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*External Investors: Blessing or Curse for Family Firms?*

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# **External Investors: Blessing or Curse for Family Firms**



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“There is no luck involved in finishing the Marathon. The ingredients required to tackle this formidable challenge are straightforward: Commitment, sacrifice, grit, and raw determination. Plain and simple.” (*Dean Karnazes*)

As a passionate runner, I have started my doctoral journey like a running competition: Enthusiastic and with full dedication. However, like in every marathon, you also face challenges and tough times during your doctoral journey, in which you rely on suitable supervisors, motivators, and supporters. Therefore, I would like to dedicate the first page of this dissertation to thanking all the supervisors, motivators, and supporters who guided me through my journey.

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## ABSTRACT

Within this doctoral dissertation, I explore external investments in family firms. In particular, this dissertation comprises three independent studies to contribute to and extend current literature regarding family firms and external investors. The first study extends research on external investments in family firms by fundamentally analyzing the decision criteria of family firm owner-managers for using external minority investments, thus representing a first interim step of external succession. The second study changes the point of view and contributes by analyzing the drivers of financial investors' preference for acquiring a family firm. The third study analyzes drivers resulting in financial investors' successful or unsuccessful acquisition of family firms.

**Keywords:** Family firms, external investors, financial investors, strategic investors, firm sale



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## LIST OF ABBREVIATIONS

bn	Billion
COVID-19	Coronavirus Disease 2019
e.g.	Example given
et al.	Et alia
EUR	Euro
fsQCA	Fuzzy-set qualitative comparative analysis
GMET	Generic Membership Evaluation Template
H	Hypothesis
HLM	Hierarchical Linear Modeling
HR	Human Resources
i.e.	Id est
MBI	Management buy-ins
MBO	Management buyouts
M&A	Mergers & Acquisitions
Ph. D.	Doctor of Philosophy
PRI	Proportional Reduction in Inconsistency
Prof.	Professor
RBV	Resource-based view
R&D	Research & Development
SEW	Socioemotional wealth
WHU	Wissenschaftliche Hochschule für Unternehmensführung

## INTRODUCTION TO THE DISSERTATION

### MOTIVATION AND BACKGROUND

#### Importance of Family Firms

Family firms are the most common type of business worldwide and a key driver of global prosperity and growth (Anderson & Reeb, 2003; Andersson, Johansson, Karlsson, Lodefalk, & Poldahl, 2017; Gersick, Davis, Hampton, & Lansberg, 1997; Miroshnychenko, De Massis, Miller, & Barontini, 2021). They are defined as firms that are owned and/or managed with the “intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (Chua, Chrisman, & Sharma, 1999: 25). Previous researchers argue that there are significant differences between the idiosyncrasies of family firms and non-family firms with regards to strategic behavior (Arregle, Duran, Hitt, & van Essen, 2017; Duran, Kammerlander, van Essen, & Zellweger, 2016; Gómez-Mejía, Makri, & Kintana, 2010) and financial performance (Anderson & Reeb, 2003; O'Boyle, Pollack, & Rutherford, 2012; van Essen, Carney, Gedajlovic, & Heugens, 2015).

#### Family Firms and External Investors

On the one side, family firms are characterized by various competitive advantages, such as a strong entrepreneurial spirit, long-term orientation, a high level of employee loyalty, and high corporate independence (Poutziouris, 2001). On the other side, however, family firms struggle with nepotism, lack of professionalism, slow decision-making processes, and rigidity in addressing new challenges (Poutziouris, 2001). Moreover, family firms often have a lack of resources and capabilities, in particular financial resources, as well as quality and quantity of human resources, hindering family firms from growing and surviving over the long run (Romano, Tanewski, &

Smyrnios, 2001; Sirmon & Hitt, 2003; Upton & Petty, 2000). In addition, ownership succession is one of the biggest challenges for family firms (Yu, Lumpkin, Sorenson, & Brigham, 2011).

Selling to an external investor may help overcome the abovementioned challenges of family firms. External investors may support the succession by providing human resources and thereby may help to safeguard the family firm's continuity (Kreer, Mauer, Limbach, & Brettel, 2015; Scholes, Westhead, & Burrows, 2008b; Scholes, Wright, Westhead, Bruining, & Kloeckner, 2009). Furthermore, external investors provide additional financial resources, hence fostering growth. Additionally, external investors provide managerial expertise and strategic resources to family firms, such as an extensive business network and political connections (Faccio & Hsu, 2017; Salerno, 2019). However, at the same time, a firm sale is a tough decision, particularly when family firm owner-managers are emotionally involved, which is the case in most family firms (Duhaime & Grant, 1984a).

There are several options to pursue a firm sale, which differ in terms of risk, complexity, degree of reward, and family engagement after the exit (DeTienne & Cardon, 2012). Selling the business can occur in the form of management buyouts (MBO), management buy-ins (MBI), as well as in the form of mergers and acquisitions (M&A) with another firm (Akhter, Sieger, & Chirico, 2016; DeTienne & Cardon, 2012; Kammerlander, 2016; Scholes, Wright, Westhead, Burrows, & Bruining, 2007). In general, there are two main types of acquirers: strategic investors and financial investors. The first study of this dissertation focuses on strategic investors, typically long-term oriented, integrating the acquired firm, aiming to realize operational improvements through economies of scale and eliminating duplicate functions (Chiarella & Ostinelli, 2020). Therefore, strategic investors are similar to family firms, providing a soft, interim step to external succession. Whereas the dissertation's second and third studies focus on financial investors, typically short-term oriented, actively changing the acquired firm and aiming to realize a financial



gain within an average holding period of three to seven years (Schickinger, Leitterstorf, & Kammerlander, 2018). At first glance, researchers may conclude that there is no apparent fit between financial investors and family firms and that financial investors may shy away from investing in family firms (Achleitner, Herman, Lerner, & Lutz, 2010b; Ahlers, Hack, & Kellermanns, 2014). However, practice shows a slightly different picture because investments by financial investors have increased significantly from EUR 46 billion in 2010 to EUR 104 billion in 2019 in European countries. Around two-thirds of the target firms were SMEs, and many were family firms (Kranitz, Irwin-Brown, & Giuroiu, 2021). This shows that financial investors more and more frequently invest in family firms (Kranitz et al., 2021).

In summary, in general external investors and in particular financial investors on the one side, and family firms on the other may be a good match. Financial investors are sometimes assumed to lower productivity, damage creative processes, and decrease the workers' income (Davis et al., 2014). Nevertheless, financial investors are also well known for their industry know-how and skillsets to increase a firm's productivity after a takeover (Bernstein & Sheen, 2016).

Despite the recent research attention (Achleitner et al., 2010b; Achleitner, Schraml, & Tappeiner, 2008; Henn & Lutz, 2016), the scope of conducted research on external investors and family firms is still at its very beginning. Furthermore, the relationship is characterized by diverging positions of what academic literature argues on the one side (e.g., Schickinger et al., 2018) and what practice is showing on the other side (Kranitz et al., 2021), hence providing several promising avenues for research (e.g., Schickinger et al., 2018). This doctoral dissertation addresses the identified research gaps and inconsistencies between academic literature and practice in an attempt to advance the understanding of external investments in family firms by providing novel insights. For this purpose, within the scope of three independent studies, I investigate (1) the drivers of family firm owner-managers selling a minority stake to a strategic investor, (2) the drivers of

financial investors' preference for acquiring a family firm, and (3) configurations which lead to successful vs. non-successful acquisitions of family firms by financial investors. Next, I provide a brief overview of the studies and their main findings.

### **OVERVIEW OF STUDIES AND MAIN FINDINGS**

#### **Study 1: Should I Sell Part of my Family Firm?**

This study extends family firm exit literature and in particular the research in the field of minority sales of family firms to strategic investors. This type of firm sale might be of great interest to family firms because the family firm owner-managers can secure control over the firm and partly preserve socioemotional wealth while simultaneously generating additional financing and gaining strategic and managerial know-how. Based on the socioemotional wealth perspective, we hypothesize that the degree of family prominence, the degree of employee orientation, and pure family management influence the willingness to sell. Specifically, we argue that considerations of extended SEW increase the willingness to sell minority shares whereas considerations of restricted SEW decrease the willingness to sell minority shares. In addition, we hypothesize that the moderating effect of a below-average financial performance weakens the abovementioned direct effects. We test our hypotheses using a vignette study leveraging 327 observations from family firm owner-managers.

#### **Study 2: Are Family Firms the Preferred Acquisition Targets?**

This study extends research in the field of financial investments in family firms. It contributes to the literature by analyzing the drivers of financial investors' preference for acquiring a family firm. Family firms as an acquisition target might be of particular interest to financial investors, as they offer a significant potential deal pool and improvement potential due to the targets' initial resource constraints and internal challenges. Based on the resource-based view (RBV), we hypothesize that a buy-and-build strategy, strategic focus on operational improvements,

and the typical length of the investment horizon positively affect the propensity of financial investors to acquire a family firm. In addition, we hypothesize that a financial investor's number of portfolio firms (i.e., the number of acquired and held firms) negatively affects the propensity to acquire a family firm. We test our hypotheses using a unique vignette study with 142 responses from investment professionals.

### **Study 3: What Configurations Lead to Successful Family Firm Takeovers?**

More and more often, family firms pursue the external succession route and sell shares to financial investors. However, not all family firm takeovers by financial investors are successful. Only few prior studies have focused on value creation and performance evaluation of investments by financial investors in family firms. Building on resource orchestration, we use a configurational (fsQCA) approach to investigate the interplay of five critical conditions at the firm, environmental, and owner levels that potentially drive successful takeovers. Building on 52 interviews, we identify three distinctive roles (i.e., incentivizers, optimizers, and adjacent investors) of financial investors leading to successful family firm takeovers. This study, first, contributes to understanding which configurations drive successful family firm takeovers, second, whether family firm takeovers by financial investors create versus destroy value, and third, extends research about resource orchestration by focusing on the investor/owner level.

INTRODUCTION TO THE DISSERTATION

*Table 1: Overview of the three studies within the scope of this doctoral dissertation*

	<b>Study 1</b>	<b>Study 2</b>	<b>Study 3</b>
<b>Title</b>	Should I sell part of my family firm? Exploring the drivers of a minority sale	Are family firms the preferred acquisition targets? A vignette study	What configurations lead to successful family firm takeovers?
<b>Research question</b>	What drives family firms' minority sales to strategic investor? What impact does the financial performance of the family firm have on the willingness to sell?	What are drivers or inhibitors of a financial investor's acquisition of a family firm?	What are the drivers resulting in a successful family firm takeover?
<b>Theoretical foundation</b>	Socioemotional wealth (SEW)	Resource-based view (RBV)	Resource orchestration
<b>Methodology</b>	Quantitative; vignette study	Quantitative; vignette study	Qualitative; fuzzy-set QCA
<b>Sample</b>	109 responses and 327 observations	142 responses	52 interviews in total (thereof, 35 case interviews and 17 expert interviews)
<b>Data collection</b>	Online questionnaire	Online questionnaire	Semi-structured interviews
<b>Main findings</b>	(i) Employee orientation has a significant positive impact, and family prominence has a significant negative impact on the willingness to sell ii) Below-average financial performance weakens the direct positive relationship of employee orientation and strengthens the direct negative relationship of family prominence with the willingness to sell	(i) The strategic focus on a buy-and-build strategy and on operational improvements positively affect the propensity to acquire a family firm (ii) The number of portfolio firms of the financial investor has a negative effect on the propensity to acquire a family firm	(i) Three archetypes, leading to successful family firm takeovers (ii) Incentivizers: Primarily focusing on governance improvements, in case of market turbulences also focusing on strategic reconfigurations (iii) Optimizers: Primarily focusing on operational improvements (iv) Adjacent investors: Benefitting from deep industry know-how and family firm experience

## INTRODUCTION TO THE DISSERTATION

<b>Main contributions</b>	<p>(i) Extending existing research about external investments in family firms by focusing on minority sales to strategic investors</p> <p>(ii) Extending existing research about SEW by focusing on the extended SEW instead of the restricted SEW</p> <p>(iii) Resolving controversial discussion about the impact of poor financial performance on the willingness to sell</p>	<p>(i) Extending existing research about financial investments in family firms by shifting the focus from the exiting family entrepreneurs to the acquiring financial investors</p> <p>(ii) Closing the research gap on how the level of resources of a family firm affects an external financial investor in the acquisition propensity</p>	<p>(i) Extending existing research about value creation after financial investors' takeovers of family firms</p> <p>(ii) Resolving controversial discussion about the success versus failure of family firm takeovers by financial investors</p> <p>(iii) Extending existing research about resource orchestration by focusing on financial investors' impact instead of top managements' impact</p>
<b>Co-Author</b>	Prof. Dr. Nadine Kammerlander Christopher Khoury	Prof. Dr. Nadine Kammerlander Christopher Khoury	Prof. Dr. Nadine Kammerlander
<b>Publication status</b>	<p>This study is published as Kurta E., Khoury C., Kammerlander N. 2022. Should I sell part of my family firm? Exploring the drivers of a minority sale. <b>Journal of Family Business Management</b>, forthcoming. Furthermore, a previous version of this study was submitted and presented at the Academy of Management Conference 2022 and the International Family Enterprise Research Academy Conference 2022.</p>	<p>This study is an unpublished working paper based on Kurta, Kammerlander, and Khoury (2022) titled "Are family firms the preferred acquisition targets? A vignette study." A shortened version is published in the <b>M&amp;A Review</b>, 11/2022. Furthermore, an early version of this study was submitted and presented at the International Family Enterprise Research Academy Conference 2022.</p>	<p>This study is an unpublished working paper based on Kurta and Kammerlander (2022) titled "What configurations lead to successful family firm takeovers?" In addition, this study received a Revise &amp; Resubmit in the <b>European Management Review</b>.</p>

### OVERVIEW OF USED THEORIES IN DISSERTATION

#### **Socioemotional Wealth Perspective (SEW)**

The socioemotional wealth (SEW) perspective is one of the most dominant research streams in family firm literature and represents the theoretical framework of Study 1 of this dissertation. The SEW perspective is exceptionally well-suited for answering the research questions because extant research shows that it is one of the critical factors distinguishing family firms from non-family firms (Berrone, Cruz, & Gómez-Mejía, 2012; Gómez-Mejía, Takács Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), and further one of the most critical factors when thinking about selling the family firm (Schickinger et al., 2018). SEW is generally defined as the non-financial wealth accruing to a family through operating and owning a firm (Debicki, Kellermanns, Chrisman, Pearson, & Spencer, 2016; Gómez-Mejía et al., 2007). In particular, the SEW perspective comprises five dimensions (Berrone et al., 2012). First dimension, the control and influence of family members over the firm's strategic decisions (Chua et al., 1999; Kellermanns, Eddleston, & Zellweger, 2012; Schulze, Lubatkin, & Dino, 2003). Second dimension, the identification of the family with the firm is intensified in cases where the family and firm have the same name (Berrone, Cruz, Gómez-Mejía, & Larrazza-Kintana, 2010; Kammerlander, Dessì, Bird, Floris, & Murru, 2015; Kepner, 1983). Third dimension, the social relationships arise through the family's associations with the firm, composing collective social capital, relational trust, and interpersonal solidarity (Coleman, 1994; Uzzi, 2018); the emotional attachment of the family to the firm (Berrone et al., 2012). Fourth dimension, the emotional attachment of the family to the firm (Berrone et al., 2012). Fifth dimension, the family's intention to pass on the firm to the next generations to safeguard dynastic succession (Berrone et al., 2012; Zellweger, Kellermanns, Chrisman, & Chua, 2012).

