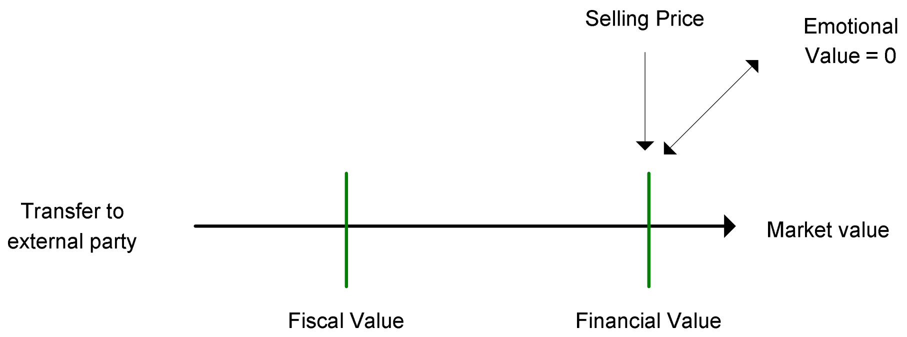


Figure 2.5: Transferring firm outside the family, sold for Financial Value (Flören, 2005)

Scenario 4: This fourth scenario (See figure 2.6) happens most of the times during a Management Buy-In or when the company is sold to strategic competitor. In this case the firm is sold for the financial value + an emotional value. This means that the former owner receives more money than his company was valuated for.

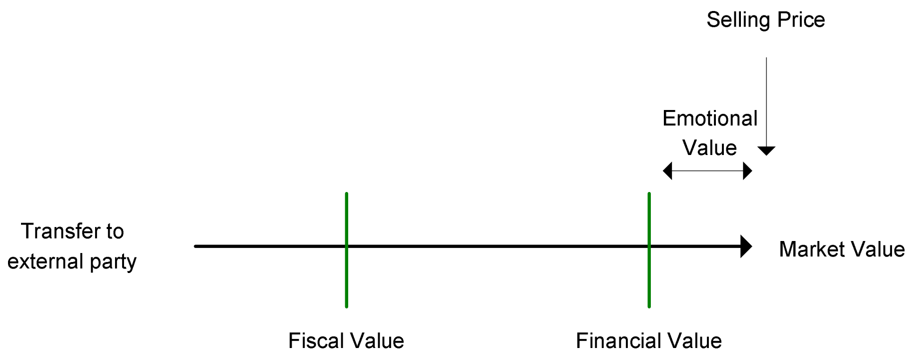


Figure 2.6: Transferring firm outside the family, sold for Financial Value + Emotional Value (Flören, 2005)

Scenario 5: In this last scenario the company is not being sold at all. The owner believes every price is too low. This means that the emotional value is infinite.

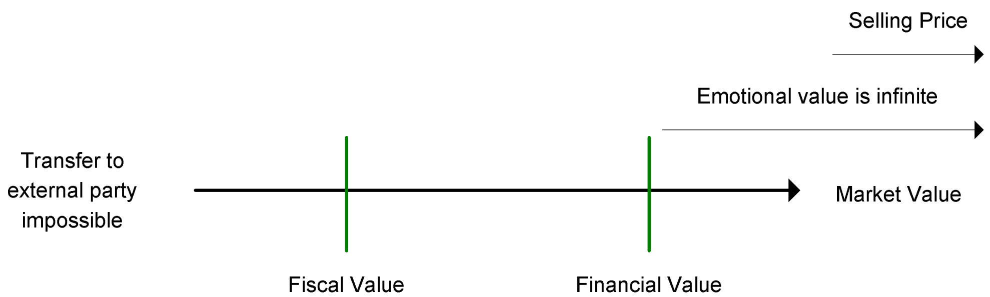


Figure 2.7: Transferring firm outside the family, infinite Emotional Value (Flören, 2005)

2.3.3 Conclusion

In the previous paragraph five extreme scenarios are discussing differences between fiscal, financial and emotional value. When a family firm is transferred emotional value plays a big role. It can be concluded that when a family firm is transferred within the family, the emotional value can fluctuate between zero and the difference between fiscal and financial value. When a family firm is being transferred to an external party the emotional value can fluctuate between zero and infinite. The previous scenarios were all extreme scenarios that might happen when selling a family firm, but in practice it is also possible that other less extreme situations will happen. This is visualized in the following figure:

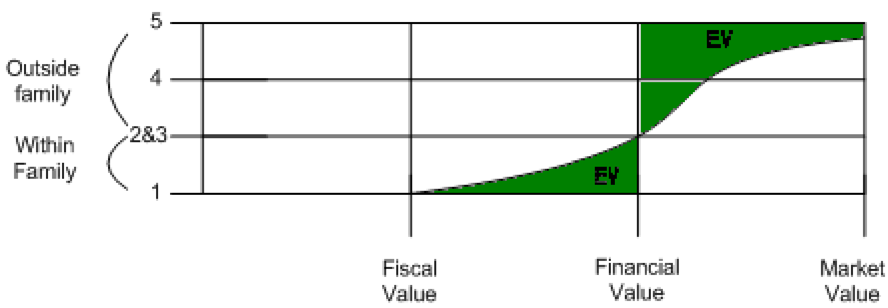


Figure 2.8: The Emotional Value off the family firm with different sales persons {Flören, 2005}

It is difficult for every family firm to determine where they stand according figure 2.8. In the end the emotional value is dependent on several aspects (Flören, 2005):

Pride: Almost every entrepreneur wants to have a successor from within the family. Biggest problem is the availability and the will of other family members to take over the company. But price is most certainly not the biggest issue when the company stays within the family.

Retirement: Especially within smaller sized companies (< 50 employees) it seems that the business is also the pension of the entrepreneur. In this situation it is very important for the entrepreneur to get a good price.

Justice to other family members: When the business transfer is not feasible for every child, difficulties arise with compensating other children. It is not always possible to financially compensate other children.

Commitment: When the selling entrepreneur stays committed to the firm, it is an argument to be satisfied with a lower price. Especially the continuation of the family name on the wall seems to be more important than money.

The importance of the emotional value should not be underestimated. A rising amount of entrepreneurs and scientists acknowledge the importance of emotions when describing the positive points of the family firm. This also holds for when the family firm is being sold. The value of a family firm should not only be calculated by means of difficult valuation techniques, the importance of emotional value should also be taken into account. It is however not easy to identify the emotional value and to quantify how much emotional value should be paid. It is not even clear if emotional value should be rated as a positive value or a negative value.

2.4 The M&A proces

In this paragraph literature on setting up an M&A process will be discussed. Setting up a M&A process is a difficult task for managers and entrepreneurs. To support entrepreneurs and managers several studies have been performed on handling the M&A process. According to Haspeslagh (1991) adopting a process can lead to a change in the mindset of the entrepreneur/manager. It changes from an emphasis on the end result to the drivers that cause these results. The failure-rate of M&A processes are enormous, this will be discussed in paragraph 2.4.1. Several M&A processes are discussed in paragraph 2.4.2, and will be further elaborated on by a study performed by van de Kimmenade (2003) in paragraph 2.4.4.

2.4.1 Failure of Acquisitions

In figure 2.9 a basic approach is presented in dealing with acquisitions. This basic model considers the strategic task that needs to be accomplished in any acquisition, and the integration needs this implies. This model is also conscious of the organizational requirements for autonomy, when they are central to achieving the acquisition purpose. The problems firms experience with acquisitions are not always due to individuals or a lack of insight into what should be done. Instead, they are embedded in the organizational processes by which managers tackle those issues.

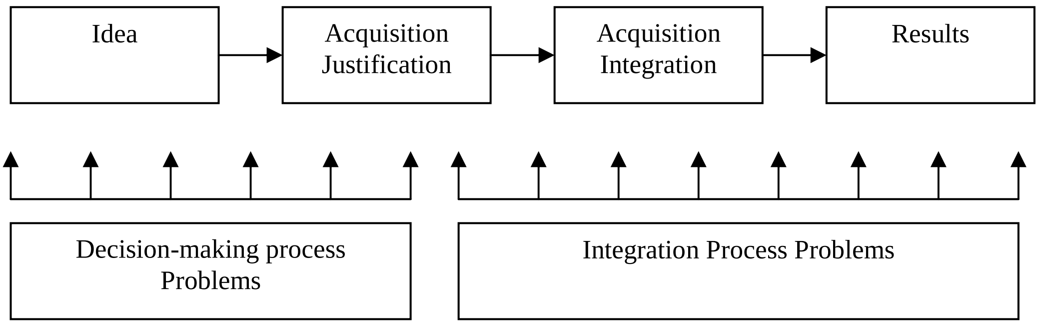


Figure 2.9: How Acquisition Process Affects Results (Haspeslagh, 1991)

Several studies have shown that 40% - 70% of all acquisitions are failures (Schenk, 2002; Haspeslagh & Jemison, 1998; Habeck et al., 2000; Batelaan & van Essen, 2000). Two main causes can be pointed out:

<u>Process factors</u>
Bad preparation-, acquisition-, and integration-processes can be seen as an important factor in acquisition failures (Haspeslagh & Jemison, 1998). Furthermore the potential synergy gains are estimated to high (Batelaan & van Essen, 2000). Also after the deal a lot of things can go wrong during the integration-phase. Communication is very important during this phase.

<u>Human factors</u>
In spite of all attention to synergy during acquisitions like economies of scale, enlargement of knowledge and market power, human factors are a neglected issue.

Especially acquiring a family firm is a complex and emotional process (Sirower, 1997; Haspeslagh & Jemison, 1998; Habeck et al., 2000). There are 4 main factors which can be determinative for the succession or failing of a acquisition of a family firm:

(1) Power & Identity
(2) Control
(3) Suspicion
(4) Culture

Haspeslagh (1991) also mentions that there are many ways of dealing with acquisitions. Although it is tempting to develop a standard approach to deal with acquisitions, important differences occur among them. However, it is evident that good care should be given too the preliminary phases to reduce the changes of failure. In the following paragraph several views are presented which can be led back to figure 2.9.

2.4.2 The Conventional View

This process perspective presents acquisitions as individual deals in which price is paramount (see figure 2.10). The conventional view also sees acquisition decision making as a sequential, segmented process in which the key elements are financial valuation and the pre-acquisition analysis of strategic fit (Haspeslagh, 1991). In addition, it presumes that the value of an acquisition can be understood and predicted accurately at the time of the agreement. In contrast, the process perspective emphasizes the role that acquisition decision making plays in helping a management team understand how value will be created, not just how to assign a financial value to a firm. Especially the first three phases are important to analyze value-creating potential and the anticipated implementation difficulties.

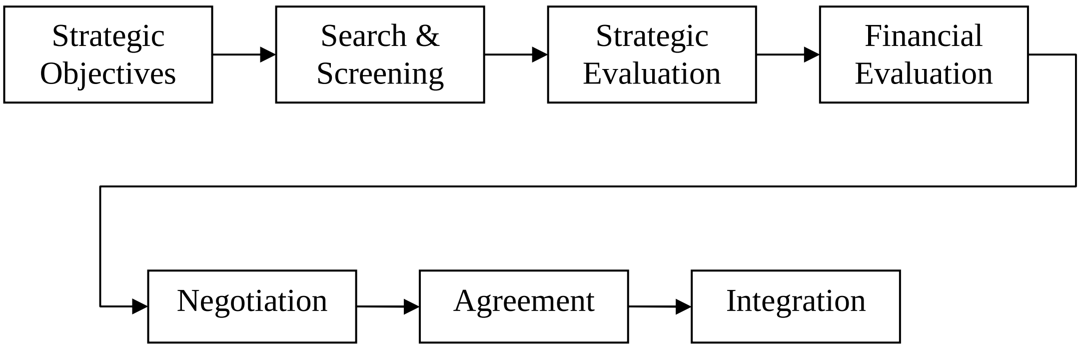


Figure 2.10: The Conventional View (Haspeslagh, 1991)

2.4.3 A Small-Medium Sized Enterprise View

This model describes the M&A process for small to medium sized companies (figure 2.11). It will discuss the process from the view of both the "buyer" and the "seller", based on experience that each "side" in this process should not only understand what they need to do, but should understand what the other players in the process are doing at the same time (Rock, Rock & Sikora, 1994). It is also important that each participant in the process clearly understands the goals and objectives of the other parties as well as their own. A mutual knowledge of the process, clear communications and a mutual respect will accomplish much toward completing a successful merger or acquisition (Robinson & Peterson, 1995). This model will be discussed more in depth because it has more common ground with family firm business transfer.

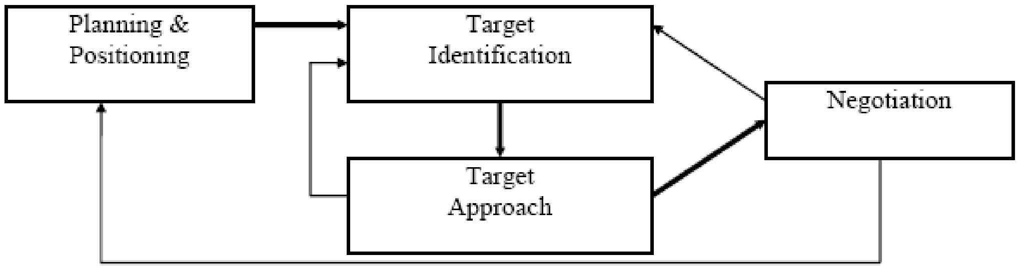


Figure 2.11: A SME-View (Rock,Rock & Sikora, 1994)

Planning & Positioning
When a company first seriously considers M&A activity, whether as a buyer or a seller, they should put together an M&A team, which may grow as the transaction progresses. They need to identify team members, including a senior executive with time to devote to the process, assign responsibilities, and educate the team on their responsibilities if needed. This team will be a combination of internal staff and external team members. Some companies are able to develop and retain an internal M&A staff, but this is not the case for many companies. For sellers especially, this may be a one time transaction, and external consultants can help anticipate issues which may be the difference between a successful and an unsuccessful transaction.

Companies need to determine their strategic objectives very early, as they form the foundation for all that follows. For buyers, M&A is nearly always a strategic, as opposed to a financial, decision. They typically desire to strengthen their competitive position by acquiring products, technology, distribution or in-place customers. Sellers may desire to exit their company for financial purposes, or they may determine that they cannot continue on a desired strategic path without combining resources with an acquirer.

These strategic objectives lead directly to the next planning step. A potential buyer should develop acquisition criteria which define what kind of target company will help them meet their strategic goals. At this point they should develop a general acquisition strategy - that is a general idea of the terms they desire for any acquisition. This includes deciding if their stock will be used as part of the purchase price, and if external funding from banks or other investors will be needed. A decision should be made regarding the general size of the desired acquisition, to match available resources.

Target Identification
At this point in the process both the buyer and seller will distribute their respective acquisition criteria or Selling Memorandum through their contacts or those of their agents. Depending on the strategies chosen, this initial distribution may be very widespread, or limited, pending identification of high priority targets. It is important for both buyers and sellers to require binding (on themselves and any outside advisors)

confidentiality agreements concerning any data which is released, both now and later in the process.

The buyer and seller, as well as their agents, will then go through the process of identifying potential buyer or seller “targets”, using established networks, as well as searching through the vast mountain of available information which modern technology has created. At this point, having acquisition or buyer criteria is absolutely essential to prevent wasting significant amounts of time and money. As potential targets are identified, these screens are applied, to assure the original strategic objectives would be met by a deal with that target company.

The priority of both buyers and sellers at this point should be to find targets which are good strategic fits with their objectives. Sellers should be assessing the probable ability of their target buyer to successfully complete a transaction, by looking at the targets financial resources and acquisition track record. Buyers should consider the operational feasibility of an acquisition or merger, and specifically how their strategic needs will be met.

Target Approach

Executives of buying and selling companies may contact the identified priority targets directly or through an agent, which may have several benefits. For a selling company, using an agent has the obvious advantage of maintaining the confidentiality of their company’s availability on the market, thus maintaining the internal morale of the company through some of the early exploratory discussions. An agent can also screen out serious and qualified inquiries from “kick-the-tires” responses.

An acquiring company may also find advantages to remaining anonymous, as they can maintain the confidentiality of their strategic plans, and perhaps get initial information from potential acquisition
targets more easily. At some point during this phase of an acquisition, the principals of both parties will need to meet and develop a trusting working relationship. Third parties and outside team members can help orchestrate this.

Selling companies may also have to respond to potential buyers’ requests for information either directly or through an agent. Initial due diligence investigations will take place during this phase. At some point the selling company will have to make some of their employees and staff aware of the potential company sale, which can have a disruptive impact on daily operations. Buyers will be gathering available public information on any companies they wish to approach, as well as analyzing the available selling material from their target.

Typically a buyer will want more information on a target company than the seller wants to release, resulting in early negotiations and discussions centered on access to information. The buyer will need to gather enough financial and market information to make an initial valuation of the target company, and will need enough operational information to determine how the companies might be able to combine.

Negotiation

Once an LOI has been accepted by a potential seller, a detailed investigation, or due diligence, phase will follow. The buyer will take the initiative in requesting and analyzing data from the selling company. The data will cover issues of products, markets, facilities, people, accounting processes, and other legal issues such as contingent liabilities. The seller should anticipate spending a great deal of time responding to buyer requests, while the buyer should attempt to minimize this disruption by clearly defining their information needs, and by coordinating through specified channels. If the buyer is successful in acquiring the target company, they will benefit by having minimized the negative impact of the due diligence phase.

It is important for operating level management of both buyer and seller to meet and develop an initial concept of operational integration as part of the process of developing a Definitive Agreement. This operational level coordination will inevitably surface issues which will need to be negotiated. The seeds of many unsuccessful, or at least disappointing, acquisitions have been sown by incomplete or halfhearted attempts at planning for life after the acquisition. Obviously the buyer wants a successful integrated operation after the deal, and the seller will also typically have a vested interest if the terms of the deal include a pay-out over time related to the success of the combined operation. In some acquisitions the seller may remain with the acquired company, and will be part of the operational integration.

To support the negotiation of the Definitive Agreement, the buyer will take all the information obtained during the detailed due diligence, together with the proposed operational integration concepts to accomplish a detailed valuation of the target company, as they plan on operating it. This valuation is important, in that it helps the buying company determine their “push back” position, and helps prevent getting caught up in the emotion of a negotiation. Several funding structures will need to be considered, and third-party sources of funding, such as banks, may need to become involved during these negotiations. The buyer’s full acquisition team will be involved in these negotiations, with legal counsel taking a more active role as the deal moves closer to final agreement.

In the following paragraph the M&A process for a family firm is discussed by means of an extensive study by van de Kimmenade (2003).

2.4.4 A Family Firm Perspective

In the publication “Verkoop van een familiebedrijf, psychologische aspecten” of dr. M.A.J.M van de Kimmenade (2003) the psychological aspects that are important while transferring a family firm are discussed. Van de Kimmenade performed a survey with 107 respondents and 22 interviews with family firms which have been sold. His research has been divided into four different phases and has been validated by means of an extensive literature study and an empirical study. These four phases are in line with SME-view which was discussed in the previous paragraph, only Van de Kimmenade adds an evaluative phase. The four phases are the following:

1) Orientation Phase → Planning & Positioning, Target Identification
2) Preliminary Phase → Target Approach
3) Negotiation Phase → Negotiation Phase
4) Post Selling Phase

A summary of the psychological aspects during these four phases will be discussed in this paragraph.

2.4.4.1 Phase 1: Orientation Phase

In table 3.1 the psychological value of the firm for the family-owner has been established.

	n	Minimum	Maximum	Av.	Std
1. Most important part of my life	101	1	5	4,01	1,02
2. Extension of my personality	102	1	5	3,65	1,15
3. Important as source of income	100	1	5	3,41	1,26
4. Important for my place in community	103	1	5	3,31	1,07
5. Belongs to family	97	1	5	2,36	1,54

Table 2.1 What psychological value did the company have for the family-owner (van Kimmenade, 2003)

Especially the answers of motives 1 and 2 are very important. It emphasizes the importance of the family firm for the owner.

On the question which motive was most important for selling the family firm "strategic choice" was the important motive with 50%. Second was "No suitable successor within the family" with 42%. An important result is that there seems to be a significant connection between "Strategic choice" and the manner in which the contact with the acquirer was reached (95% reliability). These results are based on the interviews and rely on two psychological factors:

Cognitive Attribution error

According to the Attribution Theory of Miller (1984) people have the tendency to attribute results to the wrong cognitive interpretation. It appears that sellers have the tendency to attribute more positive characteristics to acquirers than themselves. The capacities of the acquirer are over-valuated, especially when the reputation of the acquirer is good, while own capacities are under-valuated.

Vulnerability-issues

According to the interviews it seems that the CEO of the family firm begins to feel more vulnerable after a while. Because of the combination of age and building up a nice family firm creates conservativeness. When the family firm is confronted with a severe incident, like a big difference of opinion with managers or a large financial claim, the CEO will evaluate its position within the company. It creates uncertainty in the CEO's position and makes him think about the future. How can I assure the continuity of the company, continue the life-style etc. Selling the company is a way to get rid of uncertainties and vulnerabilities.

2.4.4.2 Phase 2: Preliminary Phase

An important issue for CEO's during the preliminary phase are the employees of the company. The CEO has an emotional connection with its employees and wants to guarantee that employees will not be fired. 84% of all CEO's thought that the employees should be the same after selling the family firm, for 75% of the CEO's it was also a demand during negotiations. There is however a big difference between demands and reality. A good relationship between the acquirer and employees is not something which can be enforced.

Preservation of the family name and place of establishment also seems a big issue during the preliminary negotiations. 55% of the respondents recorded the place of establishment by contract. 40% of the respondents did the same for the family name. Changing the place of establishment and family name is the same as abolishing the corporate identity and culture. It is therefore very important for the family owner to secure those important values by contract.

2.4.4.3 Phase 3: Negotiation Phase
It is important for operating level management of both buyer and seller to meet and develop an initial concept of operational integration as part of the process of developing a Definitive Agreement. This operational level coordination will inevitably surface issues which will need to be negotiated. The seeds of many unsuccessful, or at least disappointing, acquisitions have been sown by incomplete or halfhearted attempts at planning for life after the acquisition. Obviously the buyer wants a successful integrated operation after the deal, and the seller will also typically have a vested interest if the terms of the deal include a pay-out over time related to the success of the combined operation. In some acquisitions the seller may remain with the acquired company, and will be part of the operational integration.

There are CEO's which, after signing the contract, immediately leave the company. This was the case for respondents who had a long preparation time before selling the family firm. Those respondents had less trouble in leaving the family firm. However, 79% of the respondents wanted to stay connected with the family firm after selling, 45% wants to continue as CEO, 4% in the board of commissioners, 19% as external advisor, 6% on ad hoc basis and 5% on a different manner. There are also a lot of acquirers (79%) who wants the family CEO to continue their work at the firm. The average term that is mentioned is around 3 years. This is not always a good solution; the former CEO often has trouble with the new owner and their way of doing business. Most CEO's leave earlier then planned (Van de Kimmenade, 2003).