The SEW perspective states that family members operate a firm to preserve and maximize their SEW, sometimes even at the cost of financial performance (Gómez-Mejía et al., 2010; Gómez-Mejía et al., 2007). A key driver behind a family firm's strategic behavior is an aversion to losing SEW (Chrisman & Patel, 2012). Therefore, the intention to preserve SEW could lead to family firm owner-managers who avoid selling their firm, even though a firm sale could deliver higher returns (Chirico, Gómez-Mejía, Hellerstedt, Withers, & Nordqvist, 2019).

### **The Resource-Based View (RBV)**

In Study 2, the hypotheses are built on the resource-based view, addressing the prevalent view to answer the question: Why do some firms perform better than others? (Barnett, Greve, & Park, 1994: 11; Meyer, 1991). Thereby the RBV is shifting the focus from a market perspective to a firm perspective and arguing that the resource level of firms is crucial for firm success, hence representing a very suitable theory for Study 2. A major assumption of the RBV is that the level of returns a firm achieves is determined by its available resources (Penrose, 2009). Further, firms can develop unique strengths that may lead to a competitive advantage. Based on this, Habbershon and Williams (1999) argue that family firms have a unique bundle of resources stemming from the close interaction of the family and the firm, namely "familiness." In particular, "familiness" is defined as the "unique bundle of resources a particular firm has because of the family's systems, interaction, individual members, and the business" (Habbershon & Williams, 1999: 11). "Familiness" results in both strategic advantages and disadvantages for family firms compared to non-family firms.

On the one side, family firms benefit from highly committed employees (Donnelley, 1964; Horton, 1986), the close relationship between employees and managers (Horton, 1986), and a strong entrepreneurial spirit (Poutziouris, 2001). On the other side, however, family firms struggle with limited financial resources, lack of governance resources because agency costs increase due

to the altruism of owner-managers (Sirmon & Hitt, 2003), and unavailability of human resources in the form of skilled managers (Hiebl, 2013; Sirmon & Hitt, 2003). Thereby hindering the growth and wealth creation of family firms.

### **Resource Orchestration**

Various researchers have criticized the RBV and argue that valuable resources alone do not create a competitive advantage, but the active management of the resources leads to this competitive advantage (Helfat et al., 2007; Mahoney, 1995; Sirmon, Hitt, & Ireland, 2007). Consequently, academic researchers have proposed an extension of the RBV that additionally incorporates managerial actions and how resources are managed and deployed in the firm, namely “resource orchestration.” Study 3 is based on this extension of the RBV, resource orchestration. Resource orchestration is the interaction of resources, capabilities, and managerial know-how, resulting in a competitive advantage and hence superior firm performance (Helfat et al., 2007; Sirmon et al., 2011; Sirmon et al., 2007). Hence, resource orchestration is “concerned with the action leaders take to facilitate efforts to effectively manage the firm’s resources” (Hitt, Ireland, Sirmon, & Trahms, 2011: 64). Furthermore, family firm owner-managers drive the firm performance by defining the firm’s resource portfolio, and by bundling the resources (Sirmon et al., 2007).

The academic literature on resource orchestration in family firms has evolved into two conflicting points of view. Some researchers argue that family firms are better at orchestrating the available resources because they have access to patient capital, which fosters a long-term orientation (Habbershon & Williams, 1999; Zahra, 2003). However, some other researchers state that family firms have poor resource orchestration because family firm owner-managers want to preserve socioemotional capital for future generations. Consequently, family firms struggle with risk-averse owner-managers, slow decision-making processes., conservative strategies (Chirico,



Sirmon, Sciascia, & Mazzola, 2011; Le Breton-Miller & Miller, 2006), and integrating professional, highly competent external managers (Vinton, 1998).

### **OVERVIEW OF USED METHODOLOGIES IN DISSERTATION**

#### **Vignette Studies**

Studies 1 and 2 are based on a quantitative research approach, more precisely, two distinctive questionnaires, including vignette studies, were conducted. While the first questionnaire, relevant for Study 1, focused on family firm owner-managers, the second questionnaire, relevant for Study 2, focused on investment professionals of financial investors. Previous family firm and management studies have used vignette studies, which integrate elements of experimental and survey methodologies by asking participants how they would act in hypothetical but realistic scenarios (e.g., Connelly, Ketchen, Gangloff, & Shook, 2016; Richards, Kammerlander, & Zellweger, 2019). Additionally, general survey results were used to pinpoint both firm-specific and individual variables. As a result, survey elements and within-subject, survey-based experiments were combined (Mullins & Forlani, 2005).

The dependent variables in both studies are measured via short case vignettes (Aguinis & Bradley, 2014; Hatak & Roessl, 2015; Raaijmakers, Vermeulen, Meeus, & Charlene, 2015). Case vignettes enable the manipulation of key variables while upholding contextual realism (Raaijmakers et al., 2015). As a result, the findings have strong internal validity and are free of retrospective biases (e.g., Finch, 1987; Hughes, 1998). In addition, case vignettes are a useful tool for researching and deciphering difficult trade-off decisions (Fritzsche & Becker, 1984).

#### **Fuzzy-set QCA (fsQCA)**

In contrast to the first two studies, Study 3 is based on a qualitative research approach, particularly it builds on the fuzzy-set QCA (fsQCA) approach introduced by Ragin (2000). FsQCA enables the structuring of case-centered analyses while simultaneously keeping the depth and

insights of qualitative methodologies, enhancing comparative research (Fiss, 2011). Moreover, fsQCA originates in boolean and fuzzy algebra, enabling researchers to evaluate medium-sized samples by utilizing combinatorial logic to find necessary or sufficient combinations of conditions leading to the occurrence of the given conclusion (Fiss, 2011). As a result, each case reflects a range of theoretical characteristics that contribute to the explanation of an outcome. The use of fsQCA offers a variety of benefits. For example, it pushes a more comprehensive exploration of complexity because it is based on the principles of equifinality (i.e., different paths lead to the same outcome) and causal conjectures (i.e., the effect of a condition is also visible in combination with others) (Schneider & Eggert, 2014). Furthermore, compared to solely numerical and quantitative approaches (Miller, 2018), fsQCA provides more structured insights than entirely qualitative studies, however, it still represents qualitative differences between the individual cases, in contrast to solely numerical and quantitative approaches (Miller, 2018).

The following three chapters are the beating heart of this dissertation project, comprising: Study 1 (Should I sell part of my family firm? Exploring the drivers of a minority sale), Study 2 (Are family firms the preferred acquisition targets? A vignettes study), and Study 3 (What configurations lead to successful family firm takeovers?).

### **STRUCTURE OF THE DISSERTATION**

The remainder of this dissertation consists of four chapters. The first three chapters contain three studies. All three studies were co-authored by my first supervisor Prof. Dr. Nadine Kammerlander, who provided ongoing guidance on the research design, the data collection process, the analysis process, and the writing of the studies. Studies 1 and 2 are, in addition, co-authored by Christopher Khoury, who supported the data collection and analysis process. The final chapter provides a summary of my findings and their theoretical as well as practical implications before I offer several concluding remarks.

## STUDY 1: SHOULD I SELL PART OF MY FAMILY FIRM?<sup>1</sup>

### ABSTRACT

This study extends family firm exit literature and in particular the research in the field of minority sales of family firms to strategic investors. This type of firm sale might be of great interest to family firms because the family firm owner-managers can secure control over the firm and partly preserve socioemotional wealth while simultaneously generating additional financing and gaining strategic and managerial know-how. Based on the socioemotional wealth perspective, we hypothesize that the degree of family prominence, the degree of employee orientation, and pure family management influence the willingness to sell. Specifically, we argue that considerations of extended SEW increase the willingness to sell minority shares whereas considerations of restricted SEW decrease the willingness to sell minority shares. In addition, we hypothesize that the moderating effect of a below-average financial performance weakens the abovementioned direct effects. We test our hypotheses using a vignette study leveraging 327 observations from family firm owner-managers.

**Keywords:** *Family firms, firm sale, minority sale, socioemotional wealth, vignette study*

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## INTRODUCTION

Family firms are the most common form of business organization around the world and a significant driver of economic prosperity and growth (Anderson & Reeb, 2003; Andersson et al., 2017; Gersick et al., 1997; Miroshnychenko et al., 2021). Family firms, however, are confronted with several challenges due to their overlap of the family and the firm, for example, limited resources and capabilities, challenges to gain a competitive advantage and accelerate growth, as well as complicated succession processes (Harvey & Evans, 1994; Howorth, Westhead, & Wright, 2004; Shanker & Astrachan, 1996; Sirmon & Hitt, 2003). A viable solution for family firm owner-managers to overcome some of these challenges is to (partially) exit the firm and sell shares (Tappeiner, Howorth, Achleitner, & Schraml, 2012).

A partial exit of the firm could either occur through pursuing an initial public offering (IPO) or selling to an external investor. However, we focus on the latter mainly due to four reasons. First, an IPO is riskier for family firm owner-managers than selling to an external investor because, firstly, the family has no control over the potential future investors (Leitterstorf & Rau, 2014), and, secondly, IPOs have an inherent risk potential lawsuits following IPO failure (Leitterstorf & Rau, 2014). Second, family firms are typically very long-term oriented (Arregle et al., 2017; Duran et al., 2016; Gómez-Mejía et al., 2010); however, after an IPO, the regulatory authorities require ad-hoc updated and quarterly reports are short-term oriented (Davis, Neal, & White, 2003). Third, Leitterstorf and Rau (2014) show that family firms have significantly higher IPO underpricing than non-family firms; consequently, selling to an external investor might be financially more attractive for family firm owner-managers. Fourth, pursuing an IPO supports a family firm merely in getting additional financing (Leitterstorf & Rau, 2014), whereas, an external investor may provide additional financing and managerial expertise and resolve potential shareholder conflicts (Poutziouris, 2001; Upton & Petty, 2000). As such family firms might prefer minority sales.

Despite all these advantages of selling to an external investor, such decision can be considered emotionally tough for family firms (La Porta, Lopez-De-Silanes, & Shleifer, 1999; Poutziouris, 2001) because they strive to retain control over the firm to pursue the family's interest and therefore preserve and increase the level of socioemotional wealth (SEW), defined as the non-financial value accruing to families through the association with their firms (e.g., Berrone et al., 2012; Gómez-Mejía et al., 2010; Gómez-Mejía et al., 2007; Henn & Lutz, 2016). Compared to merely delegating some responsibility to externals, as is the case for professionalization, partial sales might threaten SEW as powerful outside decision-makers come into the family firm.

Previous research on external investments in family firms focused mainly on majority investments of financial investors (e.g., Howorth et al., 2004) with owning families giving up ultimate firm control and hence losing most to all of its SEW. So far, however, we know little about the drivers that influence the decision to sell *minority* shares to external investors. Understanding the characteristics of family firms that lead to a minority sale to a strategic investor is essential because prior research has emphasized family firms' reluctance towards majority sales (Henn & Lutz, 2016) due to their emphasis on maintaining SEW and, hence, keeping ultimate control over the firm (Berrone et al., 2012; Gómez-Mejía et al., 2007; Salvato & Aldrich, 2012; Yu, Lumpkin, Sorenson, & Brigham, 2012). Consequently, family firm owner-managers prefer a minority sale, such as to a strategic investor, because they can benefit from the abovementioned advantages while maintaining at least partial company control (Tappeiner et al., 2012).<sup>2</sup> At the same time, family business owners might particularly 'suffer' from ceding rights to the new investors, as they are still close to the business yet are now forced to agree on compromises, based on the minority investor's

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<sup>2</sup> We define a strategic investor as an investor whose assets and values are affected by the acquired firm (often operating in a similar or adjacent industry) and that hence has both a financial interest and a strategic interest in the new firm (Hellmann, 2002). Furthermore, we define all investments up to 49 % as minority investments.

preferences. To provide the first step in better understanding minority sales to strategic investors and thus extend research in the field of external investments in family firms, our study examines the following two research questions: *(1) What drives family firms' minority sales to a strategic investor? (2) What impact does the financial performance of the family firm have on the willingness to sell?*

To answer these questions, we build on the SEW perspective (e.g., Berrone et al., 2012; Debicki et al., 2016; Gómez-Mejía et al., 2010; Miller & Le Breton–Miller, 2014), which acknowledges the non-financial utility that family members are endowed with, and that affects their decision-making. Specifically, we derive a set of six hypotheses which we test using a vignette study (e.g., Connelly et al., 2016), presented to family firm owner-managers, resulting in 327 observations. First, we argue and find that with a higher degree of family prominence, family firm owner-managers refrain from selling a minority stake to a strategic investor. The underlying rationale, as we argue, is that even a partial sale of the firm could harm the image of the family and hence decrease the family's (restricted) SEW (Chua, Chrisman, & De Massis, 2015; Debicki et al., 2016). Second, we argue and find that with a higher degree of employee orientation, family firm-owner managers are more willing to sell a minority stake to a strategic investor because a sale may help to overcome the abovementioned family firm-idiosyncratic challenges and hence may be in the best interest of the employees (Plakoyiannaki, Tzokas, Dimitratos, & Saren, 2007; Sirmon & Hitt, 2003). Specifically, as we argue, such sales may increase the extended SEW of the family (Chua et al., 2015; Miller & Le Breton–Miller, 2014). Third, we argue that family firms with pure family management, due to restricted SEW considerations, are less willing to sell a minority stake to a strategic investor (Dyer Jr., 2006; Sciascia, Mazzola, & Chirico, 2013); however, our results point in the opposite direction. Fourth, we fail to find a significant impact of a below-average financial performance on family prominence. Fifth, we argue and find that a below-average

financial performance weakens the direct positive relationship between employee orientation and the willingness to sell. Sixth, we find that a below-average financial performance strengthens the direct negative relationship between pure family management and the willingness to sell.

Our study aims to make several major contributions to the family firm literature. First, we contribute to the research stream about selling the family firm (e.g., Chirico et al., 2019; De Massis, Chua, & Chrisman, 2008; DeTienne & Chirico, 2013; Zellweger et al., 2012) by analyzing characteristics of family firms that influence the willingness to sell a minority stake to a strategic investor. Second, we contribute to the SEW literature (e.g., Berrone et al., 2012; Debicki et al., 2016) by building on the distinction between the restricted and the extended SEW (Miller & Le Breton–Miller, 2014). Following previous research we analyze the impact of the restricted SEW (i.e., family prominence and pure family management) on the willingness to sell; in addition we theorize on the impact of the extended SEW (i.e., employee orientation) on the willingness to sell (e.g., Henn & Lutz, 2016), proposing that restricted and narrow SEW considerations might lead to opposed predictions. Third, we extend existing research on the impact of financial performance on the willingness to sell by questioning the assumption that, especially in hard times, family firm owner-managers are fully committed to their firms and not willing to sell the family firm (Hotchkiss, Smith, & Strömberg, 2021; Tappeiner et al., 2012). In particular, our results show that below-average performance alleviates the above mentioned effects of family characteristics on the willingness to sell. Last, the outcome of our work has important practical implications for external family firm succession.

### **THEORETICAL BACKGROUND**

#### **Family Firms and the Socioemotional Wealth Perspective**

Family firms are defined as firms that are owned and managed with the “intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the

same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (Chua et al., 1999: 25). Researchers worldwide concur that there are major differences between the idiosyncrasies of family firms and non-family firms regarding both strategic behavior (Arregle et al., 2017; Duran et al., 2016; Gómez-Mejía et al., 2010) and financial performance (Anderson & Reeb, 2003; O'Boyle et al., 2012; van Essen et al., 2015). One of the critical factors distinguishing family firms from non-family firms is SEW (Berrone et al., 2012; Gómez-Mejía et al., 2007). The SEW perspective predicts that family members operate a firm to preserve and maximize their SEW, sometimes at the cost of financial performance (Gómez-Mejía et al., 2010; Gómez-Mejía et al., 2007). Based on early family firm literature, SEW comprises five dimensions (Berrone et al., 2012): the control and influence of family members over strategic decisions of the firm (Chua et al., 1999; Kellermanns et al., 2012; Schulze et al., 2003); the identification of the family with the firm (Berrone et al., 2010; Kammerlander et al., 2015; Kepner, 1983); the emotional attachment of the family to the firm (Berrone et al., 2012); the family’s intention to pass down the family firm to future generations to ensure dynastic succession (Berrone et al., 2012; Zellweger et al., 2012); and the social relationships, which develop through the family’s association with the firm, including collective social capital, relational trust, and interpersonal solidarity (Coleman, 1994; Uzzi, 2018). Using these five SEW dimensions as a base, Miller and Le Breton–Miller (2014) further advance our understanding of SEW and cluster the SEW dimensions into the restricted SEW and the extended SEW: the first four dimensions are considered as restricted SEW and the last dimension is considered as extended SEW. While restricted SEW describes narrow and short-term benefits to the family members, extended SEW describes long-term benefits to a broader range of stakeholders of the family firm, including employees and business partners. Restricted SEW focuses on the immediate benefit of family members, sometimes at the cost of the firm’s interests and non-family



stakeholders. Specifically, restricted SEW leads to nepotism, hyper-conservative strategies to maintain family control, limited career opportunities for non-family members, and inadequate innovation investments, often resulting in poor financial performance and inferior long-term firm growth (Miller & Le Breton–Miller, 2014). Extended SEW, to the contrary, focuses on actions and consequences beyond the family, and hence seeks a broader set of stakeholders benefits from SEW-related decisions (e.g., employees) (Jones, 1995; Miller & Le Breton–Miller, 2014). Such actions may include extensive investments in products or processes and forming close and long-lasting relationships with strategic partners to safeguard the firm’s survival, resulting in strong financial performance and superior long-term growth (Cennamo, Berrone, Cruz, & Gomez–Mejia, 2012).

One of the major drivers behind a family firm’s strategic behavior is the permanent trade-off between financial wealth and SEW and the fear of losing at least one of both (Chrisman & Patel, 2012; Gómez-Mejía, Patel, & Zellweger, 2018; Kotlar, Signori, De Massis, & Vismara, 2017). So far, research has made important advances regarding the question if SEW or financial wealth is more important to family firm owner-managers and under which conditions, yet we still miss a complete and nuanced understanding. Wiseman and Gomez-Mejia (1998) suggest that family firm owner-managers focus mainly on minimizing current SEW losses and, thereby, are willing to sacrifice future financial wealth. Adding complexity, others argue that family firm owner-managers are focusing on maximizing *future* wealth and thereby accepting to lose current SEW (e.g., Zellweger et al., 2012). Moreover, research acknowledges that firm performance affects family members’ decision-making as family firm owners might sacrifice current SEW to prevent firm failure, which would imply long-term SEW losses(Chrisman & Patel, 2012).

As a consequence of such SEW considerations, family members avoid diversifying their shares of personal wealth invested in the firm because this could dilute their ownership stake, ultimately weakening their control over the firm (Duran et al., 2016; Gedajlovic & Carney, 2010).

Therefore, the personal financial wealth of family members is highly dependent on the firm, which often results in risk-averse business decisions (Donckels & Fröhlich, 1991). As a result, family firms often show different behaviors regarding portfolio diversification (Gómez-Mejía et al., 2010), internationalization (Zahra, 2003), investment policies, especially in terms of investment time horizons (Anderson, Duru, & Reeb, 2012), and firm leverage (Hansen & Block, 2021) as compared to non-family firms. Overall, the intention to preserve SEW could motivate a family firm owner-manager's desire to retain assets and thus avoid (partially) selling the firm, even though a sale could deliver higher returns (Chirico et al., 2019).

### **(Partially) Selling the Family Firm**

On the one side, family firms are characterized by several strategic advantages, such as a strong entrepreneurial spirit, long-term orientation, strong employee loyalty, and high levels of corporate independence (Poutziouris, 2001). However, on the other side, family firms often struggle with nepotism, low degree of professionalism, scarce resources, and capabilities (e.g., financial resources, human resources), preventing family firms from growing (Romano et al., 2001; Sirmon & Hitt, 2003; Upton & Petty, 2000). Based on these challenges, De Massis et al. (2008) identified five exhaustive but not independent categories of factors leading to a family firm sale: (1) individual factors (e.g., low ability of potential successor, lack of motivation of potential successor); (2) relation factors (e.g., conflicts between family members or non-family members, lack of trust in the potential successor); (3) financial factors (e.g., inability to serve the tax burden related to succession); (4) context factors (e.g., loss of key customers or suppliers, see also (Salvato, Chirico, & Sharma, 2010); and (5) process factors (e.g., failure to train the potential successor, failure to communicate the succession-related decisions to family members and other stakeholders). Further reasons for family firm owner-managers to sell shares to outsiders are not necessarily related to the family and include liquidity needs, reaching retirement age, burnout,

health issues, or even the death of the owner (Akhter et al., 2016; DeTienne, 2010; Meier & Schier, 2014; Mickelson & Worley, 2003).

Selling to an external investor may help overcome the abovementioned limitations of family firms. First, external investors provide additional financing and may support the family firm to internationalize, innovate, expand its business operations, and grow. Second, external investors also provide managerial resources and strategic know-how (e.g., through implementing external, highly professional management, extending the business network, intensifying political connections) (Faccio & Hsu, 2017; Salerno, 2019). Yet, at the same time, a firm sale is a tough decision when family firm owner-managers are emotionally involved, which is the case in most family firms (Duhaimé & Grant, 1984a). Additionally, previous academic literature argues that family firm owner-managers strive to retain control over the firm to pursue the family's interest and therefore preserve or even increase the level of (restricted) SEW (e.g., Berrone et al., 2012; Gómez-Mejía et al., 2010; Gómez-Mejía et al., 2007; Henn & Lutz, 2016).

Existing firm sales options differ in terms of risk, complexity, degree of reward, and family engagement after the exit (DeTienne & Cardon, 2012). Selling the business can occur in the form of management buyouts (MBO), management buy-ins (MBI), as well as in the form of mergers or acquisitions (M&A) with another firm (Akhter et al., 2016; DeTienne & Cardon, 2012; Kammerlander, 2016; Scholes et al., 2007). In general, there are two main types of acquirers: strategic investors and financial investors. Our study focuses on strategic investors, which are typically long-term oriented, target integrating the acquired firm, and aim to realize operational synergies through economies of scale or eliminating duplicate functions. The key acquisition reasons of strategic investors are vertical expansion (i.e., buying a customer or a supplier), horizontal expansion (i.e., expansion to new geographies or products), eliminating major

competitors, and improving specific capabilities (e.g., technology, research & development) (Chiarella & Ostinelli, 2020).

The phenomenon of acquiring or selling a family firm is increasingly gaining academic attention. So far, however, research has mainly focused on majority sales (e.g., Howorth et al., 2004; Wright, Simons, & Scholes, 2006), thus ignoring minority sales to external investors. This constitutes a major gap, because as a firm sale is associated with SEW loss, family firm owner-managers might aim to sell only a small portion of their shares and thus prefer a minority sale over a majority sale to preserve SEW (Tappeiner et al., 2012). We strive to close this research gap; hence, this study investigates the drivers of a family's willingness to sell a minority stake of their firm to a strategic investor. We focus on minority sales to strategic investors because previous research has shown that family firm owner-managers prefer minority sales over majority sales (Tappeiner et al., 2012) and strategic investors over financial investors (Bierl, Schickinger, Leitterstorf, & Kammerlander, 2018).

## **HYPOTHESES DEVELOPMENT**

This study investigates how family prominence, employee orientation, and pure family management affect the family's willingness to sell. Also, we examine the moderating effects of financial performance on the abovementioned direct effects. We selected those variables based on our theoretical framework, SEW, because, first, family prominence mirrors the image of the family in society (Debicki et al., 2016), which is one of the major concerns of families when considering selling the firm (Achleitner et al., 2008). Second, family firms are recognized for their high employee orientation compared to non-family firms (Habbershon & Williams, 1999), which stems from their focus on binding ties. A firm sale and new owners may significantly affect the workforce. Third, the literature argues that pure family management has unique characteristics (Chu, 2009), also mirroring the focus on control desire, which might significantly affect the selling

decision. While the second construct, employee orientation, matches with the extended SEW perspective, the other two likely reflect a focus on restricted SEW. Lastly, we selected firm performance as the moderator because previous research argues and shows that below-average financial performance leads to family firm owner-managers to act fundamentally differently than in more prosperous times and even make compromises regarding their SEW (Chrisman, Chua, Pearson, & Barnett, 2012; Gómez–Mejía et al., 2014).

### **Family Prominence**

Family prominence focuses on the image building related to “how others view the family because it operates a business, and because of the way the family presents itself to the society through the business” (Debicki et al., 2016: 51). This means that family prominence reflects the importance of how the family is perceived in society due to firm ownership (Debicki et al., 2016). Thus, due to their focus on family prominence, many family firm owner-managers try to run their firms to be recognized for their accomplishments and generous actions by society. Among other aspects, social support and recognition from family, friends, and the broader society are highly important to a family firm’s reputation and prominence (Corbetta & Salvato, 2004; Tagiuri & Davis, 1992). By doing so, family firm owner-managers emphasize the immediate family, hence focusing on benefits or threats related to the restricted SEW (Miller & Le Breton–Miller, 2014).

Family firm owner-managers strive to keep the firm under the family umbrella and are more concerned about losing restricted SEW than losing financial wealth (Gómez–Mejía et al., 2018). However, even a minority firm sale would lead to an immediate and enduring partial loss of family prominence (Chirico et al., 2019), especially as society might condemn the family members for not being able to keep the firm in their possession. Family firm owner-managers might lose absolute control over firm strategic decisions, managerial appointments, or decisions regarding dividend payments. Gómez–Mejía et al. (2007) explain that for family firms, the potential loss of restricted

SEW, and hence the family's family prominence is one of the most important factors when thinking about major strategic decisions (e.g., a firm sale). Leaving their "baby" to strangers through the firm's sale may be perceived as a harmful choice by family firm owner-managers implying negative emotions (Chirico et al., 2019), as the image of the family as perceived by themselves as well as the society is threatened. In particular, family firm owner-managers might expect that strategic investors, as very active investors, make significant changes to the day-to-day business operations and the firm's strategic direction to unleash all economies of scale and synergies after the investment that might negatively affect the restricted SEW of the family firm owner-managers (Chiarella & Ostinelli, 2020), as it has consequences on how the firm and family is seen, both short- and long-term.

Building on these arguments, we propose that family firm owner-managers with a high degree of family prominence are less willing to sell their firms (and thus forgo chances to increase financial wealth in the short term – through the sales price – and in the long-term – through the value creation resources that the investor brings with itself) than those with a low degree of prominence because a firm sale would decrease the degree of family prominence. We thus hypothesize:

*Hypothesis 1: The degree of family prominence of a family firm has a negative relationship with the willingness to sell shares.*

### **Employee Orientation**

In addition, we argue that the degree of employee orientation of a family firm affects the family's willingness to sell. Employee orientation describes an employee-focused organizational climate (Plakoyiannaki et al., 2007), creating a family firm where employees' interests are in the foreground instead of merely the interests of shareholders. By focusing on long-term benefits to a broader range of stakeholders (i.e., the company's employees), the focus is on the extended SEW,

in contrast to the restricted SEW that only focuses on the immediate family (Miller & Le Breton–Miller, 2014).

Family firms with high employee orientation, and hence a high level of extended SEW, aim to act in the best interests of their employees, even though this might imply selling parts of the firm. By doing so, family firm owner-managers prioritize long-term SEW and financial wealth over short-term SEW (Zellweger et al., 2012). Despite appearing counterintuitive to some at first sight, a partial firm sale may provide significant advantages to the employees of the family firm because, on the one side, external investors can help to solve family internal conflicts, and on the other side, provide additional financing and capabilities to grow and to foster strategic changes (Dawson, 2009; Scholes et al., 2009). Specifically, a minority sale of the family firm may support the firm's continuation even in times of conflicts among individual shareholders by buying out the conflicting shareholder party (Henn & Lutz, 2016). Moreover, family firms often suffer from limited access to resources and capabilities, impeding the firm's growth and the development of employees. Selling shares to strategic investors may provide family firms with additional financial resources and managerial know-how, driving growth and long-term success (Dreux, 1993; Howorth et al., 2004). The professionalization that goes along with strategic investors might foster the HR processes, make employee development more systematic and comprehensive, and offer new job positions to talents. Therefore, minority sales may support family firms to provide a stable working environment and an attractive career platform for their employees. Additionally, a unique characteristic of a minority sale is that the family stays in the driving seat and hence is further responsible for critical strategic decisions. This minimizes the potential threat of employee downsizing after the firm sale (Tappeiner et al., 2012).

Building on these arguments, we argue that family firm owner-managers with a high degree of employee orientation are more willing to sell shares of their firms than those with a low degree.

Such sales will increase the extended SEW; moreover, it will also benefit the family both in the short and in the long term because the family remains a significant shareholder after the minority sale (Zellweger et al., 2012). We thus hypothesize:

*Hypothesis 2: The degree of employee orientation of a family firm has a positive relationship with the willingness to sell shares.*

### **Pure Family Management**

Next, we argue that pure family management, defined as top management teams consisting of only family managers, is an important factor in determining the willingness to sell shares of a family firm. In general, previous research distinguishes between active family influence and passive family influence. While in the first type, family members hold top management positions and are actively involved in day-to-day operations, in the second type, family members are not involved and only act as passive owners, and sometimes as rather silent recipients of dividends (Denis & Denis, 1994; Maury, 2006). Family firms with pure family management indicate very active and strongly involved family members that place immediate relatives into top management positions often regardless of qualification and previous experience hence pursuing the restricted SEW (Miller & Le Breton–Miller, 2014). In particular, pure family management teams are likely concerned about their job positions and their influence on the company. Given their close embeddedness, pure family management teams might also be characterized by high levels of emotional attachment.