For a family CEO the Negotiation Phase is an exciting but exhausting process. Buyers of a family firm should take that into account to minimize failure. For the family CEO selling a firm is a ambivalent feeling, some reactions during Van de Kimmenade's study:

"It felt like a liberation"

"A big relief, the negotiations are very exciting. Signing the contract felt relaxing because there was a big deal of uncertainty before signing the deal"

As can be seen, there's a big relief when negotiation phase has finally ended

2.4.4.4 Phase 4: Post Selling Phase
A lot of things change when the family firm CEO leaves the company. Strikingly is the progression of employees. 64% of the respondents say that employees left the company. With 3% of the respondents there were (a lot of) forced discharges and 13% say that nobody left the company. Employees leaving the company after the exit of

the family firm CEO happens a lot, in some cases 80% – 90% of the employees left the company. This can be disastrous for continuation of the company.
The financial picture is mixed. 60% of the respondents say that turnover increased after the acquisition, 22% say that turnover stayed the same and 18% say that turnover decreased. In terms of profit, 47% of the companies increased the profit, 18% stayed the same and with 35% of the companies the profit decreased. As a conclusion it can be said that turnover-figures have risen after the acquisition and profit has a mixed outcome.
Employees are a critical part of a company. They play a big role in a firm's success. After the acquisition workload has increased, dedication and commitment has decreased and working effectively also has decreased. The exit of the family firm CEO has a negative effect on employee-welfare. The big amount of changes are not adopted as positive and employees become more suspicious.

2.4.5 Conclusion

The acquisition or merger of businesses is a complex process which should be understood by all parties involved. It is essential to have a qualified team in place, working with company owners and managers to develop the objectives and strategy for that company. These strategic objectives provide a "touchstone", to which all later activities should be tied. Another key is to accomplish adequate due diligence, both as buyer and seller, in order to understand the value of the company being acquired, as it is planned to be operated by the acquiring company. This allows both buyers and sellers to not only anticipate the other party's positions, but to understand the reasoning behind them. This mutual understanding of value will
underlie the negotiation of a successful acquisition, and lays the foundation for a successful company after the transaction is completed.

Selling or acquiring a family firm is an emotional process, especially for the family. Entrepreneurs who are interested in acquiring a family firm should realize that while acquiring a family firm, the culture and identity of the firm changes as well. Managers of acquiring companies who don't take this into account and think that they can enforce certain behavior should think twice, results will always be negative. An acquisition-process is a process that should be dealt with from beginning to the end. Human factors play a big role and is not just a "soft" or "irrational" factor but is key for good integration.

2.5 Conclusion

In this chapter theory on family firm business transfer has been discussed. The amount of family firms which are suitable for acquiring have risen because of demographic factors (MKB Nederland, 2007). In this chapter a review has been made on emotional and psychological aspects that take place during a acquisition of a family firm.

Q1.1: What is emotional value and what are the most important aspects of emotional value?

Emotional Value is a term that is fairly new, therefore there has not been much research conducted on this phenomenon. From a financial point-of-view Flören (2005) states that there are big price differences between family business transfers within the family and family business transfers outside the family. CEO's of a family firm often want to give their children an advantage, and sell the company for a price which is below the financial value, the family firm is often sold for a fiscal value. However, Flören (2005) and Astrachan (2008) also state that when a family firm is transferred outside the family, an emotional value should be paid on top of the financial value. The most important reason for this is that current valuation techniques do not take the emotional aspects into consideration. The most important emotional aspects are:

- *Pride*
- *Retirement*
- *Justice to other family members*
- *Commitment*

Q1.2: What is the M&A process and what are the most important psychological aspects during family firm business transfer?

Several studies have been performed which has given several M&A processes. Each acquisition is different and it is therefore impossible to conduct a basic model which could be generally applied. Because this study focuses on smaller family firms a SME-view (Rock, Rock & Sikora, 1994) on the M&A process is taken. The SME-view has big resemblance with the 4 phases that Van de Kimmenade (2003) during his study on psychological aspects during phases of the acquisition. He defined four phases during takeover, which each has different psychological aspects;

1) Orientation Phase
2) Preliminary Phase
3) Negotiation
4) Post-Selling Phase

According to the study of van de Kimmenade (2003) there are several important psychological aspects that should be taken into account during family firm business transfer. One of the most important aspects are the employees, the CEO has a psychological connection with the employees and is afraid of their future following the takeover. Another important aspect are the change in place of business and changing the name of the company. Most CEO's also have a connection with their family business and are reluctant to changes. According to Van de Kimmenade more emphasis should be given on these psychological aspects during the acquisition process.

In chapter 3 a review is made on current valuation techniques and the criticism from a family firm point-of-view.

Chapter 3: Business valuation

Three different techniques are commonly used in business valuation: the income technique, the asset-based technique, and the market technique (Reilly & Schweihs, 2004). Within each of these techniques, there are various approaches for determining the value of a business Generally, the income technique determines value by calculating the net present value of the profit generated by turnover (discounted cash flow); the asset-based technique determines value by adding the sum of all assets of the business (net asset value); and the market technique determines value by comparing the subject company to other companies in the same industry, of the same size, and/or within the same region.

In the previous chapter it was stated that there is criticism on current valuation techniques from a family firm point-of-view. Researchers like Lubatkin (2005), Flören (2005) and Astrachan (2008) state that current valuation techniques are not sufficient for the family firm because it ignores “soft” values like emotional value, psychological ownership and non-financial goals.

This chapter will answer the following research questions:

- Q1.3: What are the most common business valuation techniques and what are its limitations?
- Q1.4: What are the limitations of current research according to family firm researchers?

In this chapter there is determined what sort of valuation techniques can be distinguished and the term goodwill is elaborated. In paragraph 3.3 the criticism from a family firm point-of-view is reviewed.

3.1 Theory on Business Valuation

Business valuation can be seen as a process used to estimate the value of an owner’s interest in a business (Anderson, 2005). Valuation is used by stakeholders to determine the price they want to pay or receive for the business. In addition to estimating the selling price of a business, the same tools are also used to resolve disputes related to estate and gift taxation, divorce litigation, allocate business purchase price among business assets, establish a formula for estimating the value of partners' ownership interest for buy-sell agreements, and so on.

According to Reilly & Schweihs (1996) it is necessary to determine the reason for and circumstances surrounding the business valuation, before measuring the value of the business. These are formally known as the ‘business value standard and premise of value’

The choice of the standard and premise of value has large influence on the final business valuation. In an actual business sale, it would be expected that the buyer and seller each with an incentive to achieve an optimal outcome would determine the fair market value a business asset. The value conclusions based on a *going concern* premise and that of *sum of the parts* or *assemblage of business assets* approach may differ substantially for the same company.

3.1.1 Elements of Business Valuation

3.1.1.1 Economic conditions

A standard business valuation report begins with a description of (inter)national, regional and local economic conditions that currently exist, as well as the conditions of the industry in which the subject business operates. As input for this part of the report statistics from local government and industry associations are used, which describe regional and industry conditions.

3.1.1.2 Financial Analysis

The financial analysis normally discusses common size analysis, ratio analysis, trend analysis and industry comparative analysis. The valuation analyst will use these statistics to compare the company to other businesses in the same or industry, and to discover trends affecting the company and/or the industry over time. By comparing financial statements of the company in different time periods, it is possible for the valuation expert to identify financial trends, view growth or decline in revenues or expenses and changes in capital structure. The company will be compared with the industry, which helps with the risk assessment and will help determine the discount rate.

3.1.2 Income techniques

Income techniques determines fair market value by multiplying the yearly profit generated by the company and applies a discount or capitalization rate. The discount or capitalization rate will convert the profit into net present value. There are several different income approaches, including the accounting approach (capitalization of earnings or cash flows), discounted future cash flows ("DCF"), and the excess earnings method. All income techniques consider the company's historical financial data; expect the DCF method which requires the subject company to provide projected financial data. All income techniques look at the company's historical financial data for one period; only DCF requires data for multiple future periods. The discount or capitalization rate must be matched to the type of profit to which it is applied. Final result of a business valuation is the fair market value of the company.

3.1.2.1 Discount or capitalization rates

A discount rate or capitalization rate is used to identify the net present value of the expected profits of a business. Generally speaking, the discount rate or capitalization rate may be defined as the yield necessary to attract investors to a particular investment, given the risks associated with that investment.

In DCF valuations, the discount rate, often an estimate of the cost of capital for the business are used to calculate the net present value of a series of future cash flows. On the other hand, a capitalization rate is applied in methods of business valuation that are based on business data for a single period of time.

There are several different methods of determining the appropriate discount rates. The discount rate is composed of two elements:

(1) the risk-free rate, which is the return that an investor wants from a secure, practically risk-free investment, such as a high quality government bond;

(2) a risk premium that compensates an investor for the level of risk associated with a particular investment in excess of the risk-free rate.

Most importantly, the selected discount or capitalization rate must be consistent with the profits to which it is to be applied.

Capital Asset Pricing Model ("CAPM")

According to Hitchner (2003) the Capital Asset Pricing Model (CAPM) is another method of determining the appropriate discount rate in business valuations. The CAPM method derives the discount rate by adding a risk premium to the risk-free rate. In this instance, however, the risk premium is derived by multiplying the equity risk premium times a "beta," which is a measure of stock price volatility. Beta is published by various sources, particular industries and companies. Beta is associated with the systematic risks of an investment.

One of the criticisms of the CAPM method is that 'beta is derived from the variance of prices of publicly-traded companies, which are very likely to differ from private non-public companies in their capital structures, diversification of products and markets, access to credit markets, size, management depth, and many other respects. Where private companies can be shown to be sufficiently similar to public companies, however, the CAPM method may be appropriate' (Hitchner, 2003).

Weighted Average Cost of Capital (WACC)

The weighted average cost of capital is an approach to determine a discount rate. The WACC method determines the company's actual cost of capital by calculating the weighted average of the company's cost of debt and cost of equity. The WACC must be applied to the company's net cash flow to invested equity. One of the problems with this method is that the valuator may choose to calculate WACC according to the subject company's existing capital structure, the average industry capital structure, or the optimal capital structure. This has negative influence on the objectivity of the approach.

Build-Up Method

The Build-Up Method is a well known recognized method of determining the after-tax net cash flow discount rate, which in turn yields the capitalization rate. This method is called a "build-up" method because it is the sum of risks associated with various classes of assets. It is based on the principle that investors would require a larger return on classes of assets that are more risky. The first element of a Build-Up capitalization rate is, like other discount rates, the risk-free rate, which is the rate of return for long-term government bonds. Investors who buy stocks at the stock market require a larger yield because they are more risky than long-term government bonds. The next element of the Build-Up method is the equity risk premium. For identifying the value of the company, the long-horizon equity risk premium is used because the life of the company is presumed to be infinite. The sum of the risk-free rate and the equity risk premium yields the long-term average market rate of return on large public company stocks.

Further more, there are discounts based on marketability and lack of control.

Discount for lack of control

The first discount that must be considered is the discount for lack of control, which is also called a minority interest discount. Minority interest discounts are the opposite of control premiums. The most common source of data regarding control premiums is the Control Premium Study, published annually by Mergerstat since 1972. Mergerstat defines the “control premium” as the ‘percentage difference between the acquisition price and the share price of the freely-traded public shares five days prior to the announcement of the M&A transaction’.

Discount for lack of marketability
Another factor to be considered in valuing closely held companies is the marketability of an interest in such businesses. Marketability is defined as the ‘ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds’ (Gaughan, 2000). Usually there is a cost and a time lag that can be associated with locating interested buyers of privately-held companies. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Therefore, an interest in a private-held non-public company is worth less because no established market exists

3.1.3 Asset-Based Techniques
The basis of asset-based analysis is that a business is equal to the sum of its assets. The asset technique to business valuation is based on the principle of substitution: an investor will not pay more for the assets than the cost of procuring assets of similar economic value. The adjusted net book value method is rather objective, which is in contrast with other income-based approaches which require the use of subjective capitalization or discount rates. The value of a company’s intangible assets, such as goodwill, is generally impossible to determine apart from the company’s overall value. For this reason, the asset-based approach is not the best method of determining the value of going business concerns. In these cases, the asset-based approach gives a result that is probably less than the fair market value of the business.

3.1.3.1 Normalization of financial statements
Several normalization adjustments should be made on financial statements before a valuation according the asset-based approach is performed. According to Gaughan (2000) the most common normalization adjustments fall into the following four categories:

Comparability Adjustment:. The valuator may adjust the subject company’s financial statements to facilitate a comparison between the subject company and other businesses in the same industry or geographic location. These adjustments are intended to eliminate differences between the way that published industry data is presented and the way that the subject company’s data is presented in its financial statements.

Non-operating Adjustments: It is reasonable to assume that if a business were sold in a hypothetical sales transaction (which is the underlying premise of the fair market value standard), the seller would retain any assets which were not related to the production of earnings or price those non-operating assets separately. For this reason, non-operating assets (such as excess cash) are usually eliminated from the balance sheet.

Non-recurring Adjustments: The subject company's financial statements may be affected by events that are not expected to recur, such as the purchase or sale of assets, a lawsuit, or an unusually large revenue or expense. These non-recurring items are adjusted so that the financial statements will better reflect the management's expectations of future performance.

Discretionary Adjustments: The owners of private companies may be paid at variance from the market level of compensation that similar executives in the industry might command. In order to determine fair market value, the owner's compensation, benefits, perquisites and distributions must be adjusted to industry standards. Similarly, the rent paid by the subject business for the use of property owned by the company's owners individually may be scrutinized.

3.1.4 Market Techniques

Damodaran (1996) mentions "that in a free market the supply and demand forces will drive the price of business assets to a certain equilibrium" . This is the economic principle of competition, which is rooted in the market technique to business valuation.

Buyers are not willing to pay more for the business, and the sellers are not willing to accept less, than the price of a similar firm. The market price of the stocks of publicly traded companies in the same line of business, can be a valid indicator of business value. The largest problem lies in identifying companies which can be compared with the subject company. It is more difficult to buy or sell stocks from a private company than it is for a public company. Therefore its value is considered to be lower than a market-based valuation would give.

3.1.4.1 Fair Market Value

"Fair market value" (FMV) is a standard of measuring business value. In this paragraph the definitions from the American IRS and the FASB will be discussed.

The American IRS (Internal Revenue Service) defines FMV as 'the price at which assets would change hands between a buyer and a seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts'.

The Federal Accounting Standards Board utilizes the term "Fair value" (FV). FASB revised its definition of FV in 2006 to reflect the price that would be achieved in an orderly transaction between market participants in the most advantageous market for the asset (FASB, 2006)

The fair market value standard uses several assumptions, including the assumptions that the purchaser is cautious and rational but is not motivated by:

- any synergistic or strategic influences;
- that the business will continue as a going concern and will not be terminated;
- that the transaction will be conducted in cash or equivalents;
- that the parties are willing and able to perform the transaction.

These assumptions probably do not reflect the current conditions of the market in which the business might be sold. However, these conditions are assumed because they yield a uniform standard of value, after applying generally-accepted valuation techniques, which allows meaningful comparison between businesses which are similarly situated (Mercer, 1999).

3.1.5 Conclusion

There are many ways of appraising a business, and as anyone might imagine, each technique calculates a different value for each business (Copeland et al., 2003). Income approaches and the Asset based approach are the most popular techniques for SMEs. According to valuation theory and from a business-economics point-of-view, the DCF-method captures all elements of value because it looks at the current situation and uses a forecast for future cash flow. The future cash flow is discounted at a rate that reflects the riskiness of the cash flow. The discount is calculated according to the CAPM-method, WACC-method or BuildUp-Method. According to finance specialists the DCF-method is difficult to use in difficult economic cycles or in turbulent business sectors because it is very difficult to forecast a reliable cash flow (Trout, 2000; Copeland et al., 2003).
The accounting approach uses the history in earnings and looks at accounting earnings of the business. These earnings are multiplied with the “Price-to-Earnings ratio of P/E ratio”. Based on the way the accounting approach works it can be said that only this years and next years earnings matter. It does not take a look into the future.
The theory on the Asset based approach says that “The value of asset-based analysis a business is equal to the sum of its parts”. Possible profits are not included in this calculation. Therefore, in practice goodwill is added to the value of the business. The term will be further elaborated in the following paragraph.

3.2 Goodwill

Goodwill is an accounting term used to reflect the portion of the market value of a business entity not directly attributable to its assets and liabilities; it normally arises only in case of an acquisition. It reflects the ability of the entity to make a higher profit than would be derived from selling the tangible assets. Goodwill is also known as an intangible asset (Trout, 2000).

3.2.1 Business Goodwill vs. Personal Goodwill

Goodwill can be separated into two different kinds of goodwill, namely Business Goodwill and Personal Goodwill (KvK Nederland, 2008).
Personal Goodwill consists of the training and experience of the owner of the business. The intangible qualities that spring from such backgrounds are the personal ability (the expertise) of the owner, the contacts and the reputation of the owner, which added together give the business its value. Because personal goodwill is connected to the entrepreneur it is difficult to hand over during business transfer.
Business Goodwill consists of the business records and customer/client files, a location and a trained staff fully in place – all of which are important. Other factors are advanced products, intellectual property right and having an advantage within the market. Concluding, Business Goodwill consists of business related factors which can give the company an edge on the competition.

Personal Goodwill and Business Goodwill also have big influence on the multiplying factor which is a basis for calculating goodwill. In paragraph 4.2.2 a further elaboration is made on how goodwill is calculated.

3.2.2 Calculating Goodwill

Goodwill is calculated by amortizing excess profits. Excess profits are forecasted profits after takeover minus a compensation for the labor of the entrepreneur and minus a compensation for the investment of the acquirer. These excess profits are multiplied with a factor between 1 and 6. This factor is based on the amount of years that the excess profits can be realized. The factor will be higher when risks towards profit expectation become lower. Very important are the personal and business goodwill of the company, which are discussed in paragraph 3.2.1.

3.3 Criticism from a Family firm Point-of-View

To date, the research on business valuation has ‘largely applied neoclassical models and theories, which solely consider economic (financial) issues and exclude nonfinancial concerns’ (Lubatkin, 2005). In other words, the research so far has characterized big publicly held businesses the same as small privately owned businesses. This one-sided perspective risks ignoring important issues’ (Lubatkin, 2005). According to Astrachan (2008) A broader ‘…definition of what “value” is to a family business owner should be made by arguing that it includes both financial and nonfinancial (emotional) components and that like financial components, nonfinancial considerations can both add to and detract from the business’s value from the owner’s perspective.’

According to Astrachan (2008) Literature shows that entrepreneurs and owners of privately held businesses (LeCornu, Richard, McMahon, Forsaith, & Stanger, 1996 in Astrachan (2008)) often have both financial and nonfinancial goals for their businesses and consequently have ‘a different utility function that comprises financial and nonfinancial components’ (Anderson & Reeb, 2003 in Astrachan (2008)). Apart from financial goals, which include increases in equity value, dividends, and financial private benefits, a privately held business owner’s utility from a business can also comprise nonfinancial goals, which can relate to the business (Abdel-Maksoud, Dugdale, & Luther, 2005), to the family (Chrisman, Chua, & Zahra, 2003), or to himself or herself (Khatri & Ng, 2000).

According to Kaplan & Norton (1992) only nonfinancial business goals are discussed. In contrast, Zellweger (2006) mentions that ‘nonfinancial family and private goals that are established by family business owners are rarely analyzed’. However, according to family firm researchers these (non)financial goals are very important in understanding the total business value from a family firm perspective. (LeCornu et al., 1996).

3.3.1 Financial Value

The DCF-method assesses the value of business equity by discounting expected future cash flows with the appropriate discount rate. The weighted average cost of capital (WACC) calculates the discount rate by considering equity cost of capital and debt costs, as well as the tax rate. The equity cost of capital is usually calculated by the capital asset pricing model (CAPM). CAPM assumes that investors are diversified because of the portfolio theory (Markowitz, 1952) and calculates the cost of equity based on the risk-free interest rate and the beta (Brealey &Myers, 2000). However, for privately held businesses, this approach offers several problems:

(1) there is no beta for private businesses (Astrachan, 2008);
(2) family business owners are usually not diversified investors (Wright, Ferris, Sarin, & Awasthi, 1996) as their wealth is usually tied up in one business; and
(3) nonfinancial goals are not considered in valuation (Astrachan, 2008).

Therefore, it is questionable if such an approach can adequately reflect a family business owner's perspective and be used for his or her decision making or business valuation. Flören (2005) adds to this that:

(1) current valuation techniques are not trustworthy enough because the future cannot be predicted and there is a big variety in calculating value;
(2) Current valuation techniques are lacking when economic cycles are unstable, during strong growth the valuation is too high, during economic rough times valuation is too low;
(3) the emotional value that family owners attribute to their company is ignored.

3.3.2 Nonfinancial Values

Demsetz and Lehn (1985) mention that nonfinancial values can be important for instance for the media and sports sectors. According to Ehrhardt and Nowak (2003) reputation plays a large role in privately held businesses for business decisions. However according to Astrachan (2008), for measuring private benefits with existing methods, only measurable, financial private benefits are considered. Nonfinancial private benefits in privately held (family) businesses can, for example, refer to

(1) an investment in a long-range project enhancing opportunities for future family generations that may not make sense from a purely financial perspective, but that serves to increase the family's overall utility (Fama & Jensen, (1983) in Astrachan (2008));
(2) investments diversifying business activities in order to lower total risk, but that are at the same time not value driven (Demsetz & Villalonga, (2001); Maug, (1998) in Astrachan (2008));
(3) investments in brands or sectors that bring a high reputation to the family (Demsetz & Lehn, (1985); in Astrachan (2008));
(4) family business owners who hold steadfast in their reluctance to divest the business portfolio of a particular business unit/segment because, for example, the founding grandfather or great-grandfather started the company in this line of business, expressing legacy value (Sharma & Manikutty, (2005) in Astrachan (2008)) ;
(5) Family business owners who continue to employ workers in a certain community even though "outsourcing" would be more financially beneficial (Astrachan, (1988); Wright et al., (1996) in Astrachan (2008)).

All examples emphasize that in addition to a financial appraisal, there often seems to be a nonfinancial valuation of investments and assets. Whereas previous literature has analyzed financial private benefits and shown their relevance, nonfinancial (private) benefits are difficult to measure and have thus received less attention.

3.3.3 Nonfinancial costs

In addition, a family firm does not only have nonfinancial values, they also have nonfinancial costs. Negative emotions can be due to:

(1) conflicts (Levinson, 1971);
(2) rivalry between family members (Grote, 2003);
(3) stress within the family (Narayanan, Menon, & Spector, 1999).

These negative emotions can negatively affect business processes, group dynamics, and business performance (Pelled, Eisenhardt, & Xin, 1999 in Astrachan (2008)). Negative emotions can also result from not achieving goals. In privately held family businesses, such emotional costs can consequently be created because, for example, nonfinancial family goals are not achieved within the business. Examples of such negative emotions might include jealousies or conflicts that emphasize a lack of satisfaction of family or individual needs and consequently would be reflected by negative emotional results. It should be noted, that these negative emotions could have negative influence on family business valuation.

3.3.4 Limitations

First of all, the influence of owning families on businesses adds a “softer,” emotional component to the business. However, in most privately held businesses, financial profits form the basis for the overall utility of the owners. Only after considering financial profits, are changes to financial business value with respect to emotional returns and emotional costs made. And how important is that “softer” emotional value for the future acquirer of the company.

Second, future research is needed in order to distinguish between privately held business types where financial components are more important than nonfinancial components and vice versa.

Third, when focusing on emotional value, one other non answered question is how emotional returns and costs can be added, how financial value and emotional value can be added, and how the latter two might effect each other. It is off course possible that emotional value is incorporated in current valuation techniques, because emotional value has influence on finance (for example the debt/equity ratio).

Fourth, several conclusion which are made by family firm scientists are not specifically about family firms, but are also applicable for SME’s. Aspects like no beta for private businesses, a lot of emphasis on the future with certain business valuation techniques and stress are not family firm specific.