This active family management allows for the boundaries between the family and the firm to disappear, and meaningful firm-related discussions also characterize daily family life (and vice versa) and are often conducted within the family's four walls; thus, family members have been very intensely involved in the family firms since their early childhood (Gómez-Mejía et al., 2010). Moreover, this subconscious involvement since youth leads to highly committed and emotionally



strongly attached family firm owner-managers when growing up (DeTienne, 2010; Kammerlander, 2016) that further develops over time because the family firm owner-managers increasingly identify with the firm (Dehlen, Zellweger, Kammerlander, & Halter, 2014; Hsu, 2013; Zahra, 2003). Such family firm owner-managers often view the firm as their “baby” (Kammerlander, 2016: 193). As a consequence, pure family management teams are likely driven by family-focused, hence restricted SEW and they consider restricted SEW to be more important than (short term and long term) financial wealth. Leaving their “baby” to strangers through the sale of the firm may be perceived as a disastrous choice by family firm owner-managers that leads to an immediate loss of strong emotional attachment, loss of control, and hence loss of restricted SEW (Chirico et al., 2019).

Building on these arguments, we propose that family firm owner-managers in firms with pure family management are less willing to sell their firms than those with external managers in top management. We thus hypothesize:

*Hypothesis 3: Pure family management has a negative relationship with the willingness to sell shares.*

### **Moderating Role of Financial Performance**

Previous academic literature states that nonroutine organizational events, like a below-average financial performance of the family firm, lead to fundamentally different decisions than in more prosperous times (Chrisman & Patel, 2012; Gómez–Mejía et al., 2014). Furthermore, the below-average financial performance of the family firm significantly changes the starting point for the family firm owner-managers who are balancing the trade-offs between SEW and financial wealth, both in the short-term and the long-term (Chua et al., 2015). Therefore, in addition to the direct effects of family prominence, employee orientation, and pure family management, we analyze the moderating effect of financial performance on a family’s willingness to sell, thereby following prior research (e.g., Chrisman & Patel, 2012; Richards et al., 2019).

*Financial performance and family prominence.* We propose that a below-average financial performance weakens the negative relationship between family prominence and the willingness to sell shares. Initially, we argue in Hypothesis 1 that a high degree of family prominence reduces the willingness to sell shares because family firm owner-managers are highly concerned about the restricted SEW, which might be at risk, at least in the short-term, due to selling shares (Chirico et al., 2019; Gómez-Mejía et al., 2010; Gómez-Mejía et al., 2007).

However, a below-average financial performance creates a disadvantage for the respective firm and can be an acute risk, with potential insolvency as the worst-case scenario. In this case, additional financing and external strategic support are required to overcome this setback (Berger & Udell, 1998). Family firm owner-managers are affected even more strongly by the poor financial performance of their firm than the shareholders of non-family firms because family members could lose both financial and non-financial wealth, including family prominence. Specifically, the perceived role of the family in society will turn negative in case of firm failure. Due to the close relationship between the family and the firm, family members could blame themselves for the failure of the firm (Berrone et al., 2012; Sharma & Manikutty, 2005; Shepherd, Wiklund, & Haynie, 2009), which might also negatively affect SEW in the long-term. Therefore, the family would lose both in the long-term – non-financial wealth and financial wealth – if continuing to avoid selling shares in troubling economic times. Thus, the threat of losing financial wealth and restricted SEW both short- and long-term motivates family firm owner-managers avoid this worst-case scenario and encourages them to involve strategic investors.

Building on these arguments, we propose that a below-average financial performance weakens the negative relationship between the direct effect of family prominence and the willingness to sell shares. We thus hypothesize:

*Hypothesis 4: A below-average financial performance weakens the direct negative relationship between family prominence and the willingness to sell shares.*

***Financial performance and employee orientation.*** Next, we propose that a below-average financial performance weakens the positive relationship between employee orientation and the willingness to sell shares. Initially, we argue in Hypothesis 2 that employee orientation positively affects the willingness to sell shares because in family firms with high employee orientation, the employees' long-term well-being is in the focus.

However, a below-average financial performance significantly changes the starting position of employees after a firm sale (Chrisman & Patel, 2012; Gómez-Mejía et al., 2014). Although the risk of major reconfigurations after the sale are somewhat limited due to only selling minority shares (Tappeiner et al., 2012) as noted above, the firm's below-average performance may trigger the external investor to increase the pressure on the family to cut unnecessary costs to become competitive again. One common cost-cutting measure involves employee downsizing and adapting organizational structures (Datta, Guthrie, Basuil, & Pandey, 2009; Marks & Mirvis, 2011). Therefore, the minority sale of shares in the case of below-average financial performance poses a high risk for the firm's employees. This entails also increased risk for the long-term, extended SEW of the family firm owner-managers who would be partly responsible for the employee downsizing in the long run (Chua et al., 2015).

Moreover, especially in hard times, family firm owner-managers feel responsible for their employees, wishing to safeguard employees' jobs and not let them down (Cirillo, Muñoz-Bullón, Sánchez-Bueno, & Sciascia, 2020). For instance, family firms are generally more employee-oriented and provide greater job security than non-family firms, even during hard times (Bassanini, Breda, Caroli, & Reberieux, 2013). In line with this argumentation, previous academic literature has shown that family firms rely less than non-family firms on employee downsizing in times of

poor financial performance (e.g., Bassanini et al., 2013; Sanchez-Bueno, Muñoz-Bullón, & Galan, 2019; Stavrou, Kassinis, & Filotheou, 2007) due to a stronger focus on moral obligations and reputation (Block, 2010). As a result, we argue that in times of poor financial performance, family owner-managers with high levels of employee orientation become less willing to sell minority shares to investors (compared to prosperous times) because of their concerns regarding the employees' professional future and their concerns about the long-term, extended SEW. They might even forgo short-term and long-term financial gains in order to satisfy their extended SEW needs.

Building on these arguments, we propose that a below-average financial performance weakens the positive relationship of employee orientation's direct effect on the willingness to sell. We thus hypothesize:

*Hypothesis 5: A below-average financial performance weakens the direct positive relationship between employee orientation and the willingness to sell shares.*

***Financial performance and pure family management.*** Lastly, we propose that a below-average financial performance strengthens the negative relationship between pure family management and the willingness to sell shares. Initially, we argue in Hypothesis 3 that pure family management has a negative impact on the willingness to sell shares because, as a result of the active involvement, family firm owner-managers are emotionally strongly attached to the family firm and have a high level of restricted SEW (Denis & Denis, 1994; Zellweger et al., 2012). This emotional attachment, job security for family members, and the high level of restricted SEW might be put at risk, at least in the short term, in case of a (partial) firm sale (Chirico et al., 2019; Kammerlander, 2016) as minority shareholders will put pressure on family members to release control and to take economically reasonable yet emotionally difficult decisions.

We argue that the negative relationship between pure family management and the willingness to sell shares is even strengthened in the case of below-average performance because

strategic investors likely insist on replacing family managers with non-family managers who are experienced in restructuring in case of unsatisfactory firm performance. When this is the case, family owner-managers face high personal financial costs due to high performance-based compensations (Gilson, 1989; Gilson & Vetsuypens, 1993). Moreover, family owner-managers face high personal non-financial costs in case of sale, mainly driven by emotions and considerations of restricted SEW as key decision-makers, are seen responsible for the poor financial performance of the firm (Eckbo, Thorburn, & Wang, 2012). Previous research argues that family firms, compared to non-family firms, provide fewer corporate disclosures and are more opaque to the public (Anderson, Duru, & Reeb, 2009; Chen, Chen, & Cheng, 2008; Tappeiner et al., 2012). Therefore, in the case of poor financial performance of a fully family-owned firm, the public would be unaware, and the family owner-managers may retain in the short term their family-related restricted SEW. In contrast, a firm sale typically requires a holistic due diligence process to analyze legal, financial, and commercial data (Howson, 2017). This process might lead to the public hearing rumors about the firm's poor financial performance, which might result in the long-term abovementioned high personal costs to the family owner-managers due to loss of restricted SEW.

Therefore, we propose that below-average financial performance strengthens the direct negative relationship between pure family management and the willingness to sell shares because the family owner-managers would like to avoid the public getting information about the firm's financial situation, which might lead to high personal costs. We thus hypothesize:

*Hypothesis 6: A below-average financial performance strengthens the direct negative relationship between pure family management and the willingness to sell shares.*

## **METHODOLOGY**

We used a vignette study to test our hypotheses. Vignette studies combine elements of experimental and survey methods by asking respondents how they would behave in hypothetical

but realistic scenarios (Connelly et al., 2016; Priem et al., 2011) and have been used in previous family firm and management studies (e.g., Connelly et al., 2016; Richards et al., 2019). In addition, general survey responses were used to identify personal characteristics (e.g., degree of family prominence, educational level, family generation) and firm-specific characteristics (e.g., degree of employee orientation, the composition of top management, specific industry, number of employees, the percentage of shares in family hands, degree of innovation performance). Thus, we combined survey elements with those of within-subject, survey-based experiments (Mullins & Forlani, 2005).

The willingness to sell was measured via short case vignettes (Aguinis & Bradley, 2014; Hatak & Roessl, 2015; Raaijmakers et al., 2015). Specifically, we asked the participants to imagine the situation of a hypothetical sale of the family firm and to indicate their willingness to sell minority stakes to strategic investors. Case vignettes allow to manipulate key variables (in this case, financial performance) while simultaneously maintaining contextual realism (Raaijmakers et al., 2015). Thus, the results are free of retrospective biases and have good internal validity (e.g., Finch, 1987; Hughes, 1998). Moreover, case vignettes are a valuable method for studying and analyzing complex trade-off situations (Fritzsche & Becker, 1984), such as the decision to sell shares.

In the first step of this study, we purchased the addresses of 10,000 German-speaking family firms using the DDW (Die Deutsche Wirtschaft) database, which is regularly used as a database in family firm research (e.g., Querbach, Waldkirch, & Kammerlander, 2020). DDW defines family firms as firms predominantly managed and controlled by a dominant coalition of family members (or a small number of families). Second, we approached family firms and their respective owners or top managers through a postal invite to our online questionnaire on March 25, 2021. Given that some of the addresses turned out as outdated (around 20 %) and many managers did not regularly

check their postal mail due to the strict COVID-19 lockdown—about 38 % of all top managers were in the home office during the first half of 2021 (Marschall, 2021)—we expect that roughly 4,960 potential participants have received our invitations. In total, we collected 306 responses (6.2 % response rate) over 12 weeks, including a reminder mail in the middle of the collection period. Our response rate is slightly lower but comparable with other family firm and management studies (e.g., Richards et al., 2019). Besides the strict lockdown due to COVID-19, two potential reasons for the slightly lower response rate are the high sensitivity of the topic and the above-average length of the questionnaire (about 40 minutes required to fill out the questionnaire). Before data analyses, we cleaned the dataset and excluded responses that did not meet both of the following criteria: (1) progress of response > 77 %, and (2) company qualifies as a family firm (i.e., a positive answer to the question regarding whether the respective company is perceived as a family firm). After these two steps, our data sample consisted of 130 responses. The final model contained 109 responses because we excluded observations with negative manipulation checks after reading the scenarios<sup>3</sup>. As a result of the within-person nested data structure, each respondent had to answer questions regarding three case vignettes, resulting in 327 evaluated vignettes.

### **Design**

Participants were asked to imagine a situation of considering selling shares of their family firm. In line with previous vignette studies (e.g., Connelly et al., 2016), we provided only minimal information regarding the hypothetical family firm and asked for an indication of willingness to sell to a strategic investor (minority vs. majority)<sup>4</sup>.

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<sup>3</sup> Manipulation checks ensure that all respondents in the final model had carefully read and fully understood the vignettes (i.e., gave correct answers to the question whether Investor A or Investor B was the strategic investor).

<sup>4</sup> This information included (1) a minority sale to a strategic investor and, for the purpose of post hoc tests, (2) a majority sale to a strategic investor, (3) a minority sale to a financial investor, and (4) a majority sale to a financial investor.

To reflect the impact of the firm's financial performance on the willingness to sell, we manipulated the case vignettes so that each participant received three different vignettes, with the financial performance as the only differentiator. We distinguished between EBIT margin above market average, EBIT margin below market average, and EBIT margin at market average (i.e., control group). Manipulating financial performance through the case vignettes ensured that the findings had good internal validity, isolating the impact of financial performance while excluding other potentially disruptive effects (e.g., Finch, 1987; Hughes, 1998; Priem et al., 2011). Like previous studies (e.g., Mullins & Forlani, 2005), we used a within-subject study design because it minimizes the random noise. The manipulation of personal variables and values might be misleading, negatively affecting external validity because individuals may not be fully able to separate the fictive case vignettes from the lived characteristics and values to respond to the vignettes in an unbiased way. Hence, we collected personal values from an adjacent survey.

Next, in a pilot study, we sent our questionnaire via e-mail to seven researchers and eight practitioners to check the wording of the case vignettes and the questionnaire. We gathered their insights and further improved our questionnaire and vignettes to eliminate confusion and ensure realism (Connelly et al., 2016; Finch, 1987; Raaijmakers et al., 2015).

## **Measures**

### **Dependent Variable**

*Willingness to sell.* After reading each of the three vignettes, managers were asked to indicate how likely they would sell a minority stake to a strategic investor. Responses were made using a 5-point scale, ranging from 1 ("very unlikely") to 5 ("very likely"). The resulting value was the dependent variable in a hierarchical linear model (HLM).

### **Independent Variables**

*Family prominence.* To measure the degree of family prominence (Debicki et al., 2016),



we first asked in the questionnaire about the importance of the (1) recognition of the family in society for generous actions, (2) accumulation and conservation of social capital, and (3) maintenance of the family reputation through the business. Each respondent indicated an importance score on a 5-point scale, ranging from 1 (“not important”) to 5 (“very important”). Based on this information, we then calculated an average family prominence score (Debicki et al., 2016). Cronbach’s alpha of the scale was 0.71.

***Employee orientation.*** To measure the degree of employee orientation (Zhang, 2010), the questionnaire asked about the firm’s (1) reward system, (2) promotion system, (3) working climate, (4) relationship between management and workers, and (5) philosophy of management. Each respondent indicated a score on a 5-point scale representing how applicable that item was to the respective firm, ranging from 1 (“fully disagree”) to 5 (“fully agree”). We then calculated an average employee orientation score (Zhang, 2010). Cronbach’s alpha of the scale was 0.80.

***Pure family management.*** To determine whether top management was exclusively staffed with family members, a questionnaire asked participants about the availability of external managers. The variable was measured dichotomously and distinguished between “at least one external manager” (0) and “no external managers” (1).

### **Moderating Variable**

***Financial performance.*** While studies based on archival data often use historical levels or industry benchmarks to create performance dummies, we follow prior vignette studies (e.g., Richards et al., 2019) and manipulated this variable, comparing firm performance to market average. We use comparison to market rather than historical benchmarks, as it is a better predictor of the firm’s future competitive advantage. The advantage of such manipulation approach is that it allows us to collect multiple data points per respondent and to carve out the causal effect of performance. We measured the moderating variable financial performance via the firm’s EBIT

margin, which we manipulated as part of the case vignettes. Each respondent received three different vignettes, with manipulated financial performance as the only difference. The first vignette showed a scenario in which financial performance was presented as “EBIT margin above market average,” the second vignette displayed a scenario in which financial performance was presented as “EBIT margin below market average,” and the third was presented as “EBIT margin at market average.” In line with our argumentation, we used the following dummy variables: 0 for “above-average financial performance,” 1 for “average financial performance,” and 2 for “below-average financial performance.”

### **Control Variables**

We controlled for several variables that could impact the family firm owner-managers’ willingness to sell shares. First, we asked respondents to indicate their highest *level of education* (similar to Debicki et al., 2016) from the following list: 0 = “no school certificate,” 1 = “secondary school certificate,” 2 = “junior high school diploma,” 3 = “high school diploma,” 4 = “bachelor’s degree,” 5 = “master’s degree,” and 6 = “PhD or higher.” Because our case vignettes provided only limited information regarding firm-specific characteristics, we assumed that the respondents might transfer key aspects of their firms to the case vignettes (following prior published studies such as Richards et al., 2019). Therefore, we controlled for firm-level variables, like *type of industry* (we differentiated between “production sector,” “service sector,” and “other sector”). Moreover, we controlled for *firm size* (logarithmic number of full-time employees; similar to Wiklund, Nordqvist, Hellerstedt, & Bird, 2013) and *generation of the family firm* (similar to DeTienne & Chirico, 2013). Furthermore, we controlled for *the percentage owned by the family* (similar to Dawson, 2009) because the ownership structure and the potential availability of an investor might crucially influence the willingness to sell. Lastly, we controlled for the firm’s innovation performance (Tsai & Yang, 2013). In the first step, participants had to answer questions regarding (1) acceptance of

innovation in the firm based on research results, (2) management's ability to seek innovative ideas, (3) acceptance of innovation by management, (4) encouragement and support of innovative activities by the firm, and (5) acceptance of new ideas by the firm. Each respondent indicated a score on a 5-point scale of how applicable each item was to the respective firm (ranging from 1 = "fully disagree" to 5 = "fully agree"). Based on this information, we calculated an average innovation performance score (Tsai & Yang, 2013). Cronbach's alpha of the scale is 0.87. We expected that the innovation performance of a firm would affect the willingness of the family firm owner-manager to sell shares because ingenuity is a strategic resource that could lead to competitive advantage (Barney, 1986; Hurley & Hult, 1998; Tsai & Yang, 2013).

### **Analytical Strategy**

This study uses a hierarchical data structure due to the vignette design with 327 vignettes nested in 109 responses. According to the literature, hierarchical linear modeling is recommended to account for the nested data structure (Raudenbush & Bryk, 2002). Estimating the interclass correlation coefficient ICC via an empty null model resulted in 0.7816. That is, between-subject differences drove 78.16 % of the outcome variability. We used hierarchical linear random intercept models to test our hypotheses since hierarchical linear modeling is recommended if the ICC exceeds 0.05 (Raudenbush & Bryk, 2002).

## **RESULTS**

### **Descriptive Analysis**

An overview of the correlations and descriptive statistics of all variables included in our model are summarized in Table 2. Notably, only low correlations appear between the individual variables. On average, 56 % of the firms employ an external manager, so 44 % have pure family management in top management, and families fully own 90 % of the firms. Furthermore, the respondents are highly educated, with 83 % holding a master's degree or higher.

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Table 2: Descriptive statistics

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1 Willingness to sell shares <sup>1</sup>	3.018	1.340	1											
2 Willingness to sell shares <sup>2</sup>	3.009	1.301	n/a	1										
3 Willingness to sell shares <sup>3</sup>	2.991	1.344	n/a	n/a	1									
4 Family prominence	3.182	0.825	-0.049	-0.061	-0.086	1								
5 Employee orientation	3.800	0.612	0.033	0.123	0.182	0.194*	1							
6 Pure family management	1.440	0.499	0.043	0.122	0.241*	-0.069	0.067	1						
7 Educational level	4.927	0.847	-0.138	-0.235*	-0.204	-0.082	0.013	-0.142	1					
8 Type of industry	1.174	0.692	0.037	0.142	0.121	-0.097	0.087	-0.090	-0.104	1				
9 Number of employees	5.617	1.750	0.038	-0.056	-0.005	0.063	-0.012	-0.389*	0.216*	0.025	1			
10 Generation family firm Percentage	3.220	1.377	0.045	0.009	0.056	0.210*	-0.026	-0.089	0.181	-0.031	0.318*	1		
11 owned by families	97.550	8.163	0.021	-0.040	-0.061	0.050	-0.034	-0.103	0.171	-0.114	0.005	0.254*	1	
12 Innovation performance	3.876	0.687	-0.100	-0.106	-0.014	-0.084	0.546*	0.012	0.056	-0.118	0.165	-0.116	0.012	1

Notes: \* $p < 0.05$ ; 1 = Below-avg. financial performance; 2 = At-avg. financial performance; 3 = Above-avg. financial performance

### **Tests for Data Quality**

**Common method bias.** We took four main ex-ante measures to avoid the risk of a common method bias. First, while designing the survey, we avoided complex, ambiguous questions, and peculiar scientific wordings. Second, we piloted the survey with seven academic researchers and eight practitioners to test our questions and wordings, and improved our questionnaire based on their feedback. Third, we ensured confidentiality to reduce the motivation of the respondents to answer the survey questions in a socially desirable way (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Fourth, we built the survey into distinct sections and split the sections with the case vignettes from the sections regarding personal data and firm data. Hence, we further reduce respondents' potential preconceptions about our studied relationships (Podsakoff et al., 2003).

In addition to the ex-ante measures, we took two post hoc tests to test for a potential common method bias. First, we performed a Harman single factor test. As a result, common method bias was no serious risk because the first factor explained only 16.18 % of the variance, and in total, there are six factors with an "Eigenvalue" larger than one (Podsakoff & Organ, 1986).

Second, we conducted a marker variable test developed by Lindell and Whitney (2001) and tested the correlation between the dependent variable and a marker variable (Lindell & Whitney, 2001), which was not correlated with the dependent variable (Homburg, Klarmann, & Schmitt, 2010). We performed this test by using the number of owner families as the marker variable and the willingness to sell as the dependent variable ( $r = -1.83\%$ ). The study confirmed that a common method bias is not a risk (Lindell & Whitney, 2001).

**Representativeness.** To validate the representativeness of our sample, we compared key characteristics (i.e., number of employees, firm age, and industry type) of the responses in the sample with general data about German family firms. This information was derived from the list "Top 5,000 family firms in Germany" by "Die Deutsche Wirtschaft." Regarding the number of

employees and thus firm size, our sample firms have slightly fewer employees than the peer group (median sample number of employees: 258 vs. median peer group number of employees: 380). Regarding firm age and type of industry, our sample medians are slightly older, and regarding the type of industry in line with the peer group (median sample firm age: 85.0 years vs. median peer group firm age: 75.0 years; sample share of production sector: 59.3 % vs. peer group share of production sector: 58.5 %; remaining 40.7 % and 41.5 % are a mix of the service sector and other sectors). Finally, we compared the median (average) age of our sample respondents, 53.4 (51.3 years), with the median (average) age in the literature, 55.1 years (52.7 years) (Chen, Cheng, & Dai, 2013; Kellermanns, Eddleston, Barnett, & Pearson, 2008), and found no substantial deviation.

*Non-response bias.* To test for a potential non-response bias, we compared the average age and industry of our respondents with the average age and average industry of a list of 5,000 German family firms (“Top-5000 family firms in Germany” by “Die Deutsche Wirtschaft”) and academic literature. Next, we performed a Welch t-test for unequal variances and sample sizes by comparing the average age of the respondents with the average age of family firm owner-managers in the literature, 52.7 years (Kellermanns et al., 2008), and found no statistically significant differences ( $t = -1.29$ ;  $p = 0.20$ ). Moreover, we conducted chi-square tests and found no statistically significant difference at the 0.05 level between our responses and the average German family firm in terms of industry type.

### **Results**

We used hierarchical linear modeling to test our hypotheses, including 327 vignettes nested in 109 responses. The willingness to sell served as the dependent variable. Table 3 shows the modeling results. Model 1 includes only the control variables, and we added the independent variables to Model 2 and the interaction terms to Model 3.

Supporting Hypothesis 1, Model 3 shows that a higher degree of family prominence significantly decreases the willingness to sell ( $\beta = -0.312, p < 0.05$ ). Additionally, this model supports Hypothesis 2, in which we predicted that a higher degree of employee orientation significantly increases the willingness to sell ( $\beta = 0.739, p < 0.01$ ). Pure family management substantially increases the likelihood of selling ( $\beta = 0.629, p < 0.05$ ), which is contrary to the explanations in Hypothesis 3.

Next, Hypotheses 4-6 suggested that below-average financial performance moderates the relationship between family prominence, employee orientation, pure family management, and the willingness to sell. Although the interaction terms below-average financial performance and employee orientation ( $\beta = -0.322, p < 0.05$ ) and below-average financial performance and pure family management ( $\beta = -0.497, p < 0.01$ ) were significant, the interaction term below-average financial performance and family prominence was not.

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Table 3: Regression Model

	Willingness to sell shares		
	Model 1	Model 2	Model 3
<b>Control variables</b>			
Educational level	-0.295*	-0.336*	-0.336*
Type of industry: Production	0.005	0.002	0.002
Type of industry: Services	0.248	0.081	0.081
Number of employees	0.017	0.097	0.097
Generation of family firm	0.068	0.056	0.056
Percentage owned by family	-0.000	0.005	0.005
Innovation performance	-0.090	-0.455*	-0.455*
<b>Independent variables</b>			
Family prominence		-0.266 <sup>+</sup>	-0.312*
Employee orientation		0.587*	0.739**
Pure family management		0.359	0.629*
Financial performance: Below-avg. performance			1.195*
<b>Interactions</b>			
Financial performance x Family prominence			0.086
Financial performance x Employee orientation			-0.322*
Financial performance x Pure family management			-0.497**
<b>Observations</b>	327	327	327
<b>Model probability</b>	0.418	0.057 <sup>+</sup>	0.007**

Notes: \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ , + $p < 0.1$

In addition to Table 3, we plotted the moderating effects (i.e., below-average financial performance x family prominence, below-average financial performance x employee orientation, and below-average financial performance x pure family management) to interpret the slopes of Hypothesis 4-6.



Figure 1: Moderating effect - Financial performance x Family prominence

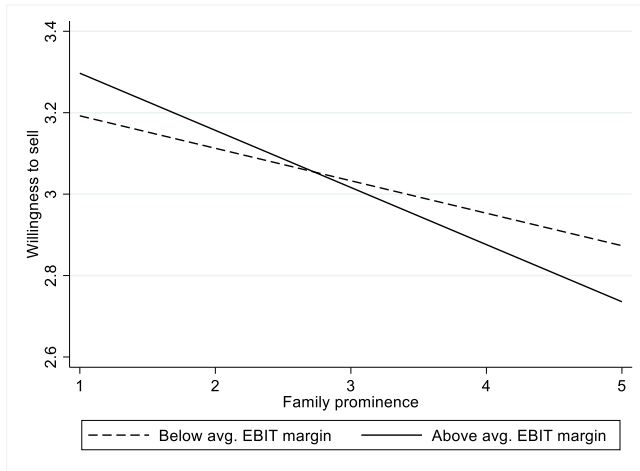


Figure 2: Moderating effect - Financial performance x Employee orientation

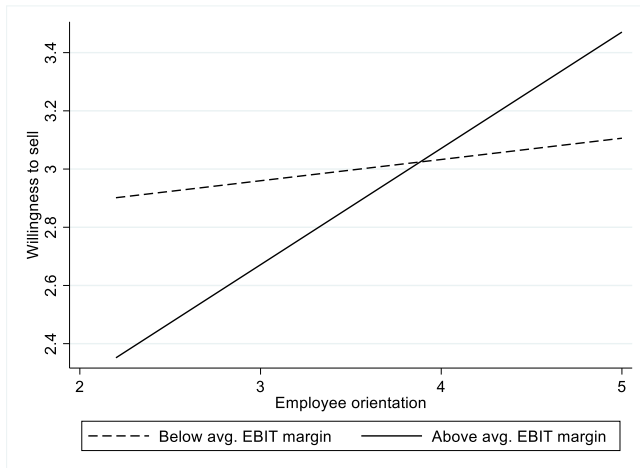
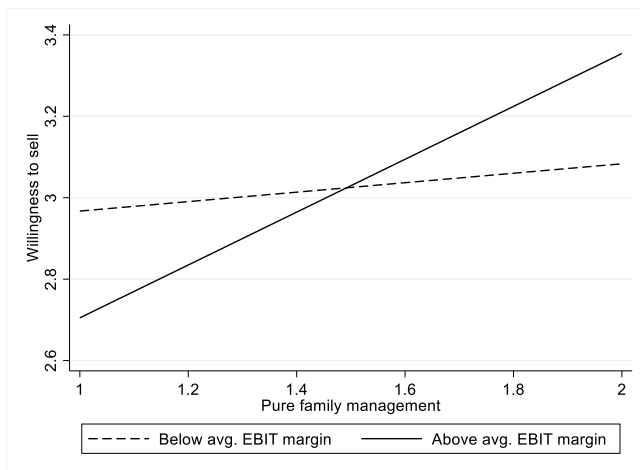


Figure 3: Moderating effect - Financial performance x Pure family management



We conducted marginal effect analyses to further test the moderating effect of the independent variables (i.e., family prominence, employee orientation, and pure family management) on financial performance. First, the marginal effect on family prominence in the case of above-average financial performance is -0.199, whereas, in the case of below-average financial performance, it is -0.139. However, the regression results (Hypothesis 4) are statistically not significant ( $p > 0.05$ ), hence rejecting H4. Second, the marginal effect on employee orientation in the case of above-average financial performance is 0.613. In the case of below-average financial performance, it is 0.286, therefore lending further support to the statistically significant Hypothesis 5 ( $p < 0.05$ ) that a below-average financial performance weakens the direct positive relationship between employee orientation and the willingness to sell. Third, the marginal effect on pure family management in the case of above-average financial performance is 0.706. In the case of below-average financial performance, it is 0.173. While H6 assumed a moderation of a proposed negative direct effect, the empirics show that below-average financial performance mitigates the positive relationship between pure family management and the willingness to sell.

### **DISCUSSION**

Family firms face several challenges, such as limited resources and capabilities, challenges to gain a competitive advantage, and limited growth (Harvey & Evans, 1994; Howorth et al., 2004; Shanker & Astrachan, 1996; Sirmon & Hitt, 2003). Selling a minority share of the family firm to a strategic investor may be a viable solution to overcome these challenges. However, a firm sale is a difficult decision, especially when family firm owner-managers are emotionally attached to their firm (Duhaime & Grant, 1984a). Our study analyzes determinants that drive the willingness to sell a minority stake to a strategic investor.