3.3.5 Conclusion

In conclusion, the literature shows that:

(1) nonfinancial business goals are not taken into account during business valuation;
(2) emotions play a big role in determining (monetary) decisions;
(3) To determine value of these nonfinancial goals is difficult

As conclusion it can be said that from a family firm point-of-view there is a need for a new valuation technique which is suitable for determining the value of financial and nonfinancial goals within a family firm.

3.4 Conclusion

In this chapter theory on current valuation techniques and its limitations have been discussed. In paragraph 3.3 a review has been made on the limitations on current research from a family firm point-of-view.

Q1.3: What are the most common business valuation techniques and what are its limitations?

Three different techniques are commonly used in business valuation: the income technique, the asset-based technique, and the market technique (Reilly & Schweihs, 2000). An accountant usually uses a combination of all techniques to determine the value of a business.

First, the *income technique* uses several different approaches, including the accounting approach, discounted future cash flows approach (DCF), and the excess earnings method (which is a hybrid of asset and income approaches). Most of the income techniques consider the subject company's historical financial data; only the DCF method requires the subject company to provide projected financial data. There are several different methods of determining the appropriate discount rates. The discount rate is composed of two elements:

1) the risk-free rate, which is the return that an investor would expect from a secure, practically risk-free investment, such as a high quality government bond;
2) a risk premium that compensates an investor for the relative level of risk associated with a particular investment in excess of the risk-free rate.

Important related tools to compose a discount rate are CAPM, WACC and the BuildUp-method.

Second, the basis of the *asset-based technique* is that a business is equal to the sum of its parts. That is the theory underlying the asset-based techniques to business valuation. The asset technique to business valuation is based on the principle of substitution: no rational investor will pay more for the business assets than the cost of procuring assets of similar economic utility. If the company is well-managed and has positive profit prospects, then often extra goodwill is paid. Goodwill consists of personal and business goodwill.

Third, the *market technique*. Damodaran (1996) mentions "that in a free market the supply and demand forces will drive the price of business assets to a certain equilibrium" . This is the economic principle of competition, which is rooted in the market technique to business valuation.
Buyers would not pay more for the business, and the sellers will not accept less, than the price of a comparable business enterprise. The market price of the stocks of publicly traded companies engaged in the same or a similar line of business, whose shares are actively traded in a free and open market, can be a valid indicator of value. For non-public companies like most family firms are, the market approach is difficult to apply because the value of assets is difficult to determine.

Q1.4: What are the limitations of current research according to family firm researchers?

From a family firm point-of-view there is criticism on current valuation techniques, because nonfinancial goals are not taken into consideration. Nonfinancial goals can be split up nonfinancial values and nonfinancial costs. Family firms are presumed to have more nonfinancial values and nonfinancial costs than nonfamily firms. Astrachan (2008) and Flören (2005) state that a new valuation technique should be composed for valuating family firms with nonfinancial goals.

Chapter 4: Competitive Advantages and Disadvantages

In this chapter the (dis-)advantages of a family firm over a nonfamily firm will be dealt with. In the past many studies have been performed on the (dis-)advantages that a family firm over nonfamily firm characteristics. According to Habbershon & Williams (1999) 'a review of the literature substantiates the potential that they have for competitive advantage and superior firm performance.'

In the first paragraph a literature review on the Resource Based View has been given. This strategic management concept deals with advantages that has characteristics that are: valuable, rare, non imitable and non substitutable. When the advantages satisfy these characteristics they may be called a competitive advantage. In the second paragraph a review has been made on current literature on advantages of the family firm over the nonfamily firm. In the 3rd paragraph a review has been made on current literature on the disadvantages of the family firm over the nonfamily firm.

In this chapter the following research question will be answered:
Q1.5: What are the (dis-)advantages of a family firm over a nonfamily firm?

4.1 Introduction

The resource based view perspective is used to explain how enhanced performance of resources can be obtained through an acquisition. The RBV concentrates on those aspects that enable firms to gain a competitive advantage (Barney, 1991). The fundamental principle of the RBV is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal (Wernerfelt, 1984; Rumelt, 1984). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Barney, 1991; Peteraf, 1993). Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort (Hoopes, 2003; Barney, 1991). If these conditions hold, the firm's bundle of resources can assist the firm sustaining above average returns.

The RBV suggest that an acquisition represents more than the transfer of ownership of a collection of physical assets and market position (Barney, 1991). Instead an acquisition may be better understood as a process that brings together the distinctive combinations of resources, routines, capabilities, organizations and dominant logics that defined two previously separate organizations. Several aspects are very important in the RBV perspective; the role of managers in the development and deployment of resources (Amit and Shoemaker 1993; Barney 1991) and the relationship between resources and the scope of the firm (Markides and Williamson 1996; Prahalad and Hamel 1990). In most cases it are not the resources themselves that are inputs into the production process but rather it are the services that these resources can render. Services yielded by resources are a function of the way in which the resources are used; if exactly the same resources are used for different purposes or in different ways or in combination with other resources they provide a different service or set of services.

The value of different resources affects the boundary decisions of a firm (Barney, 1991). Firms try to retain in-house activities that take advantage of their strategic resources. Strategic resources of a firm have certain characteristics; the RBV theory stipulates these characteristics. According to the RBV a resource has to have the following four characteristics in order to achieve sustained competitive advantage:

Valuable

By definition, valuable resources generate high returns. A resource must enable a firm to employ a value creating strategy, by either outperforming its competitors or reduce its own weaknesses (Barney, 1991).

Rare

Unless the resource is valuable, competitive advantage does not arise. If the resource is not rare, competitors are able to obtain it. Therefore, to be of value, a resource must be by definition rare (Barney, 1991).

Non imitable

Strategic resources are difficult to imitate, this adds value to the resource (Barney, 1991). An important underlying aspect of the non imitable characteristic is causal ambiguity, which occurs if the source from which a firm gains competitive advantage is unknown (Peteraf, 1993). If the resource in question is knowledge based or socially complex, causal ambiguity is more likely to occur as these types of resources are more likely to be specifically belong to the firm it comes from (Peteraf, 1993).

Non substitutable

Even if a resource is rare, potentially value creating and imperfectly imitable, another important aspect is lack of substitutability (Barney, 1991). If substitution is possible, a competitive advantage cannot be sustained. If competitors are able to counter the firm's value creating strategy with a substitute, the resource is less valuable because prices can be driven down.

Acquisitions may be interpreted, within the resource based perspective, as a search for partners with complementary resources and capabilities. These complementary resources and capabilities can be leveraged with those of the acquirer to create enhanced competitive advantage of both firms. The more resources a firm has that fulfill these characteristics the more competitive this firm is. By acquiring another company that has resources with these characteristics the firm increases its competitive advantage. The resource based perspective views an acquisition as an opportunity to acquire a bundle of resources of a target firm that may be combined synergistically with resources from the acquired firm to create added value (Harrison et al. 1991). If such an acquisition creates sustainable added value it has to contain the previously mentioned characteristics. These combined characteristics enable a firm to protect a competitive advantage and can be strengthened by acquiring these types of resources (Barney, 1991). The resource based theory takes the specific sources of value creation and determines if these sources are really driving towards competitive advantage.

4.2 The Resource Based View and the Family Firm

Habbershon & Williams (1999) did extensive research on the (dis-)advantages of a family firm over a nonfamily firm. In this paragraph a overview is given on their work. Over the past 15 years, the field of family business studies has evolved significantly in understanding how family firms are different from other businesses in both their organizational composition and performance capabilities. Notable contributions have been made in 'identifying the systemic nature of family firm behavior' (Davis & Stern, 1980; Lansberg, 1983;), in describing the 'psychological and process aspects of system interactions' (Ackoff, 1994), in 'delineating the dual characteristics of family and business as a source of both benefit and disadvantage' (Tagiuri & Davis, 1996) and in 'noting the distinctive operational and outcome capabilities of family companies' (Moscetello , 1990).
Negative headlines keep capturing the public/s attention. Despite that, the family business literature is filled with more positive assertions that family firms have performance advantages over nonfamily firms. Broadly, 'they are more likely to succeed than any other kind of business' (Astrachan, 2008), according to Brokaw (1992) family firms have 'unparalleled competitive advantage'. Moreover, the family firm is 'the ultimate long-term investor' (Dreux, 1990) and a model for 'future business success' (Aronoff & Ward, 1995).

Habbershon & Williams (1999) state that 'To date, the advantages of family firms have been presented primarily in a descriptive fashion with broad theoretical and anecdotal support that cuts across traditional academic disciplines. A review of the literature substantiates this descriptive emphasis on the unique characteristics of family business and the potential that they have for competitive advantage and superior firm performance.'

Ward (1988) mentions that family firms are described as 'having a unique working environment that fosters a family-oriented workplace and inspires greater employee care and loyalty'. According to Donckels & Frohlich (1991) family firms 'pay higher wages to employees when compared to other SMEs' and 'have the ability to bring out the best in their workers' (Moncetello, 1990). According to Goffee & Scase family firms have 'more flexible work practices for their employees', have 'lower recruitment costs, lower human resource costs, and are said to be more effective than other companies in labor intensive businesses' (Levering & Moskowitz, 1993).
Family members have also been described as 'more productive than nonfamily employees' (Rosenblatt, deMik, Anderson & Johnson, 1985). They have a 'family language' that allows them to communicate more efficiently and exchange more information with greater privacy. 'Family relationships usually are more loyal, increase motivation, and increase trust' (Tagiuri & Davis, 1996).
Overall, it can be said that family firms have 'a more trustworthy reputation' (Tagiuri & Davis, 1996; Ward & Aronoff, 1991), and 'decision making tends to be centralized among top family members, which decreases management consts and increasing the flexibility and profits of the firm' (Goffee & Scase, 1985; Tagiuri & Davis, 1996).
It has been asserted that the 'concentration of shares in family management hands leads to a strong sense of mission, well-defined long-term goals, a capacity for self-analysis, and the ability to adapt to major changes without losing momentum' (Moscetello, 1990). Because family members are personally involved with the family

firm means that ‘family business are more creative’ (Pervin, 1997) and ‘pay more attention to Research & Development then other SMEs’ (Ward, 1997).
According to Moscetello (1990) ‘family firms make greater commitments to their missions, have more of a capacity for self-analysis, and less managerial politics’. According to Lyman (1991) family firms tend to ‘emphasize personal and family values over corporate values and are known for their integrity and commitment to relationships’.
According to Aronoff & Ward (1995) family firms are more efficient because ‘Positive customer perceptions of family ownership and relationship-based business interactions within and between organizations create stakeholder efficiencies’. According to Lyman (1991) family firms reputation is higher and the relationship with customers, suppliers and stakeholders are stonger. There is an advantage in customers ‘speaking to the family in charge and knowing the person whose name is on the door’ (Brokaw, 1992).’Internationally, family companies that share common family values across cultures can bridge cultural barriers more effectively’ (Swinth & Vinton, 1993).
According to Aronoff & Ward (1995) family firm objectives and strategies are said to be ‘inseparable, which creates a more acceptable long-run strategy and commitment to fulfill it’. In a research by Dreux (1990) family firms were found more responsive to ‘changes in the business environment’ and, correspondingly, therefore are less susceptible to negative downturns’ (Donckels & Frohlich, 1991). According to Johnson (1990) family firms have a ‘strategic advantage because competitors do not have access to information or financial conditions’ of the family firm because it is privately owned.
Regarding financial performance, According to de Visscher et al (1995) family firms are described as ‘having patient capital’ and have the ‘capacity to invest in long-run return opportunities rather than quarterly return requirement’ (Dreux, 1990). Additionally, according to Donckels & Frohlich (1991) family firms ‘place an emphasis on company growth potential over short-term sales growth’ and ‘because of their long-run view, family firms are less reactive to economic cycles’ (Ward, 1997) and ‘have lower cost of capital’ (Aronoff & Ward, 1995).
Also, according to McConaughy et al ((1995) in Astrachan 2008) ‘publicly held family firms have been described as having higher profit margins, faster growth rates, more stable earnings, and lower dividend. Additionally, ‘family firms have lower debt/equity levels’ (Gallo & Vilaseca, 1990) which makes family firms less sensitive for downturns.

It is safe to say that family firms have several advantages over nonfamily firms. Evidence of their dominant economic and social contributions worldwide is being substantiated in other business literature (Shankar & Astrachan, 1996). In table 4.1 an overview is given of the discussed literature.

Competitive Advantages Family Firm

Human Capital	
Family Business more creative	(Pervin, 1997)
More responsive to changes in business environment	(Dreux, 1990)
More trusting	(Tagiuri & Davis, 1996)
Family members more productive	(Rosenblatt et al., 1985)
Flexible work practices	(Goffee & Scase, 1985)
Making quick decisions	(Ward, 1997)
Family firms work in a way that maximizes flexibility	(Poza et al., 1997)
More employee care and loyalty	(Ward, 1988)
Organizational Capital	
More attention to R&D	(Ward, 1977)
Less likely to have a formal code, more role modeling	(Adams et al., 1996)
Better management on capital structure	(Monsen, 1969)
Share values across cultures and bridge barriers more quickly	(Swinth & Vinton, 1993)
Decision-making centralized, increasing efficiency and effectiveness	(Tagiuri & Davis, 1996)
Place emphasis on growth potential over short-term growth	(Donckels & Frohlich, 1991)
Less reactive to economic cycles, more consistent	(Ward, 1997)
More long-term view	(Porter, 1992)
No obligation to produce quarterly reports	(Dreux, 1990)
More attention to brand name development	(Ward, 1997)
Lower debt/equity levels	(Gallo & Vilaseca, 1996)
Process Capital	
More likely to get involved in environmentally friendly strategies	(Post, 1993)
Competitors have little information on operations and financial conditions	(Johnson, 1990)
Pay higher wages than other SME's	(Donckels & Frohlich, 1991)
Build global alliances with other family firms	(Ward, 1997)
Physical Capital	
Patient Capital	(De Visscher et al., 1995; Dreux, 1990)
Lower cost of Capital	(Aronoff & Ward, 1995)

Table 4.1: Competitive Advantages of the family firm(Habbershon & Williams, 1999)

4.3 Disadvantages of the Family Firm

Besides all the competitive advantages, a family firm also has disadvantages. These disadvantages will be discussed in this paragraph.

- <u>Lack of communication and transparency</u> (Compernolle, 2002).
- Conflicts between family members have a very negative influence on business performance (Donckels, 1998).
- <u>Emotional issues</u>. The family firm is a cohesion of family ties based on emotions. This could lead to serious problems (Flören & Weijers, 1996).
- <u>Financial Pressure</u>. A family firm is often used just for generating an income for other family members who do not substantially contribute to the business performance (de Vries, 1996).
- <u>Knowledge</u>. A family firm is often led by one CEO, who often doesn't have all the knowledge which is needed for running a firm (Donckels, 1998).
- <u>Leadership.</u> Often happens with 2nd or 3rd generation successors who are not really capable in handling a firm (Flören & Weijers, 1996).
- <u>Succession.</u> To find a suitable successor for the firm is a tiring process. Next to obvious management problems also emotional problems play a role (Flören & Weijers, 1996), also because weak spots of the firm become clear (Compernolle, 2002)
- <u>Paternalism/Autocracy.</u> Most CEOs have a dominant character. Most companies with a dominant CEO are conservative and traditional. It may become secluded from the outside world and neglects developments. Such a

business climate is not favorable for changes and this could endanger continuity of the family firm (de Vries, 1996).

- Lack of planning (Compernolle, 2002)
- Rigidity. Family firms tend to hold on traditions without showing the willingness to change. Fundamental changes may cause commercial risks but may also cause the internal philosophy to change (Flören & Weijers, 1996).
- Tension. Ownership interests and family interests are a source of tension (Donckels, 1998).
- Obtaining capital. Nonpublic companies often have difficulties obtaining capital because of the lack of financial possibilities. Moreover, family firms are not willing to obtain capital from external sources. They feel that they could lose the company when obtaining too much capital from external sources. When the capital comes from internal sources this could have influence on other important projects or cause inefficiency (Flören & Weijers, 1996).
- Confusing business model. The business model of the family firm is often confusing and chaotic. Authority and responsibility is often not clearly defined (de Vries, 1996).

Besides having several competitive advantages, the family firm also has some disadvantages. When a family firm is acquired by an investor great care should be given to reduce influence of those disadvantages.

4.4 Conclusion

In this chapter several advantages and disadvantages of a family firm are elaborated. Extensive research has been performed in order to gain perspective on these advantages and disadvantages. It should be noted that in current research more emphasis has been given on advantages of the family firm than on the disadvantages of the family firm. The following research question has been answered:

Q1.5: What are the (dis-)advantages of a family firm over a nonfamily firm?

The advantages have been categorized into four different categories (Habbershon & Williams, 1999):

Human Capital: family firms are perceived to be more flexible and efficient then nonfamily firms. Especially family employees tend to work harder and management is more trusting. Employee care is important in the family firm which gives the family firm an advantage to a nonfamily firm.

Organizational Capital: Family firms are often non-public and put more emphasis on long-term growth then on short-term growth. Family firms tend to be less reactive to economic cycles because they have lower debt/equity levels.

Process Capital: Family firms tend to pay higher salaries then other SME's. They are more likely to create global alliances with other family firms and competitors often does not have information on daily operations of the competing family firm

Physical Capital: Family firms tend to have more patient capital then nonfamily firms, family firms wait till the best opportunity. Because family firms are more cautious in lending money they have lower debt/equity levels, this means they are less sensitive to downturns, which is in line with being less reactive to economic cycles.

Family firms also have several disadvantages, the most important disadvantages of family firms are:

- Obtaining capital. Nonpublic companies often have difficulties obtaining capital because of the lack of financial instruments. Moreover, family firms are not willing to obtain capital from external sources. They feel that they could loose grip on the company when obtaining too much capital from external sources. When the capital comes from internal sources this could have influence on other important projects or cause inefficiency (Flören & Weijers, 1996).
- Emotional issues. The family firm is a cohesion of family ties based on emotions. This could lead to serious problems (Flören & Weijers, 1996).
- Confusing business model. The business model of the family firm is often confusing and chaotic. Authority and responsibility is often not clearly defined (de Vries, 1996).
- Leadership. A lack of leadership often happens with 2nd or 3rd generation successors who are not really capable in handling a family firm (Flören & Weijers, 1996).

Concluding it can be said that the valuation technique, goodwill and competitive advantages and disadvantages have an influence on the Business Value. However, according to several researchers from the family firm there is also a more “softer” side of business value. These emotional and psychological aspects should also be taken into account when transferring a family firm.

Chapter 5: Theoretical framework

Up until this point a considerable amount of information has been uncovered with regard to family firm business transfer, business valuation techniques, and the (dis-)advantages of a family firm over a nonfamily firm. This chapter will seek to capture the essence of the previous chapters, which will result in the design of a theoretical framework. In order to construct this theoretical framework, several conclusions will be drawn with regard to the previous chapters.

5.1 Conclusions

Q1.1: What is emotional value and what are the most important aspects of emotional value?

Emotional Value is a term that is fairly new, therefore there has not been much research conducted on this phenomenon. From a financial point-of-view Flören (2005) states that there are big price differences between family business transfers within the family and family business transfers outside the family. CEO's of a family firm often want to give their children an advantage, and sell the company for a price which is below the financial value, the family firm is often sold for a fiscal value. However, Flören (2005) and Astrachan (2008) also state that when a family firm is transferred outside the family, an emotional value should be paid on top of the financial value. The most important reason for this is that current valuation techniques do not take the emotional aspects into consideration. The most important emotional aspects are:

- *Pride*
- *Retirement*
- *Justice to other family members*
- *Commitment*

Q1.2: What is the M&A process and what are the most important psychological aspects during family firm business transfer?

Several studies have been performed which has given several M&A processes. Each acquisition is different and it is therefore impossible to conduct a basic model which could be generally applied. Because this study focuses on smaller family firms a SME-view (Rock, Rock & Sikora, 1994) on the M&A process is taken. The SME-view has big resemblance with the 4 phases that Van de Kimmenade (2003) during his study on psychological aspects during phases of the acquisition. He defined four phases during takeover, which each has different psychological aspects;

1) Orientation Phase
2) Preliminary Phase
3) Negotiation
4) Post-Selling Phase

According to the study of van de Kimmenade (2003) there are several important psychological aspects that should be taken into account during family firm business transfer. One of the most important aspects are the employees, the CEO has a psychological connection with the employees and is afraid of their future following the takeover. Another important aspect are the change in place of business and changing the name of the company. Most CEO's also have a connection with their family business and are reluctant to changes. According to Van de Kimmenade more emphasis should be given on these psychological aspects during the acquisition process.

Q1.3: What are the most common business valuation techniques and what are its limitations?

Three different techniques are commonly used in business valuation: the income technique, the asset-based technique, and the market technique (Reilly & Schweihs, 2000). An accountant usually uses a combination of all techniques to determine the value of a business.

First, the *income technique* uses several different approaches, including the accounting approach, discounted future cash flows approach (DCF), and the excess earnings method (which is a hybrid of asset and income approaches). Most of the income techniques consider the subject company's historical financial data; only the DCF method requires the subject company to provide projected financial data. There are several different methods of determining the appropriate discount rates. The discount rate is composed of two elements:

1) the risk-free rate, which is the return that an investor would expect from a secure, practically risk-free investment, such as a high quality government bond;
2) a risk premium that compensates an investor for the relative level of risk associated with a particular investment in excess of the risk-free rate.

Important related tools to compose a discount rate are CAPM, WACC and the BuildUp-method.

Second, the basis of the *asset-based technique* is that a business is equal to the sum of its parts. That is the theory underlying the asset-based techniques to business valuation. The asset technique to business valuation is based on the principle of substitution: no rational investor will pay more for the business assets than the cost of procuring assets of similar economic utility. If the company is well-managed and has positive profit prospects, then often extra goodwill is paid. Goodwill consists of personal and business goodwill.

Third, the *market technique* to business valuation is rooted in the economic principle of competition: "that in a free market the supply and demand forces will drive the price of business assets to a certain equilibrium" (Damodaran, 1996). Buyers would not pay more for the business, and the sellers will not accept less, than the price of a comparable business enterprise. The market price of the stocks of publicly traded companies engaged in the same or a similar line of business, whose shares are actively traded in a free and open market, can be a valid indicator of value. For non-public companies like most family firms are, the market approach is difficult to apply because the value of assets is difficult to determine.

Q1.4: What are the limitations of current research according to family firm researchers?

From a family firm point-of-view there is criticism on current valuation techniques, because nonfinancial goals are not taken into consideration. Nonfinancial goals can be split up nonfinancial values and nonfinancial costs. Family firms are presumed to have more nonfinancial values and nonfinancial costs than nonfamily firms.

Astrachan (2008) and Flören (2005) state that a new valuation technique should be composed for valuating family firms with nonfinancial goals.

Q1.5: What are the (dis-)advantages of a family firm over a nonfamily firm?

Extensive literature research by various authors has been performed in order to gain perspective on the advantages and disadvantages of family firms, with an emphasis on the advantages of family firms (see table 4.1, page 54).

The advantages have been categorized into four different categories (Habbershon & Williams, 1999):
Human Capital: family firms are perceived to be more flexible and efficient then nonfamily firms. Especially family employees tend to work harder and management is more trusting. Employee care is important in the family firm which gives the family firm an advantage to a nonfamily firm.

Organizational Capital: Family firms are often non-public and put more emphasis on long-term growth then on short-term growth. Family firms tend to be less reactive to economic cycles and have lower debt/equity levels.

Process Capital: Family firms tend to pay higher salaries then other SME's. They are more likely to create global alliances with other family firms and competitors often does not have information on daily operations of the competing family firm

Physical Capital: Family firms tend to have more patient capital then nonfamily firms, family firms wait till the best opportunity. Because family firms are more cautious in lending money they have lower debt/equity levels, this means they are less sensitive to downturns, which is in line with being less reactive to economic cycles.

Family firms also have several disadvantages, the most important disadvantages of family firms are:

- Obtaining capital. Nonpublic companies often have difficulties obtaining capital because of the lack of financial instruments. Moreover, family firms are not willing to obtain capital from external sources. They feel that they could loose grip on the company when obtaining too much capital from external sources. When the capital comes from internal sources this could have influence on other important projects or cause inefficiency (Flören & Weijers, 1996).
- Emotional issues. The family firm is a cohesion of family ties based on emotions. This could lead to serious problems (Flören & Weijers, 1996).
- Confusing business model. The business model of the family firm is often confusing and chaotic. Authority and responsibility is often not clearly defined (de Vries, 1996).
- Leadership. A lack of leadership often happens with 2nd or 3rd generation successors who are not really capable in handling a family firm (Flören & Weijers, 1996).

Concluding it can be said that the valuation technique, goodwill and competitive advantages and disadvantages have an influence on the business value. However, according to several researchers from the family firm there is also a more "softer" side of business value. These emotional and psychological aspects should also be taken into account when transferring a family firm.

5.2 Theoretical Framework

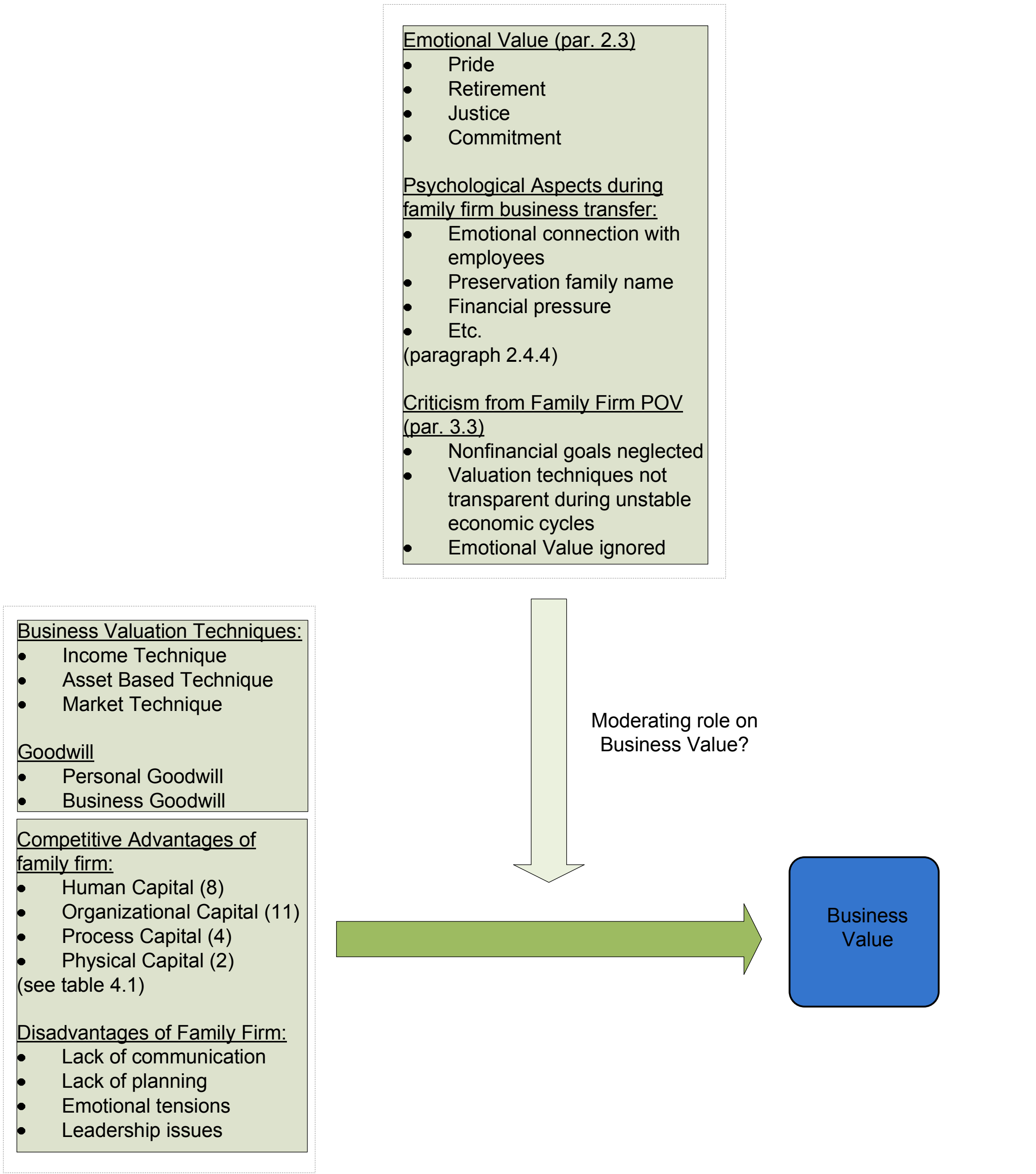


Figure 5.1: Theoretical Framework

In the previous chapters an overview has been given of the available literature. In paragraph 5.1 the conclusions of the literature review have been composed. The conclusions are presented in the theoretical framework. This framework is based on the research framework presented in chapter 1. Input for the framework is the literature review as conducted in chapter 3, 4 and 5. In the empirical part of this study 16 interviews will be performed with stakeholders. Interviews will be held with family firms and with firms which have acquired a family firm. Goal of these interviews are to obtain more insight from a practical side on the field of family firm business transfer and emotional and psychological aspects and to determine if these aspects play a moderating role in business valuation. During the analysis all interviews will be analyzed and compared with the literature. This will be the input of the conclusions and recommendations. The following sections will describe the theoretical framework in more detail.

5.2.1 Literature Review and Conclusions

The inputs for the theoretical framework are the three chapters on respectively; emotional and psychological aspects, business valuation and the family firm (dis-)advantages. The conclusion of this literature review is that the valuation technique, goodwill and competitive advantages and disadvantages have an influence on the Business Value. However, according to several researchers from the family firm there is also a more "softer" side of business value, like emotional and psychological aspects. There is a lot of criticism from an family firm point-of-view that these aspects are not included in business valuation. These aspects are that non-financial goals and emotional aspects are neglected and that valuation techniques are not transparent during economic unstable cycles. According to these authors nonfinancial goals also have influence on the performance of the business and should therefore be incorporated. According to several authors (Flören, 2005; Astrachan, 2008) emotional value should nowadays be a part of business valuation. However, there is not a clearly defined way of measuring emotional value. Business valuation literature claims to only take financial performance of the firm into account and neglects emotional and psychological aspects.

Concluding, there is a lot of disagreement on the valuation of family firms. On the one hand current business valuation looks at the financial performance of the company, on the other hand there are several researchers from the family firm point-of-view that current business valuation literature should incorporate the "softer" side of managing a business. The goal of the empirical part of this study is to gain more insight from a practical side on the field of family firm business transfer, emotional value and psychological aspects and to determine if these aspects should play a moderating role in business valuation.

5.2.2 Interviews

The main goal of this empirical study is to gain more insight from a practical side on the current situation by means of performing interviews with stakeholders like family firms and firms which have acquired a family firm. A view from a practical side is advisable because until now no research has been performed which combines emotional and psychological aspects together with business valuation literature. During the empirical study several interviews will be conducted with stakeholders to obtain that practical view. These stakeholders are family firms and acquirer's of family firms. The stakeholders have information which could be of use for this research. These stakeholder interviews will be an open interview on emotional and psychological aspects during family firm business transfer.

The interviews are split up in two sections, an orientation section to gain information on the current situation and a section which specifically deals with (dis-)advantages of the family firm, emotional and psychological aspects during family firm business transfer and their opinion on the impact of emotional value on the transfer price.
During the interviews the following research questions form a guideline for the interview questions:

Q2.1 Were there differences between business valuation and the eventual paid price?
Q2.2: Did the family firm which was taken over have any competitive advantages and disadvantages?
Q2.3: Were there emotional issues during family firm business transfer?
Q2.4: Did psychological aspects play a role during business transfer?
Q2.5: Do the stakeholders think that emotions should play a bigger role in determining the value of a (family) firm.

Above standing research questions lead to the following interview sections:

Orientational Section:

Finance: Finance will only be discussed with the stakeholders which have acquired a family firm. It is important to know the differences between the value of business valuation and the final price paid because there be an emotional value hidden inside that difference. The three main valuation techniques will also be discussed. Goodwill will also be discussed so that more insight can be obtained on finance during family firm business transfer. It is important to know if goodwill was paid, and why the goodwill was paid.

Competitive advantages and disadvantages: Competitive (dis-)advantages have an influence on financial performance of the family firm. Main goal is to gain perspective on the influence of (dis-)advantages on normal day to day business

Focus:

Emotional Aspects: During the literature study it was determined that emotional value plays a role during family firm business transfer. Several aspects of emotional value will be discussed to obtain a better view on the positive and negative aspects of emotional value during a family firm business transfer. A link will be made between emotional aspects and business valuation so that the stakeholders can state their experience and/or opinion on this matter. What also will be discussed is if emotional value should be perceived as a positive or a negative value.

Psychological Aspects:

The psychological aspects during the different phases of an M&A process will be discussed with the stakeholders. According to the literature these psychological aspects can have an influence on business valuation. A link will be made between psychological aspects and business valuation so that the stakeholders can state their experience and/or opinion on this matter. Goal is to obtain more information on the most important psychological aspects and if these psychological aspects should be perceived as a positive or a negative value.

Impact of emotional and psychological aspects on transfer price:

A very important aspect of the interviews with the stakeholders are the opinions of the stakeholders on emotional and psychological aspects, and its impact on the transfer price. Until now there has not been any research that combines the theory on emotional and psychological aspects with the opinions of the stakeholders.

The main goal of the interviews to gain more insight from a practical side on the current situation by means of performing interviews with stakeholders like family firms and firms which have acquired a family firm. According to the literature study the emotional and psychological aspects have no influence on business valuation. By means of interviews I would like to know if emotional and psychological aspects play a moderating role in business valuation and what are the most important aspects in this matter. In paragraph 6.4 a more detailed look will be given on the operationalization of the interview.

5.2.3 Analysis

In the Analysis-stage of this study the interviews which were performed will be analyzed. The outcomes of the interviews will be compared with the literature research to ensure all topics have been discussed. An analysis is made on the current situation and the most important aspects on family firm business transfer will be discussed. Conclusions and recommendations will be made on which aspects are the most important in paying an emotional value or not. The role of emotional and psychological aspects on family firm business transfer will also be discussed.

The analysis will be presented in chapter 7. First the interviews will be analyzed and the answers of the stakeholders will be written down as raw information. Second, remarks which contain information on emotional and psychological aspects and its influence on business valuation that were given by the stakeholders will be labeled and will be used for the analysis. All the labels together will give a more insight on the practical side of emotional and psychological aspects and its influence on business valuation. Third, the most important emotional and psychological aspects that have influence on business valuation will be identified.

Triangulation

In this research several different sources of information will be used, e.g. literature, people and media. Using several different sources of information, triangulation of sources, contributes to the validity of the research. Not only the different types of information contribute to this. Within each type of information several sources are used, e.g. stakeholders with distinct perspectives like family firms and acquirers of family firms. This further contributes to the validity of the research.

Chapter 6: Methodological Plan

The methodological plan connects the empirical data to a study's initial research questions and, ultimately, to its conclusions (Yin, 2003). This chapter bridges the theoretical framework and the empirical research. The methodological plan can be seen as a logical model of proof. It needs to maximize internal validity, external validity and reliability (Yin, 2003). This research is qualitative and may contribute to the current available theory on emotional value. This research wants to contribute to the discussion about family firm business transfer outside the family. With this in mind the structure of this chapter is described. This chapter will discuss subsequently the research design, the data set that is investigated, the data sources, the operationalization of the interview, the analyses of the data and finally to the quality criteria that should be met.

6.1 Research Design

This research aims to focus on the emotional and psychological aspects of the family to the family firm and the effects on the business valuation from a nonfamily firm point-of-view. The goal is to research if emotional and psychological aspects play a moderating role in business valuation, and what the most important aspects are in this matter.

First, it needs to be determined why a family is emotionally attached to its firm and what the consequences are for transferring the family firm outside the family. Second, it is important to know how current valuation techniques work and what its limitations are. Third, it is important to identify the positive and negative characteristics that a family firm has in contrast to a nonfamily firm. By means of face-to-face interviews with several stakeholders I want to determine if emotional value plays a role in business valuation, and to determine which aspects play a major role in this matter.

In the end I hope to find empirical evidence that the emotional and psychological aspects attach a extra value to the family firm and therefore play a moderating role. If this hypothesis seems to be false I hope to find reasons why emotional and psychological aspects are not of great value to the acquirer and what the consequences of this conclusion are.

This research builds on existing theory and at the same time makes new relations between different theories. Currently there is no research available that investigates current valuation literature, family firm characteristics and emotional and psychological aspects.

Empirical research needs to be performed to gain more insight from a practical side on the current situation by means of performing interviews with stakeholders like family firms and firms which have acquired a family firm. Current research discusses emotional and psychological aspects, but does not discuss the most important aspects and if these aspects have a negative or positive value for the firm. In order to gain more insight on this matter this research uses stakeholder interviews with family firms and firms who acquired a family firm to perform the empirical research. This has two advantages; it provides a helicopter view and may increase the understanding of family firm business transfer. Stakeholder interviews gives me the opportunity to check if the theory is correct and may provide new insights that the researchers did not think of (Baarda et al., 2001).

This research takes a qualitative approach to investigate its topics. A disadvantage of the selection of a qualitative approach is its subjectivity; the interpretation of the researcher is central in this type of research (Baarda et al., 2001). The data from

different interviews is only to some extend generable and is difficult to quantify. One of the advantages of qualitative research is that it can examine complex questions that are impossible to address with a quantitative research.
In order to gain an optimal result it is advisable to combine qualitative and quantitative research to gain maximum validity.

6.2 The data set of empirical research

This paragraph provides insights in the family firm market in general. The most important characteristic of the family firm market is its diversity (Flören, 1996), looking at one sector makes it impossible to define a final conclusion of the entire family firm market. The importance of family firms for the Dutch economy is very large. In paragraph 2.1 it was established that 55% of the firms within the Netherlands are a family firm, which is an amount of 185.000 family firms within the Netherlands. However, the Dutch branch-organization for Small and Medium Enterprises (SME) expects increasing M&A activities on the SME market the coming years (MKB Nederland, 2007). The NIRV expects that, due to above standing aspects, there will be a wave of takeovers in the SME market in short term (Het Financieele Dagblad, 31-05-2007). A large part of these takeovers will take place within a family firm. As such, it provides an appropriate context to explore the somewhat neglected issue of takeover of family firms. This is in contrast with the abundance of articles on M&A of large enterprises. A reason for the emphasis on large enterprises might be that big companies are more complicated and therefore need more thorough research, whereas small companies are supposed to be guided by common sense. Besides, large enterprises have more manpower and money to support such investigations. Anyhow, it is evident that there are many differences between family firms and nonfamily firms, and that these differences need to be investigated more thoroughly.

Because the market of family firms isn’t a specific market several sectors will be looked at during the empirical research. These sectors include Production, Construction, Transportation and Horeca. Paragraph 6.6. will discuss the characteristics of the respondents.

6.3 Data sources

This section describes the data sources and explains what criteria these data sources should meet. This research uses only one way of empirical data gathering (stakeholder interviews), this paragraph will discuss the stakeholder interviews. The most preferred research is a combination between qualitative and quantitative research. Due to lack of time and the absence of a quantitative data-set it is not possible to combine these two research methods.

6.3.1 Stakeholder interviews

Stakeholder interviews are intended to obtain a practical point-of-view on this matter; therefore, diversity of the stakeholders should be pursued. It is important to interview family firms and firms which have acquired a family firm. These stakeholders have experienced emotional and psychological aspects of a family firm and know what influence it has. This way many insights on the topics can be obtained. The stakeholders can be divided into the 2 groups and should have the following characteristics:

Interview Group A (6 respondents):

- The stakeholder from the firm which acquired a family firm should be a person who was closely involved in the acquisition process;

Interview Group B (10 respondents) :

- The stakeholders from the family firm should be CEO or general director of the firm and should be family of the founder of the firm;
- The firm should be a family firm and should therefore satisfy the definition proposed in paragraph 2.1

It should be noted that this is not a 'best practice' data set. A best practice data set should consist of families which have sold their family firms to a 3rd party. It was not possible to get enough respondents in this category. It wasn't even possible to have more respondents in interview group A. Therefore, a second best practice has been chosen with 2 interview groups. Interview Group B can be seen as a control group.

6.4 Operationalization

In this paragraph the items of the theoretical framework are operationalized. The first step is to make the central themes and their items operational. The central themes have to be broken down into smaller parts so that the respondents can understand and answer, which results in the interview questions (Wengraf, 2001). Academic jargon has to be avoided and the question has to be clear for the respondent. Otherwise, it is possible that the respondents answer what they presume is meant but not really answer the question. People need to understand clearly what they are being asked, if they are to provide details. "All the interview questions, taken together, should enable to provide more insight" in emotional and psychological aspects (Wengraf, 2001). During the interviews all themes will be discussed with stakeholders which leads to the answer of the research objective and the central research question.

The first part of this section discusses the validation of the literature overview for the family firm market by performing M&A stakeholder interviews. How to collect the data for the stakeholder interviews for firms which acquired a family firm is described in the first paragraph. How to collect the data for the stakeholder interviews for family firms is described in the first paragraph.

6.4.1 Interview Group A, acquiring family firms

The stakeholder interviews start with an introduction of the interviewer and the research project, it is important to note that the discussion is about the emotional and psychological aspects during family firm business transfer. In appendix A the interview topics for the firms which acquired a family firm can be found. According to the theoretical framework there are five research topics (finance, advantages and disadvantages of the family firm, emotional value and psychological aspects). Based on these five topics the respondents are asked for insights on acquiring a family firm. This could lead to important new insights that were missed during the literature review (see table 6.1).

Goal of these interviews are to gain more insight from a practical side on the field of family firm business transfer and emotional and psychological aspects. Question 1–6 have the goal to obtain more insight in the personal situation of the respondents. In these questions the financial part of acquiring a family firm is discussed. The financial situation of the respondents could have influence on the answers during the rest of the interview, so it is necessary to know the personal situation.

Question 1 has the goal to obtain some more information on the family firm which was acquired by the stakeholder.

Question 2 discusses the valuation technique which was used to valuate the family firm and the possible answers are based on valuation technique literature which was discussed in chapter 3.

Question 3 and 4 are questions about goodwill. The answer on this question depends on the answer of question 1. The DCF-method does not calculate goodwill. Question 3 discusses on what basis the goodwill was paid. It might be possible that goodwill was paid for issues that can be characterized as emotional or psychological aspects.

Question 5 and 6 discuss the difference between the business valuation and the finally paid price. If there was a difference between the valuation and the final price it should also become apparent why there was a difference between the two. The scale is an estimation of possible differences. It is not expected that differences of more then 25% occur.

In the 2nd part of the interview a more detailed look is given on the family firm. Question 7-10 will discuss the possible competitive (dis-)advantages that a family firm might have. Input for this part of the interview is chapter 4, which deals with the competitive (dis-)advantages of the family firm compared with a nonfamily firm.

Question 7 has the goal to obtain more insight in the competitive (dis-)advantages that were perceived during and after the acquisition-process. Input for the list of possible (dis-)advantages is chapter 4 (table 4.1 and paragraph 4.3).

Question 8 discusses if the literature has missed important (dis-)advantages. If so, the interviewer has the opportunity to incorporate the extra (dis-)advantages in the analysis and in the conclusions and recommendations.

Question 9 has the goal to determine the (dis-)advantages that have the most influence on day-to-day business. And more important, why it has so much influence on day-to-day business.

Question 10 discusses if the (dis-)advantages of a family firm could have financial consequences for the valuation of a firm, or that it already does have influence on the valuation of a firm.

In the 3rd part of the interview emotional and psychological aspects of a family firm are being discussed. Chapter 2 is used as input for the emotional and psychological aspects that are discussed in questions 11-22.

Question 11 is to make sure if the respondents understand the definitions of emotional and psychological aspects. If the respondents do not understand these definitions the interviewer can provide information on these subjects.

Question 12-13 discusses the stakeholders' personal opinion on this matter, which might provide extra insights.

Question 14-17 discusses all possible emotional aspects of a family firm. Goal is to know if the stakeholder has witnessed emotional aspects during the acquisition of the

family firm. In question 15 and 16 the positive and/or negative influences of these emotional aspects are discussed. Question 17 discusses which emotional aspect has the most influence on day-to-day business.
Question 18-21 discusses all possible emotional aspects of a family firm. Goal is to know if the stakeholder has witnessed psychological aspects during the acquisition of the family firm. In question 19 and 20 the positive and/or negative influences of these psychological aspects are discussed. Question 21 discusses which psychological aspect has the most influence on day-to-day business.
The value of emotional and psychological aspects can be positive or negative, but are difficult to valuate. The final question (question 22) of this interview is what the stakeholders' opinion is on incorporating emotional and psychological aspects into business valuation.

Topics	**Variables**	**Questions**
Finance	General Information	1
	Valuation technique and goodwill	2-4
	Difference valuation and paid price	5-6
Advantages and disadvantages Family Firm	During and after Acquisition process	7-8
	Influence on business	9
	Finance	10
Emotional & Psychological Aspects	Introduction	11
	Opinion Stakeholder	12-13
	Emotional Aspects	14-16
	Psychological Aspects	18-20
	Influence on business	17,21
	Include aspects in business valuation	22

Table 6.1: Interview-question per topic, appendix A

6.4.2 Interview Group B, Family Firm

The stakeholder interviews start with an introduction of the interviewer and the research project, it is important to note that the discussion is about the emotional and psychological aspects during family firm business transfer. In appendix B the interview topics for the firms which acquired a family firm can be found. According to the theoretical framework there are five research topics (finance, advantages and disadvantages of the family firm, emotional value and psychological aspects). Based on these five topics the respondents are asked for insights which relate to a family firm. This could lead to important new insights that were missed during the literature review (see table 6.2).

Goal of these interviews are to gain more insight from a practical side on the field of family firm business transfer and emotional and psychological aspects. Question 1 has the goal to obtain more insight in the personal situation of the respondents. The personal situation of the respondents could have influence on the answers during the rest of the interview, so it is necessary to know the personal situation.

In the 2nd part of the interview a more detailed look is given on the family firm. Question 2-5 will discuss the possible competitive (dis-)advantages that a family firm

might have. Input for this part of the interview is chapter 4, which deals with the competitive (dis-)advantages of the family firm compared with a nonfamily firm.
Question 2 has the goal to obtain more insight in the competitive (dis-)advantages that the family firm has according to the respondent . Input for the list of possible (dis-)advantages is chapter 4 (table 4.1 and paragraph 4.3).
Question 3 discusses if the literature has missed important (dis-)advantages. If so, the interviewer has the opportunity to incorporate the extra (dis-)advantages in the analysis and in the conclusions and recommendations.
Question 4 has the goal to determine the (dis-)advantages that have the most influence on day-to-day business. And more important, why it has so much influence on day-to-day business?
Question 5 discusses if the (dis-)advantages of a family firm could have financial consequences for the valuation of a firm, or that it already does have influence on the valuation of a firm.