To do so, we build on the SEW perspective and analyze the potential effects of family prominence (e.g., Berrone et al., 2012; Debicki et al., 2016), employee orientation (e.g., Miller &

Le Breton–Miller, 2014; Plakoyiannaki et al., 2007; Zhang, 2010), as well as pure family management on the willingness to sell. Additionally, we analyze the potential moderating effects of financial firm performance on the abovementioned direct effects. In essence, we find that employee orientation has a significant positive impact, and family prominence has a significant negative effect on the willingness to sell. Furthermore, we reveal that, besides a direct, positive effect of below-average financial performance on the willingness to sell, a below-average financial performance, weakens the positive relationship between employee orientation and the willingness to sell and weakens the positive relationship between pure family management and the willingness to sell. However, our data sample fails to reach a significant level for the impact of below-average financial performance and family prominence relationships with the willingness to sell. This finding indicates that, in contrary to predictions of prior research, family prominence might drive decisions of family members independent of the economic situation. Another possible explanation is that family members' fear of selling at a low price in case of temporary dissatisfying performance might alleviate the above presented arguments. Lastly, our data sample reveals a significant positive effect of pure family management on the willingness to sell in the full model, which contradicts our initial hypothesizing. This finding is interesting and complements the research about the heterogeneity of family firms (Chrisman, Chua, & Steier, 2005; Sharma, 2004). A possible explanation for this unexpected insight is that pure family management might lead to a more active steering and a more active involvement of the owning family (Denis & Denis, 1994). Driven by more active involvement and steering, more decisions are taken within the family (Frank, Kessler, Nosé, & Suchy, 2011). However, in many cases, different viewpoints in key decisions may lead to conflicts among the decision-makers (i.e., family members in this specific case). To solve those family internal conflicts, grounded in different viewpoints on key decisions, family members may sell their shares to external investors (Frank et al., 2011). In the following

paragraphs, we discuss theoretical contributions and practical implications of our results and limitations and avenues for further research.

### **Theoretical Contributions**

***Research on minority firm sales.*** First, we contribute to the research stream on selling the family firm (e.g., Chirico et al., 2019; De Massis et al., 2008; DeTienne & Chirico, 2013; Zellweger et al., 2012) by analyzing the characteristics of family firms that influence the willingness to sell a minority stake to a strategic investor. Building on the SEW perspective (Berrone et al., 2012; Gómez-Mejía et al., 2007; Miller & Le Breton–Miller, 2014), we predict what characteristics of the family firm impact the willingness to sell a minority stake to a strategic investor. While academic research on *majority* investments has started to attract scholarly attention (e.g., Howorth et al., 2004; Scholes et al., 2008a), there is only little research on *minority* investments (e.g., Henn & Lutz, 2016; Tappeiner et al., 2012). We argue and show that family characteristics such as family prominence, pure family management, and employee focus affect the willingness to sell minority shares to strategic investors (though the direction of the empirical effect was not always in line with our hypothesized one). These findings reveal the importance of considering family firm heterogeneity when studying family firm sales: important characteristics, such as variance regarding the focus put on extended vs. restricted SEW, as well as the contextual situation (i.e. current firm performance) might substantially influence a family’s willingness to sell shares.

Besides revealing the influencing (and moderating) factors of sales willingness, our study also makes a contribution to family firm exit literature by focusing on *strategic* investors as potential buyers of family firm shares. Most existing work on minority investments focuses on financial investors that aim to maximize their return by, for instance, substantial cost cutting measures (Tao-Schuchardt, Riar, & Kammerlander, 2022). This is remarkable because the preferences and portfolio firm-related activities of strategic investors are likely more compatible to

the selling family firms (Chiarella & Ostinelli, 2020), especially regarding time horizon, strategic rationale, and often socioemotional endowment. As a consequence, strategic investors might hence be considered “preferred investors” by family firms.

**Research on SEW.** Second, we contribute to research on SEW (Berrone et al., 2012; Debicki et al., 2016) through explicitly, theoretically and empirically, distinguishing between restricted and extended SEW (Miller & Le Breton–Miller, 2014). Following previous research, we first build on restricted SEW (i.e., family prominence and pure family management) and suggest a negative effect of these constructs on the willingness to sell (e.g., Berrone et al., 2012; DeTienne & Chirico, 2013). Moreover, we extend existing research by also theorizing on the extended SEW (i.e., employee orientation), predicting that a higher degree of employee orientation leads to a higher willingness to sell (Miller & Le Breton–Miller, 2014). We argue that the main strategic outcomes of restricted SEW are strategic conservatism, risk aversion, and sparse investments in the business to safeguard restricted SEW and financial wealth in the short run, hence preventing a firm sale. However, the strategic implications of extended SEW are more generous investments in products and processes, visionary strategies, and a strong growth ambition and thus fostering a minority firm sale to increase the extended SEW and financial wealth in the long run (Miller & Le Breton–Miller, 2014). Our results suggest that family firm owner-managers with a high degree of extended SEW, and hence a high degree of employee orientation are more willing to sell part of the family firm than those with a low level of employee orientation.

**Research on financial performance literature.** Finally, our study contributes to research on the impact of financial performance on the willingness to sell. Some studies argue that external investors are often brought into firms to resolve performance issues (e.g., Hotchkiss et al., 2021; Tappeiner et al., 2012) because poor financial performance is an immediate risk for family firms and could ultimately result in insolvency. In line with this research, our findings reveal a positive

direct effect of below-average performance on willingness to sell shares. Owners of family firms are more strongly affected by poor financial performance than shareholders of non-family firms as they could lose both financial and SEW in the short and in the long run. Further, families could fool themselves in society due to their close connection to their firms (Berrone et al., 2012; Sharma & Manikutty, 2005; Shepherd et al., 2009). Therefore, family firm owner-managers have particular concerns about their SEW when considering decision trade-offs and the potential impact on the SEW and financial wealth (Chua et al., 2015). We contribute to this existing literature stream by showing that the financial situation has indeed a major impact on the sales considerations. In particular, our results show that below-average firm performance alleviates the before argued and shown direct effects. In other words, while variance in SEW focus makes family firms heterogeneous regarding sales intentions in ‘sunny times,’ below-average performance equalizes the willingness to sell.

### **Practical Implications**

Finally, our study has several important practical implications for families and potential external investors. For family firms, our study illustrates an alternative succession option that addresses family internal challenges (e.g., family conflicts) and financial constraints (e.g., liquidity shortages, growth financing) while partly preserving the SEW of the family. In addition, our findings may help external investors improve their understanding of the complex and close ties between families and their firms. Family firm owner-managers are not only looking for a buyer for their firm but even more for a strategic partner to further develop and grow their firm. External investors may use these insights to focus on non-financial benefits in their communication with family firms instead of financial benefits solely.

### **Limitations and Avenues for Further Research**

As with any research, also this study has several limitations. First, some researchers might criticize that our insights are based on hypothetical scenarios instead of actual firm sales. We argue, however, that our proposed research design enables us to isolate individual characteristics, such as financial performance, from other, potentially disruptive characteristics (Finch, 1987; Hughes, 1998; Priem et al., 2011). Nevertheless, further studies should analyze under what circumstances minority sales to strategic investors become reality. Moreover, to avoid excessive complexity and due to the nascent status of research on minority sales, we opted for gain-loss scenarios, rather than designing two-stage decision processes or mixed gambles. Future research should build on and extend our scenarios in order to reflect reality to the best possible degree. Second, since we chose only family firms headquartered in the German-speaking area for our analysis, we must acknowledge that family firm owner-managers in other contexts with different cultural backgrounds may decide differently. For example, Anglo-Saxon family firms have a different starting position because public equity is more common, and firms go public earlier in their lifecycles (Pagano, Panetta, & Zingales, 1996; Rajan & Zingales, 1995). Third, research in the area of firm sales is highly complex, as prior literature revealed (e.g., Wiklund et al., 2013). We were only able to choose some of the potentially relevant drivers of the family firm owner-managers' willingness to sell due to the constraints of a single study. Therefore, we hope that our study forms the basis for further studies that add other interesting drivers in the respective area. For example, future research can focus on different angles of the stakeholder theory and analyze how it might affect the willingness to sell. Moreover, future research can extend our study by exploring the willingness to sell to different types of strategic investors, e.g., strategic investors operating in the same industry versus operating in a different industry or strategic investors with a prestigious family in the background versus publicly-listed strategic investors without any family background.

Last, researchers might include additional dimensions of complexity to the case vignettes (e.g., researchers analyze the moderating role of different degrees of financial distress on the direct relationships).

## **CONCLUSION**

Selling shares of the firm is one of the most challenging steps in family firms. The results from our vignette study enhance the knowledge about the drivers of selling a minority stake to a strategic investor. We identify drivers that increase the willingness to sell parts of the family firm to outsiders. Particularly, restricted SEW considerations decrease the willingness to sell shares. However, the extended SEW considerations increase the willingness to sell shares. Furthermore, the firm's financial performance impacts the selling decision and affects the direct relationships. While we contribute to the external succession literature with these findings, we also raise new questions, encouraging others to advance our research further and extend our insights.



## STUDY 2: ARE FAMILY FIRMS THE PREFERRED ACQUISITION TARGETS?<sup>5</sup>

### ABSTRACT

This study extends research in the field of financial investments in family firms. It contributes to the literature by analyzing the drivers of financial investors' preference for acquiring a family firm. Family firms as an acquisition target might be of particular interest to financial investors, as they offer a significant potential deal pool and improvement potential due to the targets' initial resource constraints and internal challenges. Based on the resource-based view (RBV), we hypothesize that a buy-and-build strategy, strategic focus on operational improvements, and the typical length of the investment horizon positively affect the propensity of financial investors to acquire a family firm. In addition, we hypothesize that a financial investor's number of portfolio firms (i.e., the number of acquired and held firms) negatively affects the propensity to acquire a family firm. We test our hypotheses using a unique vignette study with 142 responses from investment professionals.

**Keywords:** Family firms, financial investors, resource-based-view, vignette study

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<sup>5</sup> This study is an unpublished working paper based on Kurta, Kammerlander, and Khoury (2022) titled "Are family firms the preferred acquisition targets? A vignette study." A shortened version is published in the M&A Review (11/2022). Furthermore, an early version of this study was submitted and presented at the International Family Enterprise Research Academy Conference 2022.

### INTRODUCTION

Family firms are the dominant form of business and one of the primary drivers of the global economy (Anderson & Reeb, 2003; Chrisman, Chua, Kellermanns, & Chang, 2007; Gersick et al., 1997; Sirmon & Hitt, 2003). However, family firms face various challenges like the need to gain a competitive advantage and foster growth, limited access to resources and capabilities, or complicated succession processes to safeguard the continuity of the firm (Howorth et al., 2004; Shanker & Astrachan, 1996; Sirmon & Hitt, 2003). From the perspective of financial investors, family firms represent an interesting investment opportunity. On the one side, family firms offer a significant potential deal pool due to their prevalence (Chrisman, Chua, & Steier, 2003; La Porta et al., 1999). On the other side, family firms are often suffering from scarce resources, lack of capabilities, and nepotism (Chrisman, Chua, & Litz, 2004; Corbetta & Salvato, 2004; Sharma, Chrisman, & Chua, 1997), hence providing financial investors the opportunity to increase enterprise value by increasing professionalization, improving efficiency, and reducing agency costs by implementing stricter governance systems (Jensen, 1993; Markides, 1998; Mitter, Duller, Feldbauer-Durstmüller, & Kraus, 2012; Reid, 1996).

Investments by financial investors have increased significantly from EUR 46 billion in 2010 to EUR 104 billion in 2019 in European countries and dropped only slightly to EUR 86 billion in 2020 due to the global COVID-19 pandemic, revealing the importance of financial investors. Around two-thirds of the target firms were SMEs, and many were family firms (Kranitz et al., 2021). Despite this importance, academic research emphasizes conflict potential between financial investors and family firms. For example, while family firms often pursue non-financial goals (Berrone et al., 2012; Berrone et al., 2010), financial investors primarily pursue financial motives (Dawson, 2009). In addition, whereas family firms are commonly long-term oriented, financial investors are mainly short-term oriented and focus on predetermined investment horizons (Dreux,

1993; Sirmon & Hitt, 2003). As a result of the many disagreements, it may be concluded that financial investors may shy away from investing in family firms (Achleitner et al., 2010b; Ahlers et al., 2014). However, the abovementioned numbers present a somewhat different picture, showing that financial investors frequently invest in family firms (Kranitz et al., 2021). Hence, to date, we do not know what specific factors of the financial investor influence the decision to acquire a family firm. Understanding the conditions, characteristics, and typical strategies of the financial investor resulting in an acquisition of a family firm is essential and the basis for further necessary research in this area, such as the success versus failure of family firm takeovers and the valuation of family firms by financial investors. Furthermore, the collaboration of family firms, on the one side, and financial investors, on the other side, might have a very promising future (Schickinger et al., 2018). Hence, we ask the following research question: *What are the drivers or inhibitors of a financial investor's acquisition of a family firm?*

We build on the resource-based view (RBV), which predicts that a firm's resources define its competitiveness and the ability to pursue its strategy successfully (e.g., Barney, 1991; Habbershon & Williams, 1999; Wernerfelt, 1984). Specifically, we derive a set of four hypotheses. We propose that while a buy-and-build strategy, strategic focus on operational improvements, and the typical length of the investment horizon positively affect the propensity to acquire a family firm, the number of portfolio firms (i.e., the number of acquired and held firms) negatively affects the propensity to acquire a family firm. We test the hypotheses using hypothetical cases (e.g., Connelly et al., 2016) answered by 142 investment professionals. Almost all our hypotheses are confirmed.

Our study aims to make several contributions to academic research. First, this study contributes to the literature about financial investments in family firms (Chirico et al., 2019; De Massis et al., 2008; DeTienne & Chirico, 2013; Zellweger et al., 2012). Our study contributes to

explaining financial investors' decisions toward acquiring a family firm (Ahlers et al., 2014; Dawson, 2009; Granata & Gazzola, 2010). Our findings show that while a buy-and-build strategy (also known as a bolt-on acquisition strategy) and operational improvements increase the propensity to acquire a family firm, the number of portfolio firms of the financial investor decreases the propensity to acquire a family firm. Second, we extend existing research on the RBV in family firms by arguing how financial investors can help family firms to gain a competitive advantage by providing resources that are hard to acquire on their own.

### **THEORETICAL BACKGROUND**

#### **A Resource-Based View on Family Firms**

Although family firms, defined as firms that are owned and/or managed with the “intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families” (Chua et al., 1999: 25), are heterogeneous (Chrisman & Patel, 2012), academic literature agrees on three major idiosyncrasies that differentiate family firms from non-family firms: (1) family owners' control over the firm (Carney, 2005); (2) family owners' wealth concentration in the family firm (Anderson & Reeb, 2003); and (3) family owners' non-financial goals next to the financial goals (Anderson & Reeb, 2003). The close linkage between the family and the firm substantially influences the family firm's resources and how it values those resources (Habbershon, Williams, & MacMillan, 2003). Furthermore, family members control the firm's assets and the strategic decision-making regarding investments in resources and growth strategies (Carney, 2005). Therefore, the interaction between the family and the firm determines the type and amount of available resources and how resources are managed and deployed in the family firm.