Topics	**Variables**	**Questions**
Family Firm	General information	1
Advantages and disadvantages Family Firm	During and after Acquisition process	2-3
	Influence on business	4
	Finance	5
Emotional & Psychological Aspects	Introduction	6
	Opinion stakeholder	7-8
	Emotional Aspects	9-11
	Psychological Aspects	13-15
	Influence on business	12,16
	Include aspects in business valuation	17

Table 6.2: Interview-question per topic, Appendix B

In the 3^{rd} part of the interview emotional and psychological aspects of a family firm are being discussed. Chapter 2 is used as input for the emotional and psychological aspects that are discussed in questions 6-17.
Question 6 is to make sure if the respondents understand the definitions of emotional and psychological aspects. If the respondents do not understand these definitions the interviewer can provide information on these subjects.
Question 7-8 discusses the stakeholders' personal opinion on this matter, which might provide extra insights.
Question 9-12 discusses all possible emotional aspects of a family firm. Goal is to know if the stakeholder has emotional aspects towards his family firm. In question 10 and 11 the positive and/or negative influences of these emotional aspects are discussed. Question 12 discusses which emotional aspect has the most influence on day-to-day business.
Question 13-16 discusses all possible emotional aspects of a family firm. Goal is to know if the stakeholder has emotional aspects towards his family firm. In question 14 and 15 the positive and/or negative influences of these psychological aspects are discussed. Question 16 discusses which psychological aspect has the most influence on day-to-day business.
The value of emotional and psychological aspects can be positive or negative, but are difficult to valuate. The final question (question 17) of this interview is what the

stakeholders' opinion is on incorporating emotional and psychological aspects into business valuation.

6.5 Analyses of the data

In the analyses of the data there is moved from empirical trenches to a more conceptual overview of the landscape. "We're no longer dealing with observables, but also with unobservables, and are connecting the two with successive layers of inferential glue" (Miles and Huberman, 1994). The analysis should make a clear deeper understanding about the concepts that this research is dealing with and the interrelations between them. Data analyses of the stakeholder interviews are described in the next paragraphs.

6.5.1 stakeholder interviews

The in depth interviews with the stakeholders are being held based on a topic list (table 6.1 and 6.2), this leaves a lot of space for discussion and provides very extensive answers. Data analyses is done based on the following steps; writing of individual reports, mark fragments and determining of important aspects.
The interviews are written down directly by the interviewer, this is done according to the theoretical framework. The raw data is coded in order to organize the data. Parts that cannot be coded directly are studied in a later period. Fragments that describe important aspects of this review are marked. Baarda et al. (2001) agree on the following characteristics for a fragment: fragments are about one subject, a fragment has to be understandable on an individual basis and a fragment may not be too small.

As mentioned in paragraph 6.3.1 there are 2 interview groups for this research. In table 6.3 a summary of the characteristics of the respondents has been made. All respondents made clear that they wanted to stay anonymous, the companies have been randomly listed within each interview group from Company 1 to 16. The first 6 respondents are companies which have experience with selling or buying a family firm. However, it should be noted that 4 out of 6 respondents also were family firms. This could be an advantage because these firms can have multiple perspectives on the interview questions. The dataset of interview group A is a mixed group, coming from different regions and branches. It is therefore not possible to construct a cluster based on a specific region or cluster. 5 out of 6 respondents have experience with buying a family firm and 2 out of 6 respondents have experience with selling a family firm. All respondents from Interview group A are medium-sized, this means that they have between 10 and 99 co-workers.

10 out of 16 respondents are family firms without any experience in family firm business transfer. The respondents from interview group B are also a mixed group coming from different regions and branches. It is therefore not possible to construct a cluster based on a specific region or sector. 2 out of 10 respondents are small business, this means that they have 1 to 9 co-workers.

Interview Group	Company name	Original Region	Sector	Family firm: Yes or No		Business transfer experience		Firm size: Small or medium
				Yes	No	selling	buying	
A	Company 1	Brabant	Installation	[redacted]		[redacted]		Medium
A	Company 2	Brabant	Installation	[redacted]			[redacted]	Medium
A	Company 3	Flevoland	Construction	[redacted]			[redacted]	Medium
A	Company 4	Rotterdam	IT		[redacted]	[redacted]	[redacted]	Medium
A	Company 5	Brabant	Production	[redacted]			[redacted]	Medium
A	Company 6	Flevoland	Horeca		[redacted]		[redacted]	Medium
B	Company 7	Flevoland	Production	[redacted]		No experience		Medium
B	Company 8	Rotterdam	Production	[redacted]		No experience		Small
B	Company 9	Rotterdam	Construction	[redacted]		No experience		Medium
B	Company 10	Brabant	Production	[redacted]		No experience		Medium
B	Company 11	Flevoland	Construction	[redacted]		No experience		Medium
B	Company 12	Flevoland	Production	[redacted]		No experience		Medium
B	Company 13	Rotterdam	Construction	[redacted]		No experience		Medium
B	Company 14	Flevoland	Installation	[redacted]		No experience		Medium
B	Company 15	Brabant	Horeca	[redacted]		No experience		Small
B	Company 16	Rotterdam	Installation	[redacted]		No experience		Medium

Table 6.3: List with respondents

6.6 Quality criteria

Two main quality criteria can be distinguished; these are dependability and validity (Baarda et al., 2001). These quality criteria have to be met as much as possible to perform a good empirical research.

6.6.1 Reliability

The reliability of a research determines to which extend a research is replicable. Through a good documentation of the method of research the reliability is improved. The less the results depend on co-incidence, the more reliable the measurement is (Baarda et al., 2001). The reliability of interviews is influenced by several aspects. An important part is the level of structure. In this research the expert interviews are done through a semi structured topic interview. Much information is obtained and the respondents have given their vision on the topics. Because many answers are open and have been interpreted by the interviewer, there may occur differences between what the respondent means and the interviewer understands. This decreases the reliability. The chance of differences in interpretation is reduced because the interviewer summarizes the answers in a structural way.

Through describing all steps in the research precisely and make the topic and variables operational thoroughly the research is in principle understandable and repeatable. With reliability the key issue is that when the research is repeated it provides the same results. By using multiple sources, triangulation, to answer the questions, literature, expert interviews and a case study, the level of reliability is been kept as high as possible (Baarda et al., 2001).

6.6.2 Validity

With regard to validity there are two main types of validity to distinguish; internal validity and external validity (Baarda et al., 2001).

Internal validity is in this case the soundness of the research design, i.e., the research does indeed provide information about the properties of interest. Through working with different methods, sources of data and theoretical perspectives the situation of the research is represented as good as possible, this benefits the internal validity. In this research the data is provided and interpreted from the perspective of related persons, this benefits the internal validity.

External validity is the validity of the answers to the research questions for a larger population than the sample studied. Generability depends on the conditions in different environments and if these are comparable with the research setting. Because only one case study is done with a company that does not represent the majority of its industry generability to a broader range, e.g. the entire industry or the SME market is not justifiable. The M&A experts do increase the generability of this research, however information obtained from them has its limitations compared to the case study. As less detailed information is obtained and general consensus may play an important role, the scientific value of such research is lower compared to the case study. The role of general consensus is decreased by interviewing respondents from 5 different sectors. Unfortunately it was not possible to analyze a certain sector, the data set was not specific enough. It is advisable that future research will be performed on specific sectors to enlarge validity.

Validity can also be influenced by people giving social acceptable answers (Baarda et al., 2001). People tend to represent themselves positively and give an answer that they think makes a good impression. This surely has been the case during this study, and it has not been checked by control questions. However, it should be noted that most respondents were also very open about negative characteristics

During this research the researcher was as objective as possible; but because the research is qualitative there is always a certain level of subjectivity. The researcher has tried to get the subjectivity as low as possible by recording the conversations and record the whole interview on paper.

This research meet the main conditions of validity and reliability, the result can therefore be marked reliable and to a certain extend valid. Especially external validity is expected to be limited as far as the case study results concern. The next chapter describes the empirical findings derived from the methodological approach described in this chapter.

Chapter 7: Analysis and results empirical study

This chapter shows the results of the data collection described in methodology chapter. This chapter is divided into 6 main paragraphs and a summary. The chapter describes the findings out of the empirical research for (dis-)advantages of family firms over non-family firms, if emotional and psychological value exists during family firm business transfer and if these emotional and psychological aspects also have an impact on the final transfer price of family firm.
Each paragraph coheres to a sub-question which were defined in paragraph 1.3.4. In each paragraph a distinction will be made between the two interview groups A (experience with family firm business transfer) and B (family firms). The interview topics are divided between the five main questions that needed to be answered during the empirical research. The following sub-questions are successively discussed:

Q3.1: What are the most important advantages and disadvantages of a family firm that have a role in the valuation of a family firm?
Q3.2: Does emotional value play a role in the valuation of a family firm?
Q3.3: Do psychological aspects play a role in the valuation of a family firm?
Q3.4: What do the stakeholders think about including emotional value within business valuation?
Q3.5: Which aspects are decisive in paying an emotional value or not?

To answer these questions data collection in interviews, as explained in the methodology chapter, has been performed.

As mentioned in the methodology chapter there are 2 interview groups. Group A is a group which consists of (family) firms that has experience with family firm business transfer. Group B is a group which consists of family firms without any experience in family firm business transfer. As mentioned in chapter 6, it was not possible to perform a best practice research which includes families that have sold their family firm. Therefore, interview group B was created to perform a research which is of sufficient validity. Therefore, Group B can be seen as a control group.

7.1. (dis-)advantages of the family firm

The first sub question that needs to be answered is:

Q3.1: What are the most important advantages and disadvantages of a family firm that have a role in the valuation of a family firm?

The importance of this question is to distinguish (dis-)advantages of family firms over non-family firms. From the literature study a list has been composed with (dis-)advantages of a family firm. The list was input for the interviews with the stakeholders. By means of a 5-point Likert-scale (1 = agree, 5 = disagree) the respondents could make clear which (dis-)advantages applies to their family firm. Finally, the respondents were asked to elaborate more on the (dis-)advantages that they find most important. A total of 16 respondents is questioned, with a division of 6 respondents which have experience with buying or selling a family firm and 10 respondents without any experience in buying or selling a family firm. When necessary a distinction between the 2 interview groups will be made. The group of respondents is assumed to be large enough to perform the research. This assumption is based on the homogeneity in the results.

The question was phrased as: Which (dis-)advantages are typical for your family firm?

1) I agree
2) I partly agree
3) I agree/disagree
4) I partly disagree
5) I disagree

Or: Not applicable

One-Sample Statistics

	Mean	Std. Deviation	N
Make_quick_decisions	1.1875	.40311	16
More_flexible	1.3750	.71880	16
Quick_reaction_to_ changes	1.4375	.62915	16
More_creative	1.5000	.73030	16
Quick_in_giving_trust	1.6875	.70415	16
More_productive	1.7500	.77460	16
Less_debt	1.8000	.94112	15
More_longterm_then_ shortterm_focus	1.8125	.75000	16
Less_costs_on_debt	1.8125	.91059	16
Better_employee_care	1.8125	.91059	16
More_patient_in_ capital_investing	1.8750	.88506	16
Better_financial_ management	1.8750	1.31022	16
Dominant_CEO	1.9375	1.06262	16
More_stress	2.0000	1.21106	16
More_emotions_ because_of_family_ties	2.3571	1.39268	14
Pay_more_salary	2.4375	1.03078	16
More_focus_R_and_D	2.5000	1.09193	14
Less_reactive_on_ economic_cycles	2.5625	1.03078	16
Conservative	2.6000	1.05560	15
Chaotic_business_ model	2.6667	1.11270	15
Lack_of_leadership	2.7333	1.16292	15
Bad_communication	2.8125	.75000	16
Lack_of_knowledge	3.3333	1.23443	15

Table 7.1: SPSS results on (dis-)advantages of family firms

Above standing table is made by using a one sample T-test with SPSS. The test calculates the mean, standard deviation and the number of respondents. If the mean is low, then most respondents agreed with the statement. When the standard deviation is high, there are large differences between the respondents opinions about the specific statement. The "N" stands for the number of respondents. It is possible that the number of respondents is different for each statement. This is because the respondents also had the opportunity to fill in "Non applicable" as an answer. It is difficult to determine which statements are significant and which statements are not, because standard deviations tend to be quite high. The results are put in order by lowest mean to highest mean.

Small and medium sized firms vs. large firms

The 16 respondents provided a homogeneous result on the (dis-)advantages that apply to family firms. As can be seen in figure 7.1 most of the respondents agreed that a family firm is more flexible, makes quick decisions, are more creative, are quick in reacting to changes and are more productive. These statements had scores of respectively 1.375, 1.1875, 1.500, 1.4375 and 1.750 (see table 7.1). However, most respondents also mention that those advantages are not family firm specific. For instance, Company 11 mentions that "It is important to split up this research into a research for bigger companies and a research for smaller companies. I believe there are big differences in the outcomes between small companies and larger companies." Wat should be noticed is that this was mentioned 5 times by the respondents while it was not mentioned by the interviewer himself. In Table 7.1 these quotes are summarized.

Subject: Small and medium sized firms vs. large firms	
Company	Quote
2	"We have those advantages because of the size of our business"
8	"There are several (dis-)advantages which are mostly because of business size, making quick decisions and quick reactions to changes are some of those aspects"
11	"It is important to split up this research into a research for bigger companies and a research for smaller companies. I believe there are big differences in the outcomes between small companies and larger companies."
12	".When big companies takeover smaller companies, within a half year the total company has changed, resulting in problems with clients and your personnel."
13	"I don't believe that a family firm is more creative then a non-family firm, I think the same about quick reaction to changes. Those are aspects which typically belong to larger companies."

Table 7.2: Quotes on small and medium sized firms vs. larger firms

It should be noted that according to the Dutch Bureau of Statistics (CBS) most family firms are SME's (table 2.1, paragraph 2.1). Which supports that most family firms have those advantages. Also all off the respondents are SME's, which means that it is also obvious that their companies have those advantages. However, according to table 7.2 it can be implied that those aspects are specific to Small and Medium-sized Enterprises (SMEs) which means that non-family SMEs have the same characteristics. This is in contrast with the literature study where those aspects are specifically mentioned as advantages of family firms.

Employee care vs higher salaries vs giving more trust

Another noticeable result is personnel care. 13 out of 16 respondents agreed that family firms give more care to their employees then non-family firms do. Better employee care scored 1.8125 in table 7.1 with a standard deviation of 0.91059. 13 out of 16 respondents gave a score of 1 or 2 on the 5-point Likert-scale. A good example is company 8 which said that "good personnel is like having good reliable tools, it

makes things easier. Without the right tools the job can't be done". However, when looking at table 7.1 there is no real evidence that a higher personnel care leads to higher salaries. The statement "pay more salary" only scored 2.4375 with a standard deviation of 1.03078, which means that the respondents gave a lot of different opinions on this matter. But looking closer to the results of the respondents it seems that there is a connection between employee care and higher salaries. 11 out of 16 respondents believe that family firms pay higher salaries. Company 10 says that "although you do not need an education for this job, you still get a decent salary. I know my competitors very well and I know that our salary is higher."
There also is a connection between personnel care and giving trust. 14 out of 16 respondents believe that family firms give more trust to their clients and employees then non-family firms do. Company 11 mentions that they "…give a big responsibility to their employees right from the start. Our personnel works with equipment which is worth millions and the employees love the responsibility that they get from us." In table 7.3 the quotes on employee care have been summarized

Subject: Employee care	
Company	Quote
1	There was no big difference between our company and other companies
2	The owner certainly had employee care, probably because the company almost had to file bankruptcy. You have a certain responsibility to your employees.
7	I know everybody personally and I often chat with the employees on the workfloor. When employees are sick we sent them a card and when there's a jubilee we organize a big party.
7	The future of the employees are very important for me during the transfer
8	Good employees are like good tools, you need it to keep the company up and running.
8	I am very concerned with the personnel, I believe it is also very important for the future
9	Employee care, that is within our core values
10	I believe that we have great employee care, the work is simple and there is no education necessary. But the salary is better then somewhere else.
10	During negotiations I would definitely have some demands regarding my employees.
11	You also give a lot of trust to your employees; we sent them away on a job with 1 million euro costing equipment without having degree's. We give that kind of responsibility to our employees, and our employees like that about us.
12	No, I will not do that to my employees. When I do that the company will be nothing (after the decision of not selling the company to a large American organization)
14	The connection with the employees is not what it used to be, in the past we had regulars. Now all the employees are temporarily
15	We do a lot for our employees, we have 3 employee-parties a year
16	It is important to protect the interests of the employees

Table 7.3: Quotes on employee care

Better financial management

On the subject of financial management the respondents gave homogeneous results. These results are in line with the literature study. 11 out of 16 respondents said that financial management within family firms is better then non-family firms. In contrast, the remaining 5 respondents thought the opposite. Company 14 mentions that "because you want to do well you are constantly in the books looking into your finances". The difference in opinion between the respondent can be noticed in table 7.1. The statement "better financial management "scored 1.8750 with a standard deviation of 1.31022. Especially the standard deviation is high because of the difference in opinion. Most respondents believe that financial management within family firms is better because of the personal commitment to the company that a family member has to its family firm. It is not known why the other five respondents thought the opposite; further elaboration on this matter has not been given. In table 7.4 the quotes on financial management have been summarized.

Subject: Better financial management	
Company	Quote
1	Financially, we did a great job
2	Unfortunately the company we took over had a lot of debt
7	I believe that Financial management is better at a family firm then a non-family firm. As a owner you want to make sure that your finances are perfectly taken care off.
8	As a family firm business owner you are constantly looking into your finances. So our finances are perfect.
9	Every dime has to be invested in a good way
10	Financial management is ok within our company, my son has a master's diploma in accountancy
12	Financial management is a day to day thing. I know for sure that we don't have any problems with that
14	You have bigger control of your finances because you look at it every day
15	Me and my brother both have an accountancy-degree, so our financial management is good

Table 7.4: Quotes on Financial management

Stress and emotions

Stress and emotions play an important role in day-to-day business according to most respondents. This can also be proven by the statistics of table 7.1. Emotions and stress seem to play a greater role when more direct family members are working in the family firm. When talking about stress and emotions a clear distinction can be made between the sort of family firm. 14 out of 16 respondents can be considered as a family firm. These can be divided into 2 groups:

1) 5 of the 14 respondents are considered to be a "traditional" family firm with many family members working in the firm (narrow definition).
2) 9 of the 14 respondents are family firms who can be considered as less traditional family firms, because there are far less family members working in the family firm. In these cases most of the time only the wife or brother/sister works in the family firm (moderate definition).

However, the most commonly used definition on family firms does not make a distinction between these different sorts of family firms. The definition of the family firm was discussed in paragraph 2.1. According to the concentric circles of Shankar &

Astrachan (figure 2.1) three different definitions can be used, namely a broad definition (±83% of all companies is a family firm), a moderate definition which is used for this research (± 55% is a family firm), and a narrow definition (±22% is a family firm).
It is not a big surprise that the "traditional" family firms have to cope more with emotions and stress then the family firms which fall into the middle definition. 3 out of 5 respondents which fall into the narrow definition of a family firm mention that the family firm is the main topic of discussion at home and that emotions can rise high between family members (higher then between employees that are not related). Family firms which fall into the moderate definition do not mention these aspects as often. Non-family firms also have to cope with stress and/or emotions, but not in the same agree as a family firm has to cope with that kind of stress and/or emotions. In table 7.5 the quotes on emotions and stress have been divided between the 2 definitions and summarized.

Subject: Emotions and stress	
Company	Quote
Traditional family firms (narrow definition)	
1	We had more stress and emotions because of the family ties, meetings were often very tense.
2	It is clear that we had to cope with more stress and emotions
3	There's that certain connection with your company, and with the employees which helped building up the company
10	More stress and emotions are definitely the case here, That is one of the downsides of having so much family in one business. Emotions tensions can rise high
11	Emotions within the family always play a role. When we are at home we are always talking about the firm
Family firms (moderate definition)	
5	I believe that a good entrepreneur always has emotional feelings with his company
8	We didn't had any stress or emotions within the family
9	I noticed that there was more stress in a family firm then within a non-family firm
12	I don't have any negative experiences with emotions within the family, all goes well
13	You can notice that there is more stress within a family firm. It is a feeling that you have, and you always take it with you.
14	I am glad that I cannot sell it to my family or kids, because then there would be much more emotions then otherwise.

Table 7.5: Quotes on emotions and stress

7.2. Emotional aspects

The second sub question that needs to be answered is:

Q3.2: Does emotional value play a role in the valuation of a family firm?

The most important emotional aspects for a family firm have been determined in the literature study. The list of important emotional aspects was input for the interviews with the stakeholders. By means of a 5-point Likert-index (1 = agree, 5 = disagree) the respondents could make clear which emotional aspects they experience(d) when their family firm would be sold. The importance of this question is to understand which emotional aspects play the biggest role during family firm business transfer and to understand what their implications are on a business transfer. The respondents were also asked to elaborate as much as possible to increase the amount of information.

The question was phrased as: Which emotional aspects would you encounter when your family firm was sold?

1) I agree
2) I partly agree
3) I agree/disagree
4) I partly disagree
5) I disagree

Or: Non applicable

One-Sample Statistics

	Mean	Std. Deviation	N
Pride	1.0667	.25820	15
Firm_well_transferred	1.2143	.42582	14
Basis_for_retirement	2.7333	1.53375	15
Staying_connected_ to_firm	2.7500	1.52753	16
Family_had_mixed_ feelings_with_ selling_firm	3.0625	1.52616	16
Lots_of_family_ working_for_company	3.2143	1.42389	14

Table 7.6: SPSS results on emotional aspects

Above standing table is made by using a one sample T-test with SPSS. The test calculates the mean, standard deviation and the number of respondents. If the mean is low, then most respondents agreed with the statement. When the standard deviation is high, there are large differences between the respondents opinions about the specific statement. The “N” stands for the number of respondents. It is possible that the number of respondents is different for each statement. This is because the respondents also had the opportunity to fill in “Non applicable” as an answer. It is difficult to determine which statements are significant and which statements are not, because standard deviations tend to be quite high. The results are put in order by lowest mean to highest mean.

Pride and good transfer

According to the statistics of table 7.6 pride and a transfer of the firm when it is sold are very important for the respondents. The statements “pride” and “firm well transferred” scored respectively 1.0667 and 1.2143 with standard deviations of .2582 and .42582. These aspects are also very important according to the literature study.

All respondents are proud of the firm that they have build up, but often find it difficult to actually sell their firm to a third party. A good transfer is also very important for all of the respondents. The respondents want to ensure that the family firm has good chances of survival after the transfer. Several other aspects can be combined with the willingness to ensure a good future of the sold family firm. These aspects will be discussed in paragraph 7.6.