The RBV has shifted the focus from a market perspective to a firm perspective and has become the dominant view to answer the key question in strategic management: Why do some

firms perform better than others? (Barnett et al., 1994: 11; Meyer, 1991). The RBV assumes that the level of returns achieved by a firm is determined by its resources (Penrose, 2009) and that firms can develop unique characteristics that may lead to a sustainable competitive advantage, hence also positively affecting firm performance. According to Barney (1991), those resources can be both tangible and intangible and, most importantly, have to meet four characteristics to provide a sustained competitive advantage: they must be valuable, rare, difficult to imitate, and non-substitutable. Furthermore, Grant (1991) extended the literature by arguing that the firm should also be able to organize itself to exploit the abovementioned resources.<sup>6</sup> According to Habbershon and Williams (1999), family firms have a unique bundle of resources arising from the close interaction between the family and the firm, which they termed “familiness.” Specifically, “familiness” is defined as the “unique bundle of resources a particular firm has because of the family’s systems interaction, individual members, and the business” (Habbershon & Williams, 1999: 11). Despite some competitive advantages that come along with familiness, it also is associated with downsides: Usually, family firms are unwilling to include non-family investors or non-family managers, thus hindering growth and professionalism, and hence resource accumulation (Mitter et al., 2012; Sirmon & Hitt, 2003). Family firms thus often lack in quality and quantity of human resources. Dunn (1995) argues that family firms often favor family members as employees, hence often hiring non-optimal employees. Additionally, family firms often have challenges in hiring and retaining highly qualified managers because those managers are often reluctant to work in family firms due to the limited potential for professional growth, lack of

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<sup>6</sup> Examples of such resources are first, human resources (e.g., knowledge and skills of employees and managers); second, social resources (e.g., firm culture, brand reputation, and social networks); third, financial resources (e.g., internal financial resources and external financial resources); fourth, technological resources (e.g., production processes, patents, tacit knowledge, and technical knowhow); and lastly the governance structure (Greene & Brown, 1997; Hanks, Watson, Jansen, & Chandler, 1994).

professionalism, and low remuneration (Burack & Calero, 1981; Covin, 1994a, b; Donnelley, 1964; Hiebl, 2013; Horton, 1986; Mitter et al., 2012). In general, a family firm's growth and wealth creation can be limited due to the unavailability of human resources in the form of skilled managers (Hiebl, 2013; Sirmon & Hitt, 2003). Furthermore, family firms often struggle with limited financial resources because they oppose external equity investments and avoid selling shares to non-family members (Sirmon & Hitt, 2003). Lastly, some researchers argue that family firms often have a disadvantage regarding governance resources because agency costs increase due to the altruism of owner-managers (Sirmon & Hitt, 2003). However, family firms also have advantages in terms of human resources, such as the commitment of their employees (Donnelley, 1964; Horton, 1986) and the close relationship between employees and managers (Horton, 1986). Nevertheless, resources alone do not result in a competitive advantage. Instead, firms have to allocate these resources to strategic activities and deploy them effectively to gain a competitive advantage (Collis & Montgomery, 1991). Building on the RBV, we will argue that the unique characteristics make family firms highly attractive investment targets for financial investors. The following study investigates the key drivers and reasons why financial investors acquire family firms.

### **Family Firms and Financial Investors**

Family firms have several competitive advantages, e.g., promoting entrepreneurial spirit, long-term strategic orientation, high level of loyalty among stakeholders, and corporate independence (Poutziouris, 2001). However, family firms often face nepotism, lack of professionalism, slow decision-making processes, and rigidity in addressing new challenges (Poutziouris, 2001). Furthermore, family firms often lack the resources and capabilities (e.g., lack of financial resources, lack of quality and quantity of human resources) needed to sustain a competitive advantage and growth (Sirmon & Hitt, 2003; Upton & Petty, 2000). Scarce financial resources are inhibitors of further development, growth, and long-term survival of family firms

(Romano et al., 2001). Additionally, ownership succession is one of the biggest challenges in the life cycle of a family firm (Yu et al., 2011).

Financial investors are renowned for their active ownership and hands-on style (Heel & Kehoe, 2005). In general, financial investors choose potential acquisition targets very selectively. An acquired firm must provide some room for improvement. Hence firms that already in the pre-acquisition period outperform their peer group in all dimensions may not be appropriate for an acquisition by a financial investor (Wright, Gilligan, & Amess, 2009). Consequently, family firms, in theory, represent an appropriate acquisition target due to their several competitive disadvantages, providing room for improvement after the financial investor's acquisition (Achleitner et al., 2010b; Schickinger et al., 2018; Wright et al., 2009).

Therefore, after the acquisition, financial investors usually concentrate on overcoming the abovementioned challenges of family firms. Firstly, financial investors may support the succession by providing human resources and hence may help safeguard the family firm's continuity (Kreer et al., 2015; Scholes et al., 2008b; Scholes et al., 2009). Secondly, financial investors provide additional financing and hence may foster growth. Thirdly, financial investors may offer expertise and strategic resources to family firms that are not solely of financial nature, such as an extensive business network and political connections (Faccio & Hsu, 2017), as well as often implement an external, highly professional management and hence increase managerial expertise (Salerno, 2019), which may help to gain a competitive advantage and further grow.

There are many types of financial investors, such as family offices, industry holdings, venture capital investors, and private equity investors. While family offices, industry holdings, and private equity investors provide external financing and invest in mature and often privately-held firms (Wright & Robbie, 1998) such as family firms, venture capital investors most often invest in young and strongly growing firms such as start-ups. A significant proportion of financial investors'

capital stems from institutional investors like pension funds or high-net-worth individuals. Additionally, financial investors raise debt to increase the return on the employed equity (Dawson, 2009). Wood and Wright (2009) show that financial investors typically conduct management buy-out (MBO) cases, in which the current management team is also involved in the deal, and management buy-in (MBI) cases, in which a new management team is involved in the deal. To realize capital gains, financial investors aim to disinvest their equity stakes after a limited investment period (mostly between three and seven years) (Bacon, Wright, Ball, & Meuleman, 2013; Chrisman et al., 2003; Robbie & Wright, 1995).

However, several aspects may lead to conflicts between family firms and financial investors. First, while family firms are typically long-term oriented and have an extensive stakeholder orientation, most financial investors are short-term oriented and focus on shareholder value maximization (Achleitner et al., 2008; Braun, Zacharias, & Latham, 2011). Second, while family firms tend to be risk-averse to reduce the risk of bankruptcy and safeguard the continuity of the firm (Anderson & Reeb, 2003; Martí, Menéndez-Requejo, & Rottke, 2013), financial investors may enter riskier business investments to increase financial returns (Braun et al., 2011). Lastly, family firms are not only maximizing their financial wealth but also their non-financial wealth (i.e., socioemotional-wealth), whereas most financial investors only maximize their financial wealth (Berrone et al., 2010; Gómez-Mejía et al., 2007).

Financial investors and family firms may be a good match, although financial investors sometimes are assumed to destroy creative processes, lower productivity, and lower income for workers (Davis et al., 2014). However, they are also well known for their industry expertise and skills to increase firms' productivity after a takeover (Bernstein & Sheen, 2016). Furthermore, Bloom, Sadun, and Van Reenen (2015) show that firms in the portfolio of financial investors have superior management and better governance than privately-held family firms.



## **HYPOTHESES DEVELOPMENT**

Building on the RBV, this study investigates how a buy-and-build strategy, strategic focus on operational improvements, the number of portfolio firms, and the typical length of investment horizon affect the propensity of financial investors to acquire a family firm. Based on RBV, we theorize that a buy-and-build strategy, strategic focus on operational improvements, and the typical length of investment horizon have a positive relationship with the propensity to acquire a family firm, and the number of portfolio firms has a negative relationship.

### **Buy-and-Build Strategy**

Buy-and-build strategies (also known as bolt-on acquisition strategies) are characterized by an initial investment of the financial investor in a so-called platform firm and subsequent add-on acquisitions (Brigl et al., 2016; Brueller, Carmeli, & Drori, 2014). The platform firm usually has outstanding characteristics like a high reputation or technological leadership in a (niche) market (Brueller et al., 2014; Smit, 2001). Furthermore, on average, the subsequent add-ons are smaller than the platform firm and provide a specific value-add due to certain tangible or intangible assets (e.g., new technology, new markets) (Brown, Dittmar, & Servaes, 2004). In most cases, financial investors pursue a horizontal acquisition strategy, in which platforms and add-ons operate in the same industry (Brown et al., 2004). As a result, financial investors may consolidate fragmented industries and markets (Brown et al., 2004). According to Brigl et al. (2016), the share of deals, including add-on acquisitions, increased from 20 % in 2000 to 53 % in 2012. While in 2000, the average number of add-on acquisitions per deal was 1.3, it was 2.7 in 2012 (Brigl et al., 2016). Furthermore, the Boston Consulting Group (BCG) found in a practitioner-oriented study that, particularly in transactions in case of buying directly from the family owners or founders-team, buy-and-build strategies are employed—43 % versus 32 % transactions between financial investors (Brigl et al., 2016).

The significant increase in buy-and-build strategies is backed by academic research and industry reports, highlighting their advantages. For example, Nikoskelainen and Wright (2007) argue that acquisition activities during the holding period of a portfolio firm significantly increase the deal return for the financial investor. Furthermore, Acharya, Gottschalg, Hahn, and Kehoe (2013b) argue that add-on acquisitions lead to abnormal margins and multiple improvements during the holding period because larger firms have easier access to capital, knowledge, and labor. Lastly, the platform firm and the add-ons may realize synergies and increase overall efficiency, resulting in higher transaction multiples (Aldrich & Auster, 1986; Brueller et al., 2014).

Family firms often struggle with proper resource management (Chrisman et al., 2003; Sharma & Manikutty, 2005; Sirmon & Hitt, 2003) due to the permanent trade-off between financial and non-financial goals (Chrisman et al., 2003). As a result, family firms often face several significant limitations. First, family firms often lack highly skilled managers and employees (Dunn, 1995; Sirmon & Hitt, 2003). Second, family firms have only limited financial capital (Sirmon & Hitt, 2003). Consequently, family firms have limited available resources (Sirmon & Hitt, 2003) and, therefore, often develop a niche business model (Arregle, Hitt, & Mari, 2019) to leverage the scarcely available resources most efficiently. Add-ons may strengthen the resource basis by providing additional tangible and intangible resources and assets (Brown et al., 2004), encouraging and fostering family firms to expand, grow, and internationalize (Arregle et al., 2019).

Hence, family firms are a highly promising firm type for financial investors who are pursuing a buy-and-build strategy due to their niche focus (Arregle et al., 2019) and the opportunity for financial investors to develop a niche leader into a global leader by strategic add-on acquisitions. Building on these arguments, we propose that a buy-and-build strategy by the financial investor increases the propensity to acquire the family firm. We thus hypothesize:

*Hypothesis 1: A buy-and-build strategy positively affects the propensity to acquire a family firm.*

### **Operational Improvements**

In addition, based on the RBV, we argue the financial investor's strategic focus on operational improvements affects the propensity to acquire the family firm. While until the late 1980s, most financial investors mainly created value through financial and governance engineering, in recent years, operational improvements have become more and more relevant in the value creation process of financial investors (Kaplan & Strömberg, 2009). Nowadays, most financial investors leverage their industry knowledge to identify attractive targets and develop and implement value creation plans in portfolio firms (Kaplan & Strömberg, 2009). Such programs may include cost-cutting measures, productivity improvements (e.g., in purchasing, supply chain, and production processes), repositioning actions (e.g., customer orientation, internationalization), as well as management changes (Acharya et al., 2013b; Gadiesh & MacArthur, 2008).

Academic research from both the United States and Europe confirms significantly increasing operating performance after the takeover by financial investors. Kaplan (1989) shows for U.S. deals in the 1980s that the ratio of operating income to sales increased by 10 % to 20 % (absolutely and relative to industry) after a takeover by a financial investor. In addition, the ratio of cash flow to sales increased by 40 %. The operational improvements were reflected in significant increases in enterprise value (Kaplan, 1989; Lichtenberg & Siegel, 1990; Smith, 1990). Furthermore, several researchers show similar results for Europe, such as Bergström, Grubb, and Jonsson (2007) for Sweden, and Harris, Siegel, and Wright (2005) for the United Kingdom.

There are many reasons why financial investors may increase the operational efficiency of their portfolio firms. First, financial investors' high leverage in transactions mitigates agency problems between management and shareholders (Jensen, 1986, 1989). The additional debt obligations foster management to maximize cash flows and cut inefficient investments to repay debt obligations. This phenomenon is also called the control function of debt. Second, financial

investors are active investors who provide additional financing and may offer expertise and strategic resources to the acquired firms. In addition, financial investors often implement an external, highly professional leadership that implements and drives a dedicated value creation plan (Faccio & Hsu, 2017; Salerno, 2019), increasing operational efficiency.

Family firms are appropriate for financial investors to foster operational improvements for two reasons. First, family firms have challenges in gaining a proper level of resources, such as financial resources (Sirmon & Hitt, 2003) and managerial resources, in particular highly qualified employees and managers (e.g., Burack & Calero, 1981; Covin, 1994a, b; Donnelley, 1964; Dunn, 1995; Faghfouri, Kraiczy, Hack, & Kellermanns, 2014; Horton, 1986; Sirmon & Hitt, 2003). As a result, family firms often struggle with poor operational processes and offer significant improvement potential (Faghfouri et al., 2014; Lohrke, Kreiser, & Weaver, 2006; Vachani, 2005). Financial investors provide financial and non-financial resources and, thereby, may support family firms in overcoming the abovementioned limitations regarding their operations. In most cases, financial investors take an active role in the advisory boards of their portfolio firms and provide managerial as well as strategic advice (Sapienza, Manigart, & Vermeir, 1996), which further help optimize the operations of the family firm. Second, the first (financial) investor (i.e., the first owner following the family owner) will try to implement all the easily realizable measures with the most significant value creation potential. Hence all low-hanging operational fruits will be reaped in the case of buying from a financial investor. In the case of buying directly from the family owners, however, those low-hanging fruits will still be ready to reap, hence providing significant operational improvement potential. Therefore, buying firms from families is particularly interesting to financial investors (Achleitner & Figge, 2014; Scholes et al., 2008a).

Building on these arguments, we propose that a strategic focus on operational improvements by the financial investor increases the propensity to acquire the family firm. We thus hypothesize:

*Hypothesis 2: Strategic focus on operational improvements positively affects the propensity to acquire a family firm.*

### **Number of Portfolio Firms**

Thirdly, based on the RBV, we argue that the number of portfolio firms (i.e., the number of acquired and held firms) of the financial investor affects the propensity to acquire a family firm. Previous research argues that financial investors actively monitor and manage their portfolio firms (Sahlman, 1990). Therefore, a financial investor's available time and resources limit the number of portfolio firms the investor can effectively handle (Jääskeläinen, Maula, & Seppä, 2006). Financial investors may help family firms to overcome their abovementioned challenges, such as succession (Lansberg & Astrachan, 1994; Ward, 1997), conflicts among shareholders (Harvey & Evans, 1994), and limited growth opportunities due to a lack of financial and managerial resources (Ward, 1997), by providing financial funding and managerial expertise to their portfolio firms (Achleitner et al., 2008). Financial investors offer an opportunity for family firms to professionalize, develop further, and grow. By providing financial support and managerial knowledge (Achleitner et al., 2008), investors typically become actively involved in managing their portfolio firms (Bernile, Cumming, & Lyandres, 2007).