Basis for retirement

The statistics in table 7.6 on the question if selling the family firm is a basis for retirement are not surprising. The statement “basis for retirement” has a mean of 2.7333 and a standard deviation of 1.53375. It seems that there is a wide spread in answers, which is true when a closer look is taken on the results. 6 respondents do not think at all that selling the family firm will be the basis for their retirement. On the other hand there are also 6 respondents who do think that selling the family firm will be the basis for their retirement. There were 3 respondents who did not agreed/disagreed with the question. However, when taking a detailed look at the elaboration that the respondents gave, respondents that said that it was not a basis for retirement said that they “already have enough money in the bank” or that the “the pension fund is totally filled up”. Respondents that said it was important also took a look at the past and said “off course it is important for my retirement, I have worked here all my life”. So for those who consider it important had too low pension savings, taking higher risks to wait until the firm is sold. But those firms often made high profits and often do not need to worry about there retirement.
Concluding, this means that the profits that the family firm made in the past are also seen as a basis for the retirement. And that therefore retirement should be seen as a very important emotional aspect when the family firm is sold. When the family firm was not very profitable and retirement is still an aspect that should be taken care off, there is a stronger need for a high selling price. When the family firm was very profitable in the past and retirement is already taken care off, there is not such a need for a high selling price. In table 7.7 the quotes on retirement have been summarized.

Subject: Basis for retirement	
Company	Quote
1	For me and for other family members it was definitely a basis for retirement. We still life in relative wealth. It was definitely something which was important during negotiations
4	The sale was not a basis for my retirement, the pension fund is totally filled up
7	A sale will not be a basis for retirement, that’s all been taken care off. It would be something extra.
8	A sale will not be a basis for retirement, that’s all been taken care off. It would be something extra for later.
12	It is definitely a basis for retirement. Now I can arrange it myself. Not only the amount but also when I want to retire.
14	Selling price is definitely important because it also incorporates some sort of retirement
16	The owner always has been very economical, so it is definitely not a basis for retirement.

Table 7.7: Quotes on retirement

7.3. Psychological aspects

The third sub question that needs to be answered is:

Q3.3: Do psychological aspects play a role in the valuation of a family firm?

The most important psychological aspects for a family firm have been determined in the literature study. The list of important psychological aspects was input for the interviews with the stakeholders. By means of a 5-point Likert-index (1 = agree, 5 = disagree) the respondents could make clear which psychological aspects they experience(d) with their family firm. The importance of this question is to understand which psychological aspects play the biggest role during family firm business transfer and to understand what their implications are on a business transfer. The respondents were also asked to elaborate as much as possible to increase the amount of information.

The question was phrased as: Which psychological aspects would you encounter when your family firm was sold?

1) I agree
2) I partly agree
3) I agree/disagree
4) I partly disagree
5) I disagree

Or: Non applicable

One-Sample Statistics

	Mean	Std. Deviation	N
Firm_important_for_income	1.2500	.44721	16
Good_transfer_of_firm	1.2500	.62158	12
Committed_to_employees	1.3750	.61914	16
Firm_most_important_in_life	2.3125	.94648	16
Firm_important_for_community	2.6667	1.17514	15
Firm_may_not_change_location	2.7333	1.27988	15
Difficult_to_cope_with_change	2.8667	.99043	15
I_want_to_stay_connected_with_firm	3.0000	1.54919	16
Firm_is_from_whole_family	3.1250	1.45488	16
Firm_may_not_change_name	3.1250	1.58640	16
Sales_went_down	3.3846	1.32530	13
Profit_went_down	3.4615	1.33012	13
Personnel_disappeared	3.5000	1.16024	14

Table 7.8: SPSS results on psychological aspects

Table 7.8 is made by using a one sample T-test with SPSS. The test calculates the mean, standard deviation and the number of respondents. If the mean is low, then most respondents agreed with the statement. When the standard deviation is high, there are large differences between the respondents opinions about the specific statement. The "N" stands for the number of respondents. It is possible that the number of respondents is different for each statement. This is because the respondents also had the opportunity to fill in "Non applicable" as an answer. It is difficult to determine which statements are significant and which statements are not, because standard deviations tend to be quite high. The results are put in order by lowest mean to highest mean.

Commitment to employees vs. Firm may not change location

As can be seen in table 7.8 one of the most important psychological aspects that play a role in family firm business transfer is the commitment to employees. The statement "committed to employees" has a mean of 1.3750 and a standard deviation of .62158. This means that most respondents agreed with the statements and that the variation within the answers were low. 15 out of 16 respondents agreed that they had a commitment to their employees. Company 3 gives a good example on how committed he is to his employees; "we have a secretary who has worked for our company for several years. In 3 years she can retire from work, you don't want her to quit her job because I am selling the company. That would cause her great trouble with her retirement. As a owner you have to make sure that the employees also stay satisfied so that their future is safe." As made clear by company 3 it is important to sell the company to a investor who can be trusted. Because all respondents are certain that they will do their best during the family firm business transfer most (11 out of 14) respondents don't think that employees will leave the company. Most respondents believe that not much will change after the transfer and that employees therefore will stay at the company. It should be noted that this statement is sensitive for social wishful answering, and that this has not been tested with control questions.

Another aspect which can be coupled with commitment to employees is the place of business. 6 out of 15 respondents didn't want their place of business to change after a business transfer. Company 3 says that "If I am going to sell my company I want it to stay in the same place for at least another 5 years, I want to make sure that my sons and other employees are still able to work for the company I just sold." 2 out of 6 respondents who didn't want to change the place of business had a financial reason. Company 4 says that "the building is also mine, and if the company stays in the same place for 3 years, I have 3 years of extra income".

Concluding, the well-being of family members and employees is very important when a family firm is transferred. Therefore most respondents believe that employees will not leave the company after a transfer. Changing the place of business is often prohibited by contract for the sake of family members and employees. In table 7.6 the quotes on commitment to employees and the place of business are summarized.

Subject: commitment to employees and commitment to place of business	
Company	Quote
3	"we have a secretary who has worked for our company for several years. In 3 years she can retire from work, you don't want her to quit her job because I am selling the company. That would cause her great trouble with het retirement. As a owner you have to make sure that the employees also stay satisfied so that their future is safe."

3	“If I am going to sell my company I want it to stay in the same place for at least another 5 years, I want to make sure that my sons and other employees are still able to work for the company I just sold.”
6	Place of business is really important because the business is located in his office building, we have to stay there for another 5 years.
7	The place of business really is important for me, the company has had its basis in Lelystad for more then 45 years
8	I’ve got no connection with the firm name and location. I just think that the new owner is stupid if he changes that
10	I am not really connected with the place of business. I just would want it to stay in Den Bosch
13	Location is not important for us, we work throughout the Netherlands

Table 7.9: Quotes on commitment to employees and place of business

Impact of transfer on business results

According to the literature study family firm business transfer has a large impact on business results like profit and turnover and has an impact on the employees. The respondents of this research gives results which are conflicting with that statement. 10 out of 13 respondents believe that a family firm business transfer does not have any impact on turnover and profit. When looking at interview group A (companies with family firm business transfer experience) the results are even more convincing. All 5 respondents did not agree with the statement that a transfer has impact on business results like profit and turnover. Company 3 has witnessed 2 transfers, and says the following: “With the first company that we took over there were big changes in business results, but that had nothing to do with the business transfer. Right after I signed the contract the economy collapsed and profits and turnover went down quickly. The second company was losing money and after we bought it, it became a profitable company.”

Concluding it can be said that, according to the results of the respondents the impact of a business transfer on business results like profit and turnover are perceived to be low. 10 out of 13 respondents believe that a family firm business transfer does not have any impact on turnover and profit. However, it should be noted that for group A it is a social wishful answer to say that nothing has changed after the takeover. Still, the results are surprising because it was expected that respondents in group B would state that financial results would change after takeover. It seems that most respondents in group B do not think that they are above average performing entrepreneurs, otherwise they would have said that there are larger differences between financial results before and after the transfer. In table 7.7 the quotes on impact of transfer on business results are summarized.

Subject: Impact of transfer on business results	
Company	Quote
1	After the takeover more employees have left then normal… … but that happens during a business transfer. Business results haven’t changed, our results run parallel with the economy.
2	Nothing has changed after the transfer
3	With the first company that we took over there were big changes in business results, but that had nothing to do with the business transfer. Right after I signed the contract the economy collapsed and profits and turnover went down quickly. The second company was losing money and after we bought it, it became a profitable company.

4	No employees left after the transfer, the profit and turnover have risen after the transfer
5	Not much has changed after the takeover, actually things have improved because the occupation degree has risen
12	What happens after the transfer is very difficult to say, it all depends on the qualities of the new owner
15	I believe that profit and turnover will go down after a business transfer. But we are real entrepreneurs and always have ideas which have influence on the profit and turnover. It would be difficult to match that.

Table 7.10: Quotes on impact on business results

7.4 Emotional Value

The fourth sub question that needs to be answered is:

Q3.4: *What do the stakeholders think about including emotional value within business valuation?*

The goal of this sub-question is to get to know the general opinion of stakeholders of the role of emotional value within business valuation. It also investigates if there is a need for a concept like emotional value within business valuation. Because the (dis-)advantages of a family firm over non-family firm, and the most important emotional and most important psychological aspects were discussed in the beginning of the interview the respondents had formed an own opinion on the matter of emotional value. The respondents were also asked to elaborate as much as possible to increase the amount of information.

16 out of 16 respondents believe that emotions and psychological aspects play a role during family firm business transfer. Company 6 mentions that "for 90 out of 100 cases emotional aspects play a dominant role in business transfer". So it is safe to say that emotions are important during family firm business transfer. However, 15 out of 16 respondents say that emotional value should not be part of business valuation. There were no apparent differences between interview group A and interview group B. The respondents gave the following arguments:

1. 9 out of 15 respondents say that "the accountant's rapport should be the basis of the negotiations on transfer price."
2. 5 out of 15 respondents say that "emotions should not have influence on business valuation."
3. 4 out of 15 respondents say that emotions "can not be quantified."
4. 3 out of 15 respondents say that "other secondary aspects are more important" like the future of the employees.
5. 2 out of 15 respondents say that "emotions cannot be sold."
6. 2 out of 15 respondents say that "emotions are too soft."
7. 2 out of 15 respondents believe that "emotional value is something to deal with within goodwill", but don't know how.

An overview on the quotes given by the respondents is given in table 7.11.

Subject: impact emotional value on business valuation	
Company	Quote
1	Emotions can not be quantified. You should do a business valuation with help of an external accountant to get an honest review on your business. The possible new owner will do the same. Demanding a higher price isn't going to work.
2	I believe that an accountant gives a bit of margin to play with stuff like emotional value.
3	I believe it is very important during negotiations…
4	I believe emotions are not important in comparison with other aspects… …It is hard to quantify emotions… … Emotions are present during business transfer, but cannot be quantified in money
5	When you pay more then the estimation you are a thief of your own wallet
6	You can question the use of emotional value
7	Isn't that emotion part of goodwill?
8	On the moment you sell your company, the emotional value will also be gone
9	I believe it is useful. But the value of the accountant should always be the target value. Within the margin it is possible that emotions can play a role.
10	I would always hire an accountant to do a business valuation
11	Emotions cannot be sold, it is cut out during a business transfer. I also find it to be imaginary
12	Difficult aspects, those emotions. It is all very soft. I don't believe that we should give emotions any influence on a business transfer
14	It's all about the figures
15	Emotions play a role, but only within the margin of the accountant. We shouldn't make an extra valuation on emotions.

Table 7.11: Quotes on impact emotional value on business valuation

7.5 Situational Aspects

Another aspect that was found to be important in family firm business transfer were situational aspects. Situational aspects can be typified as aspects which are important during negotiations although they were not of primary concern in the beginning. Often these aspects are not primarily connected with day-to-day business. 3 out of 6 respondents with experience with family firm business transfer stated that situational aspects played a role during negotiations.

Company 2 bought a company from friends because their friends were in debt. The business was operating in the same industry as Company 2 did. The company was not valuated very high because of the debts, Company 2 decided to pay more then valuated because of the fact that the owners were friends.

Company 5 bought a company in another part of the Netherlands. During negotiations it became clear that the owner was willing to stay and run the company. Company 5 was very pleased and decided to pay more then valuated because of the fact that the old owner wanted to stay at the company.

Company 6 is attempting to buy a company which earns most of its profits in the months June – November, the period of December – May is low-season. The owner of *the company wants to transfer the firm at 1st January. Company 6 wants to transfer the firm at 1st October, because the company can earn some money and can use the October month to prepare himself for the new high-season that starts in June 2009. Company 6 is willing to pay some extra money so the company can be transferred at 1st October. This is an example of a situational aspect that seems of no importance in the beginning, but suddenly becomes important during negotiations.*

As can be seen in previous examples, the impact of situational aspects can be high. The impact of the situational aspects may have a positive or a negative outcome on the transfer price. During the interviews with family firms it became apparent that also the interview group without any business transfer experience (interview group A) are sensitive for situational aspects. For instance company 9, which states that "I can imagine that a new owner wants to pay less for my company because I have certain demands about the transfer." Company 13 states that "there should be a sort of chemistry between me and the new owner, when there is no chemistry between us the deal is off". Company 11 says that he would be satisfied to sell his company for less when "he can stay connected to his family firm for the following five years."

7.6. Decisive aspects

The fifth sub question that needs to be answered is:

Q3.5: Which aspects are decisive in paying an emotional value or not?

This sub question was designed to create a final conclusion of the empirical study. It combines the three previous sub questions into a more general conclusion. Because the (dis-)advantages of a family firm over non-family firm, and the most important emotional and most important psychological aspects were discussed in the beginning of the interview the respondents had formed an own opinion on the matter of the influence of emotional and psychological aspects during family firm business transfer. These opinions in combination with the previous answers in the interviews are the basis for the final conclusion which will be given in chapter 8.

In the previous paragraphs the most important findings of each sub-question was presented. In this paragraph the following question that needs to be answered is: *Which aspects are decisive in paying an emotional value or not?*
The answers that were presented in the previous paragraphs can be divided into 3 main topics. namely:

1. Continuity: For most respondents continuity of the firm is the most important aspect during family firm business transfer. When the owner is not sure that the new owner can ensure continuity, the transfer will often be canceled. The most important aspects that have influence on continuity are the community, the employees and the pride of the old owner.
2. Chemistry: The chemistry between the old owner and the new owner is very important. Many respondents state that there should be a 'click' between the old owner and the new owner. When there is a 'click' between the new and the old owner further negotiations can be done.
3. Financial results: Another important aspect in paying an emotional value are the financial results of the past. First of all the report of the accountant is the most important aspect during the first negotiations, it is seen as a basis for determining

the final selling price. Another important financial aspect is the retirement. When the company did well in the past and retirement has been taken care off, there's no real need for a high selling price. But when the results were not that good in the past and the pension funds are low, a higher selling price becomes more important.

These 3 topics will be discussed in the following paragraphs.

7.6.1. Continuity

When the respondents were asked about the most important aspect of family firm business transfer, the most important aspect was the continuity of the firm after the transfer. A remarkable answer because it is totally ignored by current literature. Therefore, it was not mentioned by the interviewer during the interviews. Still, 11 out of 16 respondents mentioned continuity as being the most important aspect of a business transfer. 10 out of 16 respondents even mention that they are satisfied with a lower selling price when continuity is secured. In table 7.12 all quotes on the importance of continuity have been summarized.

Subject: Continuity	
Company	Quote
4	If I should choose now en get 25% less, but with the security of a good running company fort the next 10 years. I would definitely want it to run well for 10 years.
5	When continuity is ensured, I can imagine to devaluate my company a bit.
6	I think that for a selling company it is much more important to know if the company is in good hands… …You don't want someone to flus hit down the toilet.
8	If you really have emotional value with your company, you will choose the perfect candidate who might has a bit less money. Not the person with a big bowl of money.
9	I am willing to ask less for my company when there's a candidate who I trust with the continuity of the company
10	I'd rather have that employees and the company have a good future and settle for less, then sell it for the maximum price and less assurance for the future
11	Money is never the most important during a family firm business transfer. Your employees and the continuity of the business are most important.
12	I believe that the continuity of the firm if much more important then the highest offer. If I had the choice between the highest offer with less assurance or 20% less but full assurance, I would definitely choose the 2nd option
13	A 'click' with the new owner, would have influence on the selling price. I would be satisfied with a lower price.
14	A trustworthy new owner is worth more then a not so trustworthy new owner. I would lower the selling price when the new owner is trustworthy.

Table 7.12: Quotes on importance of continuity.

The importance of continuity can also be seen in other aspects, like for instance employee care, pride and the community.

Employee care

As stated in paragraph 7.2 and 7.3 employee care is very important for family firms. Employee care is a combination of salary, secondary conditions of employment and the general atmosphere at work. 11 out of 16 respondents believe that family firms pay higher salaries and 13 out of 16 respondents believe that family firms have greater employee care then non-family firms. This also has its implications on family firm business transfer. Most owners demand extra stipulations during negotiations about the employees. These stipulations are about that employees may not be fired in the follwing year(s), the place of business should stay the same for the following year(s) and there might also be stipulations on employees in person. For instance company 3, which said that "we have a secretary who has worked for our company for several years. In 3 years she can retire from work, you don't want her to quit her job because I am selling the company. That would cause her great trouble with het retirement. As a owner you have to make sure that the employees also stay satisfied so that their future is safe."

Community

Company 6 mentions that "if the old owner wanted to win the jackpot he should have sold it to a competitor, but he didn't. He sold it to two guys of which he knew that they could make his company grow. He didn't wanted to be seen as a big exploiter within the little village that he lives in". The importance of the community is often underrated, it often has an impact on the family firm business transfer. It is often important for the owner of the family firm to ensure a good future of the company because there is pressure from the community. Company 12 has a big community-project with unemployed persons and has a production facility in Bulgaria where the company helps the local community. The community can play a significant role in the choice of new ownership. The owner will choose the candidate with the best characteristics for the community and continuity for the company.

Pride

Every respondent is proud of the company that they have build up in the past. The pride that every respondent has can be seen as a basis for ensuring a good business transfer and continuity of the firm in the future. Company 6 says that "one thing you don't want is that the new owner flushes everything you have build up in the past down the toilet." Owners of family firms do not talk about it in many words, because there is not much explanation given on pride. But it is the most important emotional aspect considering the statistics of figure 7.2.

Concluding, it is likely that aspects like pride, employee care and having a strong connection with the community have a strong influence on the stipulations that are made during family firm business transfer. The family firm owner cares about the employees, community and feels proud about his company. Because of those emotions the family firm owner wants to make sure that the future of these 3 aspects are ensured. These aspects also have influence on the final transfer price. The owner is often willing to lower the transfer price when continuity is ensured.

7.6.2 Chemistry

The 2nd aspect which is of great importance during family firm business transfer is the chemistry between the owner of the family firm and the new owner. This aspect is not mentioned in the literature study but was mentioned several times during the interviews. 8 out of 16 respondents mention that there should be some sort of chemistry between the owner and the new owner. Company 6 states that “money was not the most important during the business transfer, as a owner you want to ensure the future of your company by choosing a new owner who has that certain ‘click’.” Company 7 says that “ if you really have an emotional feeling with your company you will choose the perfect candidate for the job, not the candidate with the biggest bag of money”. Company 8 mentions that “I am willing to lower the price when there’s a candidate that can ensure the continuity of the firm and that I can fully trust.” And company 13 states that “there should be a sort of chemistry between me and the new owner, when there is no chemistry between us the deal is off.”

Concluding, chemistry between the owner of the family firm and the owner is important during family firm business transfer. The presence of a ‘click’ between the two entrepreneurs also has an influence on the price. Several respondents mentioned that the price could be lowered when the perfect candidate arrives. Having a lack of chemistry may also have very negative results, as company 13 says “when there is no chemistry, the deal is off!” Chemistry can therefore be very important during family firm business transfer.

7.6.3 Financial results

The impact of financial results on the final transfer price is of course high. It forms the basis of the negotiations according to the respondents, 9 out of 15 respondents say that “the accountant’s rapport should be the basis of the negotiations on transfer price.” There were no respondents who thought that an valuation report of an accountant was not important. 7 out of 16 respondents think that emotional value can play a role in the valuation techniques, but only within the margins that the accountant offers. There is no real support from the respondents to standardize emotional value within business valuation. “There are so many other more important aspects” that play a role within business valuation, according to company 3.

A change in ownership does not have much influence on business results, 10 out of 13 respondents believe that a family firm business transfer does not have any impact on turnover and profit. When looking at interview group A (companies with family firm business transfer experience) the results are even more convincing. All 5 respondents did not agree with the statement that a transfer has impact on business results like profit and turnover.

Also the impact of retirement is important for the final transfer price. The willingness to change the transfer price is higher when retirement has been taken care off. When retirement has not been taken care off the need for a high transfer price will be higher. The final transfer price will account for a large portion of the retirement.

Concluding, the influence of the accountant’s report, the influence of a change in ownership on business results and the impact of retirement have a big impact in the final transfer price. The accountant’s report forms the basis for negotiating the transfer price, aspects like retirement and the impact on business results also play a role during further negotiations.

7.7 Conclusion

In the previous paragraphs a analysis has been made on the interviews which have been performed with 16 stakeholders. In this paragraph a final conclusion will be given on the analysis of the interviews.

Aspects like pride, employee care and having a strong connection with the community have a strong influence on the stipulations that are made during family firm business transfer. The family firm owner cares about the employees, community and feels proud about his company. Because of those emotions the family firm owner wants to make sure that the future of the employees is ensured, and he does not want to be seen as an exploiter within the community. These aspects and stipulations also have influence on the final transfer price. The owner is often willing to lower the transfer price when continuity is ensured (paragraph 7.6.1)

Another important aspect that has influence on the final transfer price is the chemistry between the owner of the family firm and the new. The presence of a 'click' between the old owner and the new owner has an influence on the price. Several respondents mentioned that the price could be lowered when the perfect candidate arrives. Having a lack of chemistry may also have very negative results, as company 13 says "when there is no chemistry, the deal is off!" Chemistry can therefore be very important during family firm business transfer (paragraph 7.6.2).

The accountant's report forms the basis for negotiating the transfer price; aspects like retirement and the impact on business results also play a role during further negotiations. The influence of a change in ownership on business results and the presence of a good retirement have a big impact in the final transfer price (paragraph 7.6.3).

Concluding, emotional and psychological aspects already play a large role in determining the final transfer price. The respondents believe that emotional and psychological aspects are important during family firm business transfer and that it is small influence on the final transfer price. According to the respondents the accountant's report should always be the basis for the final transfer price. When negotiating on the final transfer price there are many aspects that play a role. The following aspects play a decisive role in determining the final transfer price:

- <u>Continuity of the firm</u>: Because of pride, employee care and a good connection with the community it is very important for the old owner to ensure continuity of the firm.
- <u>Chemistry:</u> There should be a 'click' between the old owner and the new owner, otherwise the deal will probably be cancelled.
- <u>Financial results:</u> The presence of a good retirement and the influence that the new owner will have on future results will have an impact on the final transfer price.

Psychological and emotional aspects play an significant role in the 3 aspects described above. According to the literature study aspects like pride, basis for retirement and a connection with the community are emotional aspects. Employee care and the importance of a 'click' between the old owner and the new owner are psychological aspects. The influence of the accountants report on the final transfer price is a financial aspect.

Chapter 8: Conclusions and Recommendations

This chapter describes the analysis of the results shown in chapter 7. First a summary of the literature study is given. The summary of the literature study coheres with the research questions that were given in paragraph 1.3.4. Following a summary of the research questions considering the analysis will be given in paragraph 8.2 which will answer the central research question in paragraph 8.3. Paragraph 8.4 will discuss the recommendations resulting from the research. Paragraph 8.5 will discuss the limitations of this research. Finally the recommendations for further research are given in paragraph 8.6.

8.1 Conclusions Literature study

Q1.1: What is emotional value and what are the most important aspects of emotional value?

Emotional Value is a term that is fairly new, therefore there has not been much research conducted on this phenomenon. From a financial point-of-view Flören (2005) states that there are big price differences between family business transfers within the family and family business transfers outside the family. CEO’s of a family firm often want to give their children an advantage, and sell the company for a price which is below the financial value, the family firm is often sold for a fiscal value. However, Flören (2005) and Astrachan (2008) also state that when a family firm is transferred outside the family, an emotional value should be paid on top of the financial value. The most important reason for this is that current valuation techniques do not take the emotional aspects into consideration. The most important emotional aspects are:

- *Pride*
- *Retirement*
- *Justice to other family members*
- *Commitment*

Q1.2: What is the M&A process and what are the most important psychological aspects during family firm business transfer?

Several studies have been performed which has given several M&A processes. Each acquisition is different and it is therefore impossible to conduct a basic model which could be generally applied. Because this study focuses on smaller family firms a SME-view (Rock, Rock & Sikora, 1994) on the M&A process is taken. The SME-view has big resemblance with the 4 phases that Van de Kimmenade (2003) during his study on psychological aspects during phases of the acquisition. He defined four phases during takeover, which each has different psychological aspects;

1) Orientation Phase
2) Preliminary Phase
3) Negotiation
4) Post-Selling Phase

According to the study of van de Kimmenade (2003) there are several important psychological aspects that should be taken into account during family firm business transfer. One of the most important aspects are the employees, the CEO has a psychological connection with the employees and is afraid of their future following the takeover. Another important aspect are the change in place of business and changing the name of the company. Most CEO's also have a connection with their family business and are reluctant to changes. According to Van de Kimmenade more emphasis should be given on these psychological aspects during the acquisition process.

Q1.3: What are the most common business valuation techniques and what are its limitations?

Three different techniques are commonly used in business valuation: the income technique, the asset-based technique, and the market technique (Reilly & Schweihs, 2000). An accountant usually uses a combination of all techniques to determine the value of a business.

First, the *income technique* uses several different approaches, including the accounting approach, discounted future cash flows approach (DCF), and the excess earnings method (which is a hybrid of asset and income approaches). Most of the income techniques consider the subject company's historical financial data; only the DCF method requires the subject company to provide projected financial data. There are several different methods of determining the appropriate discount rates. The discount rate is composed of two elements:

1) the risk-free rate, which is the return that an investor would expect from a secure, practically risk-free investment, such as a high quality government bond;
2) a risk premium that compensates an investor for the relative level of risk associated with a particular investment in excess of the risk-free rate.

Important related tools to compose a discount rate are CAPM, WACC and the BuildUp-method.

Second, the basis of the *asset-based technique* is that a business is equal to the sum of its parts. That is the theory underlying the asset-based techniques to business valuation. The asset technique to business valuation is based on the principle of substitution: no rational investor will pay more for the business assets than the cost of procuring assets of similar economic utility. If the company is well-managed and has positive profit prospects, then often extra goodwill is paid. Goodwill consists of personal and business goodwill.

Third, the *market technique* to business valuation is rooted in the economic principle of competition: "that in a free market the supply and demand forces will drive the price of business assets to a certain equilibrium" (Damodaran, 1996). Buyers would not pay more for the business, and the sellers will not accept less, than the price of a comparable business enterprise. The market price of the stocks of publicly traded companies engaged in the same or a similar line of business, whose shares are actively traded in a free and open market, can be a valid indicator of value. For non-public companies like most family firms are, the market approach is difficult to apply because the value of assets is difficult to determine.

Q1.4: What are the limitations of current research according to family firm researchers?

From a family firm point-of-view there is criticism on current valuation techniques, because nonfinancial goals are not taken into consideration. Nonfinancial goals can be split up nonfinancial values and nonfinancial costs. Family firms are presumed to have more nonfinancial values and nonfinancial costs than nonfamily firms. Astrachan (2008) and Flören (2005) state that a new valuation technique should be composed for valuating family firms with nonfinancial goals.

Q1.5: What are the (dis-)advantages of a family firm over a nonfamily firm?

Extensive literature research by various authors has been performed in order to gain perspective on the advantages and disadvantages of family firms, with an emphasis on the advantages of family firms (see table 4.1, page 53).

The advantages have been categorized into four different categories (Habbershon & Williams, 1999):

- <u>Human Capital</u>
- <u>Organizational Capital</u>
- <u>Physical Capital</u>
- <u>Process Capital</u>

Family firms also have several disadvantages, the most important disadvantages of family firms are:

- <u>Obtaining capital</u>
- <u>Emotional issues</u>
- <u>Confusing business model</u>
- <u>Leadership</u>

Concluding it can be said that the valuation technique, goodwill and competitive advantages and disadvantages have an influence on the business value. However, according to several researchers from the family firm there is also a more "softer" side of business value. These emotional and psychological aspects should also be taken into account when transferring a family firm.

8.2 Analysis interview

Q3.1: What are the most important advantages and disadvantages of a family firm that have a role in the valuation of a family firm?

One of the prime advantages of family firms over a nonfamily firm is the employee care and all related aspects that are part of that advantage. 13 out of 16 respondents believe that family firms have more employee care than nonfamily firms. Family firms are presumed to pay higher salaries and are known for giving more trust to their employees. According to 11 out of the 16 respondents family firms have more control on their finances. The respondents believe that a family firm owner is more committed to its firm than a nonfamily firm. One of the downsides of having a family firm is having more emotions and stress. It seems to become more problematic when the family firm has more family members inside the firm and is more "traditional" (paragraph 6.1). Most of the respondents also said that flexibility, making quick decisions, being creative and being more productive can be considered as advantages of having a family firm. Finally, the respondents mention that it is an advantage of being a SME instead of a large company.

Q3.2: Do emotional aspects play a role in the valuation of a family firm?

Emotional aspects play a role in the valuation of a family firm. One of the most important emotional aspects is pride. The family firm owner has built up the company over a long period and is proud because of that. Therefore it is very important for the family firm owner to ensure a good transfer and a new owner who is well-equipped for handling a business. The aspect "basis for retirement" is also a important aspect. When the family firm was not very profitable and retirement is still an aspect that should be taken care off, there is a stronger need for a high selling price. When the family firm was very profitable in the past and retirement is already taken care off, there is not such a need for a high selling price

Q3.3: Do psychological aspects play a role in the valuation of a family firm?

An important psychological aspect is the commitment to employees, which has large influence during family firm business transfer. Family firm owners seem to be more connected to the place of business than the family name. There is a connection between the place of business and the commitment to employees, most respondents believe that it is important that the employees have a good prospects at the company and therefore do not want it to change location. 10 out of 13 respondents do not think that a family firm business transfer has influence on the turnover and profit, which is in contrast with a lot of studies which have been performed in the study-field of M&A.

Q3.4: What do the stakeholders think about including emotional value within business valuation?

All respondents believe that emotional and psychological aspects have an influence on the business valuation. In contrast, 15 out of 16 respondents believe that emotional and psychological aspects should not be a separate part within business valuation. Most respondents believe that emotional and psychological aspects can have a role within the margin that every accountant gives when a business is valuated. But most respondents also mention that other more practical aspects like transfer date also have influence within that margin. This means that the accountants' margin is influenced by many aspects, emotional and psychological aspects included.

Q3.5: Which aspects are decisive in paying for emotional and psychological aspects or not?

Aspects like pride, employee care and having a strong connection with the community have a strong influence on the stipulations that are made during family firm business transfer. The family firm owner cares about the employees, community and feels proud about his company. Because of those emotions the family firm owner wants to make sure that the future of the employees is ensured, and he does not want to be seen as an exploiter within the community. These aspects and stipulations are decisive in a successful deal. The owner is often willing to lower the transfer price when continuity is ensured (paragraph 7.6.1)

Another important aspect that has influence on the final transfer price is the chemistry between the owner of the family firm and the new owner. The presence of a 'click' between the old owner and the new owner has an influence on the price. Several respondents mentioned that the price could be lowered when the perfect candidate arrives. Having a lack of chemistry may also have very negative results, as company 13 says “when there is no chemistry, the deal is off!” Chemistry can therefore be very important during family firm business transfer (paragraph 7.6.2).

The accountant’s report forms the basis for negotiating the transfer price; aspects like retirement and the impact of the business transfer on business results also play a role during further negotiations. The influence of a change in ownership on business results and the presence of a good retirement have a big impact in the final transfer price (paragraph 7.6.3).

8.3 Central research question

In this paragraph an answer will be given on the following central research question. The final conclusion will include the most important topics of the literature study and the results from the interview analysis.

Does emotional and psychological aspects play a role in family firm business valuation and what aspects play a decisive role in paying an emotional value?

The central research question can be divided into two separate parts. The first part is:

Does emotional and psychological aspects play a role in family firm business valuation?
The answer on this question is yes. According to the literature study and the respondents emotional and psychological aspects play a role in business valuation. But, the practical point-of-view is different from the theoretical point-of-view.

From a theoretical point-of-view researchers like Flören (2005) and Astrachan (2008) believe that emotional and psychological aspects does have a larger influence on the final transfer price. Several arguments are given for introducing the aspect of emotional value within business valuation. These aspects include that current valuation techniques are lacking in economic rough times, nonfinancial aspects are ignored and many more (paragraph 3.3.1 and 3.3.2). Although the criticism on current valuation techniques seem to be right, they fail to show how emotional returns and costs can be added, how financial value and emotional value can be added, and how the two might effect each other. They also fail to mention that accountants never solely use one valuation technique when valuating a business. Accountants use several techniques to arrive at a recommended price and give a margin which is negotiable. The critics on current valuation techniques also fail to investigate the needs from a business perspective, is there a need from the family firm perspective and what do nonfamily firms about emotional value?

From a practical point-of-view emotional and psychological aspects only has influence within the margin that the accountant gives in his report on the valuation of the family firm. The margin of the accountant is often not that large, which implies that emotional and psychological aspects also do not have a very large influence on the final transfer price. Also situational aspects can play a role within the margin of the accountant, like an earlier transfer date or the amount of time that the old owner stays connected to the firm. These aspects are called situational aspects. According to the respondents these situational aspects might even dominate the final transfer price than emotional and psychological aspects do.

Also the practical implementation of emotional and psychological aspects seems to be different between the theoretical and the practical point-of-view.
According to the literature study, the researchers believe that emotional aspects have a positive value and believe that it leads to a higher transfer price. They believe that family firms are valuated lower than nonfamily firms and that emotional and psychological aspects add value to the firm. They insinuate that the final transfer price is the most important aspect during the family firm business transfer.
In contrast, the respondents (14 out of 16 respondents are family firms themselves) believe that emotional and psychological aspects have a negative influence on the final transfer price. The family firm owner is concerned about a lot of other aspects besides the final transfer price. They are concerned with aspects like the future of the company, the future of their employees and the impact of the transfer on the family. The final transfer price is also important, but in general this is not the most important aspect.

The second part of the central research question is:

What aspects play a decisive role in paying an emotional value?

The decisive aspects can be divided into 3 main topics. namely:

1. <u>Continuity:</u> For most respondents continuity of the firm is the most important aspect during family firm business transfer. When the owner is not sure that the new owner can ensure continuity, the transfer will often be canceled. The employees are important for the old owner, and he wants to ensure a good future for his employees. He also does not want to be seen as a big exploiter within the community. The last important aspect is the pride that the old owner has because he has built up the company for a long period

2. <u>Chemistry:</u> The second important aspect is the chemistry between the old owner and the new owner. Many respondents state that there should be a ‘click’ between the old owner and the new owner. When there is a ‘click’ between the new and the old owner further negotiations can be done. This is not a family firm specific aspect, but also happens with large publicly listed companies

3. <u>Financial results:</u> Another important aspect in paying an emotional value are the financial results of the past. First of all the report of the accountant is the most important aspect during the first negotiations, it is seen as a basis for determining the final selling price. Another important financial aspect is the retirement. When the company did well in the past and retirement has been taken care off, there’s no real need for a high selling price. But when the results were not that good in the past and the pension funds are low, a higher selling price becomes more important.

Concluding, the influence of the accountant’s report, the influence of a change in ownership on business results and the impact of retirement have a big impact in the final transfer price. The accountant’s report forms the basis for negotiating the transfer price, other aspects like retirement and the impact on business results also play an important role during further negotiations. All these aspects can be decisive in making the business transfer a success or a failure.

8.4 Recommendations

For family firm buyers it is important to reckon with emotional and psychological aspects like the connection with the employees, the pride of the old owner, the importance of continuity. Several accountants should be used to get a good perspective on the value of the family firm. The accountants report should be the basis for the negotiations. Also the ‘click’ with the old owner is very important. When the nonfamily firm reckons with those aspects they have a good chance in taking over the company. A family firm buyer should try to understand that family firms have a emotional and psychological connection with their company, and that family firms often find it hard to sell their family firm. When family firm buyers reckon with those aspects, the family firm buyer has a better chance in having a successful business transfer.

8.5 Limitations

Although the empirical study did satisfy the validity and reliability limits, the research also has the following limitations:

- The sample size is small for a non sector specific research;
- The respondents were obtained with help of an accountant. Most respondents are (former) clients of the accountant. This means that the dataset could be biased;
- The research is vulnerable for social wishful answering. The answers have not been tested by means of control questions;
- Only 2 out of 16 respondents had experience with actually selling a family firm;
- The data-set consisted of 14 family firms and only 2 nonfamily firms. A data set with more nonfamily firms would be more valid.

8.6 Further research

In this research the researcher has tried to make clear if emotional and psychological aspects indeed play a role during family firm business transfer and tried to determine the most important aspects that have influence on that matter. This research is far from complete. Therefore, several recommendations can be made for further research:

- A best practice scenario should be researched. During this study it was not possible to investigate a scenario with family firms which have sold their company;
- Further research should be done in approaches to quantify the value of emotional and psychological aspects;
- More financial research by means of case studies can be performed to quantify the amount of emotional value during specific transfers;

- Further research should be done for specific sectors. During this research several sectors have been researched, because there were not enough respondents from one specific sector;
- More detailed research should be done on the perception on emotional and psychological aspects during family firm business transfer;
- During this research only SMEs have been interviewed. It would be possible to do the same research also for large companies and for publicly listed companies.
- This study described the emotional and psychological aspects from a family firm point-of-view. It is advisable to investigate the emotional and psychological aspects from nonfamily firm point-of-view.

References

Abdel-Maksoud, A., Dugdale, D., & Luther, R. (2005). *Non-financial performance measures in manufacturing companies*. British Accounting Review, *37*, 261–297.

Ackoff, R. L. *(1994b). Systems thinking and thinking systems.* Systems Dynamics Review, 10*(2–3), 175–188.*

Adams, J. S., Taschian, A., & Shore, T. H. (1996). *Ethics in family and nonfamily owned firms: An exploratory study*. Family Business Review, *9*(2), 157–170.

Amit, R. Shoemaker, P.J.H. (1993), *Strategic assets and organizational rent.* Strategic Management Journal; 14, (1), pp.33-46.

Anderson, P.L., (2005). *Business Economics and Finance*. Chapman & Hall/CRC.

Anderson, R.C., & Reeb, D.M., (2003). *Founding-family ownership and firm performance: Evidence from the S&P 500*. Journal of Finance, *58*(3), 1301–1327.

Aronoff, C. E., Astrachan, J. H., & Ward, J. L. (1996). *Family Business Sourcebook II*. Marietta, GA: Business Owner Resources.

Aronoff, C. E., & Ward, J. L. (1995). Family-owned businesses: A thing of the past or a model of the future*? Family Business Review*, *8*(2), 121–130.

Astrachan, J.H., (1988). *Family Firm and Community Culture*. Family Business Review, 1(2), p.165–189

Astrachan, J.H. & Jaskiewicz, P., (2008). *Emotional Returns and Emotional Costs in Privately Held Family Businesses: Advancing Traditional Business Valuation.* Family Business Review, 21(2), p 139-149.

Baarda, D.B., Goede, M.P.M. de, Teunissen, J. (2001). *Kwalitatief Onderzoek.* Groningen,Wolters-Noordhoff.

Barney, J. (1991). *Firm Resources and Sustained Competitive Advantage*. Journal of Management, vol. 17, p 99-120.

Batelaan, M., & van Essen, F., (2000). *10 manieren om een fusie te verknoeien.* Schiedam: Scriptum Books.

Brealey, R.A., & Myers, S.C. (2000). *Principles of corporate finance*, 6th ed. New York: Irwin/ McGraw-Hill.

Brokaw, L. (1992). Why family businesses are best. *Inc.*, *14*(3), 72–81.

Centraal Bureau voor de Statistiek. (2002) *Algemene gegevens bedrijven.*

Chrisman, J.J.,Chua, J.H.,& Zahra, S.A. (2003). *Creating wealth in family firms through managing resources: Comments and extensions*. Entrepreneurship Theory and Practice, *27*(4), 359–365.

Compernolle, T. (2002). *Succesgids voor families met een bedrijf.* Lannoo

Copeland, T., Koller, T., & Murrin, J., (2003). *Waardering, het meten en managen van waarde van ondernemingen.* Amsterdam. Uitgeverij Nieuwezijds

Daily, C.M., & Dollinger, M.J. (1992*). An empirical examination of ownership structure in family and professionally managed firms*. Family Business Review, *5*(2), 117–136.

Damodaran, D., (1996). *Investment Valuation*, New York, Wiley.

Davis, P., & Stern, D. (1980). *Adaptation, survival, and growth of the family business: An integrated systems perspective.* Human Relations, *34*(4), 207–224.

Demsetz, H., & Lehn, K. (1985). *The structure of corporate ownership: Causes and consequences*. Journal of Political Economy, *93*(6), 1155–1177.

Demsetz, H., & Villalonga, B. (2001). *Ownership structure and corporate performance.* Journal of Corporate Finance, *7*(3), 209–233.

Denison, D., Lief, C., Ward, J.L., (2004). *Culture in Family-Owned Enterprises: Recognizing and Leveraging Unique Strengths.* Family Business Review, 17(1), p61–70.

de Visscher, F. M., Aronoff, C. F., & Ward, J. L. (1995). *Financing transitions: Managing capital and liquidity in the family business.* Family Business Leadership Series. Marietta, GA: Business Owner Resources.

de Vries, M.K., (1996), *Family Business - Human dilemmas in the family firm.* International Thomson Business Press

Donckels, R. (1998). *The Internationalization of Smes: The Interstratos Project.* Routledge: London

Donckels, R., & Frohlich, E. (1991). *Are family businesses really different? European experiences from STRATOS*. Family Business Review, *4*(2), 149–160.

Dreux, D. R. (1990). Financing family business: *Alternatives to selling out or going public.* Family Business Review, *3*(3), 225–243.

Epstein, M.J. (2004). *The Drivers of Success in Post Merger Integration*. Organizational Dynamics

Ehrhardt, O., & Nowak, E. (2003). *Private benefits and minority shareholder expropriation—Empirical evidence from IPOs of German family-owned firms*. Working paper, Humboldt University Berlin/Goethe University Frankfurt.

Fama, E. F., & Jensen, M. C. (1983). *Agency problems and residual claims*. Journal of Law and Economics, *26*(2), 327–349.

Federal Accounting Board Standards (2006). http://www.fasb.org/st/summary/stsum157.shtml

Flören, R.H. (1998). *The significance of family business in the Netherlands*. Family Business Review, 11(2), 121-134.

Flören, R.H., (1999). *Stimuleren van groei bij familiebedrijven*. Breukelen.

Flören, R.H., (2002). *Crown Princes in the clay*. Assen. Van Gorcum.

Flören, R.H. & Jansen, S.F. (2005). *De emotionele waarde van het familiebedrijf*. Kluwer fiscale en financiële uitgevers: Deventer.

Flören, R.H., & Wijers, E.J. (1996). *Handboek van het familiebedrijf*. Breukelen: Universiteit Nyenrode.

Gallo, M. A., & Vilaseca, A. (1996). *Finance in family business.* Family Business Review, 9(4), 387–401.

Gaughan, P., (2000) *Measuring Commercial Damages*, Wiley.

Gisser, M. V., & Gonzalez, E.E. (1993). *Family Businesses: A breed apart in crafting deals*. Mergers & Acquisitions, 27(5), 39-44)

Goffee, R., & Scase, R. (1985). *Proprietorial control in family firms: Some functions of 'quasi-organic' management systems*. Journal of Management Studies, *22*(1), 53–68.

Grote, J. (2003). *Conflicting generations: A new theory of family business rivalry*. Family Business Review, 16(2), 113–124.

Habbershon, T. G., Williams, M. L., (1999). *A Resource-Based Framework for Assessing the Strategic Advantages of Family Firms.* Family Business Review, 12(1), p 1-26

Habeck, M.M., Kröger, F., & Träm, M.R., (2000). *After the merger.* London: Prentice Hall.

Handler, W.C. (1989). *Managing the family firm succession process: the next generation family members' experience.* Ph.D. dissertation, Boston University

Harrison, J.S., Hitt, M.A., Hoskisson, R.E., Ireland, R.D. (1991). *Synergies and Post-*

Acquisition Performance: Differences Versus Similarities in Resource Allocation. Journal of Management (vol. 17, p 173-190).
Haspeslagh, P.C., Jemison, D.B. (1991). *Managing acquisitions: creating value through*
corporate renewal. Free Press.
Haspeslagh, P.C., Jemison, D.B., (1998). *Het Managen van Fusies en Overnames,* waardeschepping door integratie. Schiedam: Scriptum Management.
Het Financieele Dagblad. *Overnamegolf midden- en kleinbedrijf verwacht.*31-05-2007
Het Financieele Dagblad. *Groei fusies en overnames nadert nulpunt.* 14-03-2008
Hoopes, D.G.; Madsen, T.L., Walker, G. (2003). *Why is There a Resource-Based View? Toward a Theory of Competitive Heterogeneity*. Strategic Management Journal; 24, pp.889-902.
ING Onderneming, april – mei 2005
Jensen, M.C. (1984). *Takeovers: folklore and science*. Harvard Business Review, 109-121.
Johnson, S. C. (1990). *Why we'll never go public.* Family Business, 1*(4), 16–21*.
Kimmenade, M.A.J.M. van de (2003). *Verkoop van een familiebedrijf, psychologische aspecten*. Tilburg. Koninklijke drukkerij Broese & Peereboom
Kamer van Koophandel Nederland (2008). http://www.kvk.nl/regio/oostnederland/Images/Goodwill_tcm51-125771.pdf
Kaplan, R.S., & Norton, D.P., (1992). *The balanced scorecard—Measures that derive performance*. Harvard Business Review, *70*(1), 71–79.
Khatri, N., & Ng, H. A. (2000). *The role of intuition in strategic decision making*. Human Relations, *53*, 57–86.
Lansberg, I. (1983). *Managing human resources in family firms: Problem of institutional overlap.* Organizational Dynamics, *12*(1), 39–46.
LeCornu, M.R., Richard, G.P., McMahon, G.P., Forsaith, D.M., & Stanger, A.M.J. (1996). *The small enterprise financial objective function*. Journal of Small Business Management, *34*(3), 1–14.
Levering, R., & Moskowitz, M. (1993). *The ten best companies to work for in America*. Business and Society Review, *85*(1), 26–38.
Levinson, H. (1971). *Conflicts that plague the family business*. Harvard Business Review, *49*, 90–98.
Lubatkin, M. H. (2005). *A theory of the firm only a microeconomist could love*. Journal of Management Inquiry, *14*(2), 213–216.
Lyman, A. R. (1991). *Customer service: Does family ownership make a difference?* Family Business Review, 4(3), 303–324.
Markides, C.C., Williamson, P. J. (1994). *Related Diversification, Core Competences and Corporate Performance*. Strategic Management Journal (vol. 15, p 149-166).
Markowitz, H. (1952). *Portfolio selection.* Journal of Finance, *17*(1), 77–91.
Mercer, C., (1999). *Fair Market Value vs. The Real World*. Valuation Strategies.
Mickelson, R.A., & Worley, C. (2003). *Acquiring a family business: A case study*. Family Business Review, 16(4), 251-268.
Miles, M. B., Huberman, A. M. (1994). *Qualitative data analysis: an expanded sourcebook, 2nd ed*. Sage.
Miller, J.G. (1984). *Culture and the development of everyday social explanation.* Journal of Personality and Social Psychology, 46, 961–978.
Monsen, J. R. (1969). *Ownership and management: The effect of separation on performance.* Business Horizons, 12(4), 46–52.
Moscetello, L. (1990). *The Pitcairns want you*. Family Business Magazine, February.

Narayanan, L., Menon, S., & Spector, P. E. (1999). *Stress in the workplace: A comparison of gender and occupations.* Journal of Organizational Behavior, *20*(1), 63–73.

Nash, A. (2005). *The MBO Guide for Management Teams.* Harriman House: Petersfield.

Pelled, L.H., Eisenhardt, K.M., & Xin, K.R. (1999). *Exploring the black box: An analysis of work group diversity, conflict, and performance*. Administrative Science Quarterly, *44*(1), 1–28.

Pervin, A. (1997). *A conversation with Henry Mintzberg*. Family Business Review, *10*(2), 185–198.

Peteraf, M.A. (1993), *The Cornerstones of Competitive Advantage: A Resource-Based View*. Strategic Management Journal; 14, (3), pp.179-191.

Poza, E. J., Alfred, T., & Maheshwari, A. (1997). *Stakeholder perceptions of culture and management practices in family and family firms—A preliminary report*. Family Business Review, 10(2), 135–155.

Prahalad, C. K. and Hamel, G. (1990). *The Core Competence of the Corporation*. Harvard Business Review, May-June, 1990, 79-91.

Prokesch, S. (1986). *Renewing traditional values*. The New York Times, June 10.

Reilly, R.F., & Schweihs, R.P., (1996). *Valuing A Business, The Analysis and Appraisal of Closely Held Companies,* 3rd ed., New York, McGraw-Hill.

Reilly, R.F.. Schweihs, R.P. (2000). *Valuing a Business*, McGraw-Hill Professional. McGraw Hill.

Robinson B.R. & Peterson, W., (1995). *Strategic Acquisitions.* New York. Irwin Professional Publishing.

Robson, C. (2002). *Real World Research.* Blackwell Publishing: Oxford.

Rock, M.L., Rock, R.H., & Sikora, M., (1994). *The Mergers & Acquisitions Handbook.* New York. McGraw-Hill Inc.

Rosenblatt, P.C., deMik, L., Anderson, R.M., & Johnson, P.A. (1985). *The family in business: Understanding and dealing with the challenges entrepreneurial families face*. San Francisco: Jossey-Bass.

Rumelt, R.P. (1984). *Towards a Strategic Theory of the Firm*, Prentice-Hall, p 556-70.

Schenk, H., (2002). *Fusies en Acquisities.* Dordrecht: Elsevier Business Intelligence.

Shankar, M.C., & Astrachan, J.H., (1996). *Myths and realities: Family businesses' contribution to the US economy – A framework for assessing family business statistics*. Family Business Review, 9(2), p107-123

Sharma, P., & Manikutty, S. (2005). *Strategic divestments in family firms: Role of family structure and community culture*. Entrepreneurship Theory and Practice, *29*(3), 293–312.

Sirower, M.L. (1997). *De valstrik van synergie.* Amsterdam/Antwerpen: Uitgeverij Contact.

Steen, A. & Welch, L.S. (2006). *Dancing with Giants: Acquisition and survival of the family firm*. Family Business Review, 19(4), 289-300.

Sutton, C.J. (1980). *Economics and Corporate Strategy*, Cambridge University Press, Cambridge.

Swinth, R. L., & Vinton, K. L. (1993). *Do familyowned businesses have a strategic advantage in international joint ventures?* Family Business Review, 6(1), 19–30.

Tagiuri, R., & Davis, J. (1996). *Bivalent attributes of the family firm*. Family Business Review, 9(2), p199-208

Verschuren, P., Doorewaard, H. (2007). *Het ontwerpen van een onderzoek*. Utrecht: Lemma.
Ward, J. L. (1988). *The special role of strategic planning for family businesses.* Family Business Review, 1(2), 105–117.
Ward, J. L. (1997). *Growing the family business: Special challenges and best practices.* Family Business Review, 10(4), 323–337.
Ward, J. L., & Aronoff, C. E. (1991). Trust gives you the advantage. *Nation's Business*, *79*(8), 42–45.
Wengraf, T. (2001). *Qualitative Research Interviewing*. Sage Publishing.
Wernerfelt, B. (1984), *The Resource-Based View of the Firm*. Strategic Management Journal; 5, (2), pp. 171-180
Wright, P., Ferris, S.P., Sarin, A., & Awasthi, V. (1996). *Impact of corporate insider, blockholder, and institutional equity ownership on firmrisk taking*. Academy of Management Journal, 39(2), 441–463.
Yin, R.K. (2003). *Case Study Research, Design and Methods*. Sage Publications.
Zellweger, T. (2006). *Risk, return and value in the family firm*. Doctoral thesis. St. Gallen, Switzerland

Appendix A: Interview, with experience

Inleiding interview

Dit interview is in het kader van mijn scriptie voor de Universiteit van Wageningen. In samenwerking met de Gibo Groep en MKB Adviseurs ben ik met u in contact gekomen om een interview af te nemen. Het onderzoek gaat over emotionele waarde bij overname van een familiebedrijf buiten de familiesfeer. Doel is om te weten te komen of emotionele en psychologische aspecten een rol spelen bij de verkoop van het familiebedrijf en of die emotionele waarde een positieve of negatieve invloed heeft op de waardering van het bedrijf. Onderwerpen die aan bod zullen komen zijn de financiën van het overgenomen bedrijf, voordelen en nadelen van familiebedrijven, emotionele en psychologische aspecten en als laatste kritiek vanuit het perspectief van het familiebedrijf op de huidige gang van zaken in de zakenwereld. Voor de behandeling van ieder onderwerp zal ik een kleine inleiding geven over eventuele begrippen die verduidelijking nodig zullen hebben. De interviews zullen vertrouwelijk behandeld worden. Hebt u verder nog vragen?

Algemene gegevens

Naam:
Leeftijd:
Naam bedrijf + sector:
E-mailadres:

1. Kunt u wat vertellen over het familiebedrijf wat u overgenomen heeft?

   Financien

2. U hebt een familiebedrijf overgenomen. Weet u elke waarderingstechniek er werd gebruikt?
    - Discounted Cashflow-methode (Accounting methode, contante overwaarde method, opbouwmethode)
    - Rentabiliteitswaarde
    - Intrinsieke Waarde (Fair Market Value, transactiemethode)

3. Weet u of er ook goodwill is betaald?
    - Ja
    - Nee
4. Zo ja, weet u waar die goodwill op gebaseerd was?

5. Bij een waarderingsrapport wordt vaak opgegeven dat de onderneming tussen xx en yy euro ligt. Als u die bandbreedte zou opdelen in kwarten (25%). In welk kwart zat uw betaling?
    - 0 - 25%
    - 26 - 50%
    - Precies in het midden
    - 51 – 75%
    - 76 - 100%

6. Kunt u verklaren waarom u voor die waardering gekozen heeft, en welke factoren daarin de grootste rol speelden.?

Voordelen en nadelen van familiebedrijven

Uit onderzoek onder familiebedrijven is gebleken dat familiebedrijven anders zijn dan niet-familiebedrijven. Enkele voordelen zijn flexibiliteit, lagere schulden, veel zorg voor personeel, focus op langere termijn. Er zijn echter ook nadelen bij familiebedrijven te vinden zoals emoties, leiderschap, stress en onderlinge rivaliteit.

7. Tijdens en na de aankoop van het familiebedrijf heb ik de volgende voordelen en nadelen ondervonden die specifiek passen bij een familiebedrijf:
   1= mee eens
   2= gedeeltelijk mee eens
   3= noch mee eens, noch mee oneens
   4= gedeeltelijk mee oneens
   5= mee oneens

Creatiever	1	2	3	4	5	n.v.t.
Reageert snel op veranderingen	1	2	3	4	5	n.v.t.
Geven snel vertrouwen	1	2	3	4	5	n.v.t.
Productiever	1	2	3	4	5	n.v.t.
Flexibeler	1	2	3	4	5	n.v.t.
Maken snel beslissingen	1	2	3	4	5	n.v.t.
Meer zorg voor personeel	1	2	3	4	5	n.v.t.
Meer aandacht R&D	1	2	3	4	5	n.v.t.
Beter financieel management	1	2	3	4	5	n.v.t.
Minder reactief op economische cycli	1	2	3	4	5	n.v.t.
Meer focus op lange dan op korte termijn	1	2	3	4	5	n.v.t.
Minder schulden	1	2	3	4	5	n.v.t.
Betalen meer salaris	1	2	3	4	5	n.v.t.
Lagere kosten over schulden	1	2	3	4	5	n.v.t.
Geduldig met investeren	1	2	3	4	5	n.v.t.
Conservatief, moeilijk te veranderen	1	2	3	4	5	n.v.t.
Gebrek aan leiderschap naast de directeur	1	2	3	4	5	n.v.t.
Gebrek aan kennis naast de directeur	1	2	3	4	5	n.v.t.
Meer stress	1	2	3	4	5	n.v.t.
Emoties binnen de familie	1	2	3	4	5	n.v.t.
Slechtere communicatie	1	2	3	4	5	n.v.t.
Dominante DGA	1	2	3	4	5	n.v.t.
Chaotisch Business model	1	2	3	4	5	n.v.t.

Zou u uw keuzes kunnen toelichten?

8. Hebt u wellicht nog andere voordelen of nadelen ondervonden van een familiebedrijf?

9. Welke voordelen en nadelen hebben de meeste invloed gehad op uw bedrijf?

10. Vindt u dat deze voordelen en nadelen invloed moeten hebben op de waardering van familiebedrijven, of denkt u dat deze voordelen en nadelen in het bedrijfsresultaat te zien zijn?

Emotionele waarde en psychologische aspecten
Kenmerken van emotionele waarde zijn kenmerken als trots, verkoop van bedrijf wordt gezien als basis voor pensioen, verbonden blijven aan het bedrijf etc.
Psychologische aspecten tijdens een overname van een familiebedrijf kunnen gekarakteriseerd worden als hechting aan het bedrijf. Het heeft veel gelijkenissen met emotionele waarde maar gaat ook in op externe factoren zoals hechting met het personeel, naam en vestigingsplaats van het bedrijf en de continuïteit van het bedrijf.

Volgens literatuur over familiebedrijven zou er in de toekomst meer rekening gehouden moeten worden met deze softere aspecten van het managen van een bedrijf. Het houdt dus in dat er naast de waarde die het bedrijf waard is volgende de huidige waarderingstechnieken, ook nog een extra opslag betaald moet worden omdat de eigenaar een emotionele en psychologische band heeft opgebouwd met zijn bedrijf.

11. Begrijpt u de werking van de begrippen emotionele waarde en psychologische aspecten?

12. Wat is uw mening over dit fenomeen, en zou er volgens u ook meer rekening gehouden moeten worden met deze aspecten?

13. Hebben deze aspecten voor u een positieve waarde of een negatieve waarde? En kunt u ook uitleggen waarom?

14. Gedurende de overname van een familiebedrijf heb ik de volgende emotionele factoren meegemaakt bij het familiebedrijf:
    1= mee eens
    2= gedeeltelijk mee eens
    3= noch mee eens, noch mee oneens
    4= gedeeltelijk mee oneens
    5= mee oneens

Trots	1	2	3	4	5	n.v.t.
Verkoop was de basis voor pensioen	1	2	3	4	5	n.v.t.
DGA wil verbonden blijven met bedrijf	1	2	3	4	5	n.v.t.
DGA heeft het bedrijf goed overgedragen	1	2	3	4	5	n.v.t.
Familie had moeite met de verkoop	1	2	3	4	5	n.v.t.
Veel familie werkzaam bij bedrijf	1	2	3	4	5	n.v.t.

Kunt u uw antwoorden toelichten?

15. Hebben deze emotionele factoren u beïnvloed gedurende de overname?

16. Kunt u aangeven welke emotionele factoren u als positief beschouwt, en welke factoren u als negatief beschouwt?

17. Kunt u aangeven welke emotionele factoren volgens u de meeste invloed op de verkoop en op de dagelijkse gang van zaken binnen het bedrijf hebben gehad?

18. Gedurende de overname van een familiebedrijf heb ik de volgende psychologische factoren meegemaakt bij het familiebedrijf:
    1= mee eens
    2= gedeeltelijk mee eens
    3= noch mee eens, noch mee oneens
    4= gedeeltelijk mee oneens
    5= mee oneens

Gedurende de onderhandelingen bleek dat…						
DGA begaan met het personeel	1	2	3	4	5	n.v.t.
Bedrijf was belangrijkste in het leven	1	2	3	4	5	n.v.t.
Bedrijf belangrijk als inkomstenbron	1	2	3	4	5	n.v.t.
Bedrijf belangrijk voor de gemeenschap	1	2	3	4	5	n.v.t.
Bedrijf is van de hele familie	1	2	3	4	5	n.v.t.
Bedrijfsnaam mag niet veranderen	1	2	3	4	5	n.v.t.
Bedrijfslocatie mag niet veranderen	1	2	3	4	5	n.v.t.
DGA wil betrokken blijven met bedrijf	1	2	3	4	5	n.v.t.
Na de overname bleek dat…						
Veel personeel verdwenen	1	2	3	4	5	n.v.t.
Moeilijke omgang met veranderingen	1	2	3	4	5	n.v.t.
Omzet gedaald	1	2	3	4	5	n.v.t.
Winst gedaald	1	2	3	4	5	n.v.t.
DGA heeft het bedrijf goed overgedragen	1	2	3	4	5	n.v.t.

Kunt u uw antwoorden toelichten?

19. Hebben deze psychologische factoren u beïnvloed gedurende de overname?

20. Kunt u aangeven welke psychologische factoren u als positief beschouwt, en welke factoren u als negatief beschouwt?

21. Kunt u aangeven welke psychologische factoren volgens u de meeste invloed op de verkoop en op de dagelijkse gang van zaken binnen het bedrijf hebben gehad?

22. Denkt u dat het toepassen van emotionele en psychologische aspecten bovenop de waardering van de boekhouder zinvol zou zijn, mits er een goede onderbouwing beschikbaar is (deze waarde kan positief of negatief zijn)?

Ik ben aan het eind van mijn interview gekomen, heeft u misschien nog vragen en/of opmerkingen?

Heeft u interesse in een kopie van het onderzoeksrapport?

Appendix B: Interview, family firm without experience

Inleiding interview

Dit interview is in het kader van mijn scriptie voor de Universiteit van Wageningen. In samenwerking met de Gibo Groep en MKB Adviseurs ben ik met u in contact gekomen om een interview af te nemen. Het onderzoek gaat over emotionele waarde bij overname van een familiebedrijf buiten de familiesfeer. Doel is om te weten te komen of emotionele waarde een rol speelt bij de verkoop van het familiebedrijf en of die emotionele waarde een positieve of negatieve invloed heeft op de waardering van het bedrijf. Onderwerpen die aan bod zullen komen zijn de financiën van het overgenomen bedrijf, voordelen en nadelen van familiebedrijven, emotionele waarde, psychologische aspecten en als laatste kritiek vanuit het perspectief van het familiebedrijf op de huidige gang van zaken in de zakenwereld. Voor de behandeling van ieder onderwerp zal ik een kleine inleiding geven over eventuele begrippen die verduidelijking nodig zullen hebben. De interviews zullen vertrouwelijk behandeld worden. Heeft u verder nog vragen?

Algemene gegevens

Naam:
Leeftijd:
Naam bedrijf + sector:
e-mailadres:

1. Kunt u vertellen wat uw bedrijf een familiebedrijf maakt?

Voordelen en nadelen van familiebedrijven

Uit onderzoek onder familiebedrijven is gebleken dat familiebedrijven anders zijn dan niet-familiebedrijven. Enkele voordelen zijn flexibiliteit, lagere schulden, veel zorg voor personeel, focus op langere termijn. Er zijn echter ook nadelen bij familiebedrijven te vinden zoals emoties, leiderschap, stress en onderlinge rivaliteit.

2. Mijn familiebedrijf heeft de volgende voordelen en nadelen ten opzichten van een niet-familiebedrijf
   1= mee eens
   2= gedeeltelijk mee eens
   3= noch mee eens, noch mee oneens
   4= gedeeltelijk mee oneens
   5= mee oneens

Creatiever	1	2	3	4	5	n.v.t.
Reageert snel op veranderingen	1	2	3	4	5	n.v.t.
Geven snel vertrouwen	1	2	3	4	5	n.v.t.
Productiever	1	2	3	4	5	n.v.t.
Flexibeler	1	2	3	4	5	n.v.t.
Maken snel beslissingen	1	2	3	4	5	n.v.t.
Meer zorg voor personeel	1	2	3	4	5	n.v.t.
Meer aandacht R&D	1	2	3	4	5	n.v.t.
Beter financieel management	1	2	3	4	5	n.v.t.

Minder reactief op economische cycli	1	2	3	4	5	n.v.t.
Meer focus op lange dan op korte termijn	1	2	3	4	5	n.v.t.
Minder schulden	1	2	3	4	5	n.v.t.
Betalen meer salaris	1	2	3	4	5	n.v.t.
Lagere kosten over schulden	1	2	3	4	5	n.v.t.
Geduldig met investeren	1	2	3	4	5	n.v.t.
Conservatief, moeilijk te veranderen	1	2	3	4	5	n.v.t.
Gebrek aan leiderschap naast de directeur	1	2	3	4	5	n.v.t.
Gebrek aan kennis naast de directeur	1	2	3	4	5	n.v.t.
Meer stress	1	2	3	4	5	n.v.t.
Emoties binnen de familie	1	2	3	4	5	n.v.t.
Slechtere communicatie	1	2	3	4	5	n.v.t.
Dominante DGA	1	2	3	4	5	n.v.t.
Chaotisch Business model	1	2	3	4	5	n.v.t.

Kunt u uw keuzes toelichten?

3. Zijn er nog andere voordelen en nadelen van toepassing op uw bedrijf die niet in de lijst staan?

4. Welke voordelen en nadelen hebben de meeste invloed op uw bedrijf?

5. Vindt u dat deze voordelen en nadelen invloed moeten hebben op de waardering van familiebedrijven, of denkt u dat deze voordelen en nadelen in het bedrijfsresultaat te zien zijn?

Emotionele waarde en psychologische aspecten

Kenmerken van emotionele waarde zijn kenmerken als trots, verkoop van bedrijf wordt gezien als basis voor pensioen, verbonden blijven aan het bedrijf etc.
Psychologische aspecten tijdens een overname van een familiebedrijf kunnen gekarakteriseerd worden als hechting aan het bedrijf. Het heeft veel gelijkenissen met emotionele waarde maar gaat ook in op externe factoren zoals hechting met het personeel, naam en vestigingsplaats van het bedrijf en de continuïteit van het bedrijf.

Met het begrip emotionele waarde en psychologische aspecten wordt de extra waarde naast de boekwaarde bedoeld. Het houdt dus in dat er naast de waarde die het bedrijf waard is volgende de huidige waarderingstechnieken, ook nog een extra opslag betaald moet worden omdat de eigenaar een emotionele band heeft opgebouwd met zijn bedrijf.

6. Begrijpt u de werking van de begrippen emotionele en psychologische aspecten?

7. Bent u van mening dat deze emotionele en psychologische aspecten doorbelast zouden moeten worden in de uiteindelijke waardering van een bedrijf, of vindt u een puur financiële kijk voldoende?
8. Hebben deze aspecten voor u een positieve waarde of een negatieve waarde? En kunt u ook uitleggen waarom?

9. Hebt u als eigenaar van een familiebedrijf zelf een emotionele en psychologische band met uw bedrijf, en kunt u daar wat meer over vertellen?

10. Wat is uw mening over dit fenomeen?

11. Als ik mijn familiebedrijf zou verkopen zou ik de volgende emotionele factoren hebben:
    1= mee eens
    2= gedeeltelijk mee eens
    3= noch mee eens, noch mee oneens
    4= gedeeltelijk mee oneens
    5= mee oneens

Trots	1	2	3	4	5	n.v.t.
Verkoop was de basis voor pensioen	1	2	3	4	5	n.v.t.
Ik wil verbonden blijven met bedrijf	1	2	3	4	5	n.v.t.
Ik wil het bedrijf goed overdragen	1	2	3	4	5	n.v.t.
Familie heeft moeite met de verkoop	1	2	3	4	5	n.v.t.
Veel familie werkzaam bij bedrijf	1	2	3	4	5	n.v.t.

Kunt u uw antwoorden toelichten?

12. Kunt u aangeven welke emotionele factoren u als positief beschouwt, en welke factoren u als negatief beschouwt?

13. Kunt u aangeven welke emotionele factoren volgens u de meeste invloed op de verkoop en op de dagelijkse gang van zaken binnen het bedrijf hebben?

14. Als ik mijn bedrijf zou verkopen zou ik de volgende psychologische factoren hebben:
    1= mee eens
    2= gedeeltelijk mee eens
    3= noch mee eens, noch mee oneens
    4= gedeeltelijk mee oneens
    5= mee oneens

Gedurende de onderhandelingen…						
Ik ben begaan met het personeel	1	2	3	4	5	n.v.t.
Bedrijf was belangrijkste in het leven	1	2	3	4	5	n.v.t.
Bedrijf belangrijk als inkomstenbron	1	2	3	4	5	n.v.t.
Bedrijf belangrijk voor de gemeenschap	1	2	3	4	5	n.v.t.
Bedrijf is van de hele familie	1	2	3	4	5	n.v.t.
Bedrijfsnaam mag niet veranderen	1	2	3	4	5	n.v.t.
Bedrijfslocatie mag niet veranderen	1	2	3	4	5	n.v.t.
IK wil betrokken blijven met bedrijf	1	2	3	4	5	n.v.t.

Na de overname denk ik dat…						
Veel personeel verdwenen	1	2	3	4	5	n.v.t.
Moeilijke omgang met veranderingen	1	2	3	4	5	n.v.t.

Omzet gedaald	1	2	3	4	5	n.v.t.
Winst gedaald	1	2	3	4	5	n.v.t.
Ik heb het bedrijf goed overgedragen	1	2	3	4	5	n.v.t.

Kunt u uw antwoorden toelichten?

15. Kunt u aangeven welke psychologische factoren u als positief beschouwt, en welke factoren u als negatief beschouwt?

16. Kunt u aangeven welke psychologische factoren volgens u de meeste invloed op de verkoop en op de dagelijkse gang van zaken binnen het bedrijf hebben?

17. Denkt u dat het toepassen van emotionele en psychologische aspecten bovenop de normale waardering van de boekhouder zinvol zou zijn, mits er een goede onderbouwing beschikbaar is (deze waarde kan positief of negatief zijn)?

Ik ben aan het eind van mijn interview gekomen, heeft u misschien nog vragen en/of opmerkingen?

Heeft u interesse in een samenvatting van het onderzoeksrapport?