As mentioned above, family firms are highly interesting to financial investors because they provide significant improvement potential (Sirmon & Hitt, 2003). However, family firm takeovers are more complex than takeovers of other firms due to family dynamics (Chua et al., 1999) and the importance of non-financial goals (Berrone et al., 2012). Hence, the financial investor's active (and often time-consuming) management is required to turn an investment in a (former) family firm into

a successful transaction. Therefore, resources are needed on the financial investor's side. However, the financial investor's number of experts and managerial resources are limited, so investments are not infinitely scalable. Moreover, the quantity and quality of managerial advice per portfolio firm decrease with an increasing number of portfolio firms held by the financial investor because of a lack of time and resources (Bernile et al., 2007).

Building on these arguments, we propose that the number of portfolio firms of a financial investor decreases the propensity to acquire a family firm. We thus hypothesize:

*Hypothesis 3: The number of portfolio firms negatively affects the propensity to acquire a family firm.*

### **Length of Investment Horizon**

Lastly, based on the RBV, we argue that the financial investor's typical length of investment horizon affects the propensity to acquire a family firm. Family firms are known for their long-time strategic decision-making horizon that often exceeds decades (Zellweger, 2007). One of the main goals of families is to maintain the firm in good economic conditions and pass it further to subsequent generations (Ward & Craig, 1991). Furthermore, family firms often have very strongly committed shareholders that provide patient capital, aiming to develop the firm further over years and generations, and shareholders are willing to forgo immediate returns in anticipation of more substantial returns in the long-term future (Dobrzynski, 1993; Teece, 1992; Ward & Craig, 1991). Moreover, time horizons in family firms are not limited to a person's life but spread across multiple generations (Cruz, Habbershon, Nordqvist, Salvato, & Zellweger, 2006). Similarly, Walsh and Seward (1990) show that family firm managers focus on firm performance beyond their personal working life, safeguarding its long-term success. This long-term orientation significantly shapes a family firm's unique resources, and hence is one of the major differentiators in family firms' resource bundles versus non-family firms' resource bundles (Habbershon & Williams, 1999).

However, financial investors typically have a brief time horizon, focusing on short-time perspectives of three to seven years (Dreux, 1993; Poutziouris, 2001; Sirmon & Hitt, 2003). Consequently, financial investors and family firms generally have different strategic time horizons that lead to diverging valuation and views on resources hence challenging collaborations (Schickinger et al., 2018). However, there is marked heterogeneity across financial investors, particularly concerning the typical length of the investment horizons and the typical view on resource level and usage. On the one side, private equity investors have typical investment horizons of three to seven years, thereby usually focusing on short-term resource optimization (Schickinger et al., 2018). On the other side, family offices have much longer investment horizons and sometimes even across generations, thereby focusing on long-term resource optimization, comparable to a typical family firm (Bierl et al., 2018). Building on these arguments, we propose that a longer investment horizon for the financial investor increases the propensity to acquire a family firm. We thus hypothesize:

*Hypothesis 4: The typical length of the investment horizon positively affects the propensity to acquire a family firm.*

### **METHODOLOGY**

We conducted a vignette study to test our hypotheses. Academic researchers use vignette studies to examine how respondents would act in hypothetical but realistic scenarios (Connelly et al., 2016; Priem et al., 2011). In line with the previous family firm and management studies (e.g., Connelly et al., 2016; DuPont & Craig, 1996; Gao, Masli, Suh, & Xu, 2019; Richards et al., 2019), we used such study design to take advantage of the contextual setting in which respondents could identify themselves and thus enabling them to give their opinion about the acquisition decision and to freely respond from their actual point of view (Gao et al., 2019). In addition, vignette studies help examine respondent perceptions of a critical decision such as the acquisition of a firm because,

compared to using archival data, the method avoids noise surrounding such events (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). Besides the hypothetical scenario, we used general survey responses to identify investor-specific characteristics (e.g., buy-and-build strategies, operational improvements, number of portfolio firms, length of investment horizons, number of employees, and assets under management). Therefore, we linked case vignettes with survey elements (Mullins & Forlani, 2005).

The propensity to acquire a family firm was measured via a short case vignette (Aguinis & Bradley, 2014; Hatak & Roessl, 2015; Raaijmakers et al., 2015). Specifically, we asked the respondents to imagine the situation of a hypothetical acquisition of a firm and to indicate their propensity to acquire a) in case it is a family firm; b) in case it is a carve-out of a multinational conglomerate, and c) in case it is a secondary buyout. The results for option a) were used for testing our hypotheses, whereas the results for options b) and c) were used for post hoc tests. Case vignettes combine the opportunity to differentiate key variables (in this case, the type of target firm) with keeping contextual realism (Raaijmakers et al., 2015), resulting in an outcome that is free of retrospective biases and providing an excellent internal validity (Finch, 1987; Hughes, 1998). Furthermore, case vignettes are highly suitable for analyzing complex trade-off situations like the decision to acquire (Fritzsche & Becker, 1984).

We first purchased a list including 1,000 financial investors in the German-speaking area using the DDW (Die Deutsche Wirtschaft) database to build up our sample. Second, we contacted the investors with an email invitation to our online survey on April 13, 2021. In total, 18 % of the addresses turned out as outdated or changed. Hence, we expect that 820 potential participants have received our survey invitation. After a six-month collection period with reminder e-mails in the halftime of the collection period, we gathered 215 responses (26.2 % response rate). Third, we



removed incomplete responses (progress of response < 90 %), which resulted in a final sample including 142 responses from investment professionals.

### **Design**

We asked survey participants to imagine the situation of acquiring a hypothetical target firm in the global power tools market. Comparable to previous vignette studies (e.g., Connelly et al., 2016), we included only a little information about the target firm and requested an indication of the propensity to acquire: 1) a family firm, 2) a carve-out of a multinational conglomerate, and 3) a secondary buyout. Comparable to previous studies, we used hypothetical case vignettes (e.g., Mullins & Forlani, 2005) to reduce potential random noise. Furthermore, we collected personal and firm information from an adjacent questionnaire. In a trial run, we tested our questionnaire with five researchers and four practitioners in the financial investor field to scrutinize the readability and realism of the questionnaire in general and the case vignette in detail. Based on their feedback and insights, we improved our wording and eliminated misleading passages to ensure realism (Connelly et al., 2016; Finch, 1987; Raaijmakers et al., 2015).

### **Measures**

#### **Dependent Variable**

*Propensity to acquire.* After reading the case vignette, participants were asked to indicate how likely they would acquire the specified family firm. Responses were made using a 5-point scale, ranging from 1 (“very unlikely”) to 5 (“very likely”). We used the resulting value as the dependent variable in an Ordinary Least Squares regression (OLS).

#### **Independent Variables**

*Buy-and-build strategy.* To capture the financial investor’s pursuit of a buy-and-build strategy in portfolio firms, we asked respondents to indicate whether such buy-and-build strategies are “1” = very uncommon to “5” = very common for them in their portfolio firms, thereby following

prior research, e.g., Borell and Heger (2013) and Hammer, Hinrichs, and Schweizer (2016).

***Operational improvements.*** We used a five-item construct to measure the strategic focus on pursuing operational improvements in portfolio firms as a value creation lever. We asked respondents to indicate whether operational improvements are “1” = very uncommon to “5” = very common in their portfolio firms. We summarized the following levers under the umbrella of operational improvements: 1) optimization of purchasing; 2) optimization of customer orientation; 3) optimization of the supply chain; 4) optimization of production processes; and 5) optimization of SG&A cost structure (e.g., Borell & Heger, 2013). Cronbach’s alpha of the scale was 0.75.

***Number of portfolio firms.*** To determine the degree of collaboration with portfolio firms, we asked participants about the number of portfolio firms they are invested in (Bernile et al., 2007; Seet, Graves, Hadji, Schnackenberg, & Gustafson, 2010; Upton & Petty, 2000).

***Length of the investment horizon.*** To determine the strategic timeframe of the financial investor, we asked participants about the typical length of investment horizon in portfolio firms in years (Achleitner et al., 2008; Braun et al., 2011; Poutziouris, 2001).

### **Control Variables**

We controlled for further factors that might influence respondents’ decisions. We included the aimed *size of potential target firms* because financial investors have a preferred, often small, target size (Seet et al., 2010; Upton & Petty, 2000). Additionally, controlling for the *number of employees* of the financial investor as well as for the *assets under management* seemed particularly important, given that larger investors might have higher minimum investment thresholds and hence less frequently invest in family firms due to their generally smaller size (Seet et al., 2010; Upton & Petty, 2000). Another aspect we found to be important is the typical *valuation of family firms* (either with a premium, coded as “2,” or a discount, coded as “1,” compared to non-family firms) to understand how the financial investor evaluates the unique characteristics of family firms (Upton

& Petty, 2000). With this variable, we would like to determine whether financial investors positively perceive the unique characteristics of a family firm (i.e., resulting in a valuation premium) or negatively evaluate the unique characteristics of a family firm (i.e., resulting in a valuation discount).

## **RESULTS**

### **Descriptive Analysis**

Table 4 shows the correlation matrix and the descriptive statistics for the variables incorporated in our analysis. In general, there are moderate correlations between the individual model variables. On average, financial investors in our sample hold 23 firms in their portfolio and have an average workforce of 58 employees (investment team and operations team only, excluding the back-office team). Based on assets under management, the average size of the financial investors in our sample is EUR 2,298 million. The largest group of 45.21 % of financial investors in our sample invest mainly in firms with annual revenues larger than EUR 50 million, 40.41 % invest mainly in firms with annual revenues between EUR 10 million and EUR 50 million, and the remaining 14.38 % invest mainly in firms with yearly revenues smaller than EUR 10 million.

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Table 4: Descriptive statistics

	Mean	SD	1	2	3	4	5	6	7	8	9
1 Propensity to acquire	4.110	0.983	1.000								
2 Buy-and-build strategy	3.986	0.990	0.235*	1.000							
3 Operational improvements	3.726	0.651	0.199*	-0.040	1.000						
4 No. of portfolio firms	23.226	23.790	-0.174*	0.001	-0.066	1.000					
5 Length of investment horizon	7.072	5.425	-0.125	-0.051	0.001	-0.111	1.000				
6 Size of target firms	3.267	0.808	0.059	0.143	0.169*	0.168*	-0.159	1.000			
7 Number of employees <sup>1</sup>	2.975	1.355	0.084	0.211*	0.171*	0.524*	-0.296*	0.570*	1.000		
8 Assets under management <sup>1</sup>	6.718	1.563	-0.075	0.036	0.075	0.482*	-0.077	0.609*	0.771*	1.000	
9 Valuation of family firms	3.623	1.449	-0.024	0.011	0.047	-0.051	0.033	-0.149	-0.020	-0.098	1.000

Notes: \* $p < 0.05$ ; <sup>1</sup> = Number of employees and assets under management have been standardized by log-transformation

### **Tests for Data Quality**

*Common method bias.* We took four ex-ante measures to avoid the risk of common method bias. First, while preparing the survey, we avoided complex, ambiguous, and pontificated scientific wordings. Further, we tested our survey with five academic researchers and four financial investor practitioners, and we improved our survey and our wording based on their insights and feedback. Moreover, we guaranteed confidentiality to minimize the motivation of the respondents to answer the questions in a socially desired manner (Podsakoff et al., 2003). Lastly, we divided the survey into two separate sections. While the first section only included the case vignette, the second section had questions regarding personal and firm-specific data. As a result, the potential prejudices of the respondents about our analyzed relationships were further reduced (Podsakoff et al., 2003).

Next to the ex-ante measures, we conducted two post hoc tests to scrutinize a potential common method bias. First, we conducted a Harman single factor test. A total of four factors with an Eigenvalue  $> 1$  emerged, whereby the first factor only accounted for 26.04 % of the variance; hence a common method was no severe risk (Podsakoff & Organ, 1986). Second, and in line with Lindell and Whitney (2001), we performed a marker variable test. We analyzed the correlation between the dependent and marker variables, which was not correlated with the dependent variable (Homburg et al., 2010). We used the respondent's age as a marker variable and the propensity to acquire the family firm as the dependent variable ( $r = -2.01$  %). As a result, the analysis confirmed that a common method bias is not a risk (Lindell & Whitney, 2001).

*Representativeness and non-response bias.* To validate representativeness, we compared our respondents' key characteristics (i.e., number of portfolio firms and length of investment horizon) with general data about financial investors. In terms of the number of portfolio firms and thus the size of financial investors, our sampled financial investors are in line with the global peer group: 23.2 portfolio firms on average in our sample versus the average global peer group number

of portfolio firms of 21.4 (Lenkov, 2020). Furthermore, our sampled financial investors are slightly lower in terms of median investment horizon but still in line with other academic literature: according to Strömberg (2008), the median investment horizon is between six to seven years, versus 5.2 years in our study. In addition to the representative tests, we performed a non-response bias test. Furthermore, we conducted a Welch t-test for unequal variances and sample sizes and found no statistically significant differences ( $t = 0.93$ ;  $p = 0.36$ ).

### **Results**

We tested our hypotheses by estimating an Ordinary Least Squares (OLS) regression with the respondents' propensity to acquire the family firm as our dependent variable. Table 5 summarizes the results of the OLS regression. While Model 1 includes only the control variables, in Model 2, the independent variables are added. Model 2 shows good validity and high explanatory power (Adjusted  $R^2 = 10.5\%$ ). In addition, the results of Model 2 provide support for the buy-and-build hypothesis H1 ( $\beta = 0.220$ ;  $p = 0.012$ ). Furthermore, operational improvements ( $\beta = 0.260$ ;  $p = 0.043$ ) are positively related to the propensity to acquire the family firm, confirming Hypothesis 2. Moreover, we find evidence that the number of portfolio firms ( $\beta = -0.009$ ;  $p = 0.028$ ) has a significant negative effect on the propensity to acquire the family firm, confirming Hypothesis 3. However, we fail to show that the length of the investment horizon has a significant positive effect ( $\beta = -0.016$ ;  $p = 0.329$ ) on the propensity to acquire the family firm, thus rejecting Hypothesis 4.

Table 5: Regression Model (dependent variable = propensity to acquire a family firm)

	Propensity to acquire a family firm	
	Model 1	Model 2
<b>Control variables</b>		
Size of target firms	0.126	-0.056
Number of employees	0.226*	0.162
Assets under management	-0.238*	-0.092
Valuation of family firms—Discount	0.026	0.059
Valuation of family firms—Premium	0.885	0.720
Valuation of family firms—Varying	0.127	0.219
<b>Independent variables</b>		
Buy-and-build strategy		0.220*
Operational improvements		0.260*
Number of portfolio firms		-0.009*
Length of investment horizon		-0.016
<b>Observations</b>	142	142
<b>Model probability</b>	0.226	0.006**
<b>R-squared</b>	0.058	0.169
<b>Adjusted R-squared</b>	0.016	0.105

Notes: \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ , + $p < 0.1$

### Post Hoc Test

In addition, we performed two post hoc tests. We analyzed how the independent variables (i.e., buy-and-build strategy, operational improvements, number of portfolio firms, and length of investment horizon), as well as the control variables (i.e., size of potential target firms, number of employees, assets under management, and valuation of family firms), on the one side affect the propensity to acquire a carve-out of a multinational conglomerate, and on the other side affect the propensity to acquire a secondary buyout.

*Propensity to acquire a carve-out of a multinational conglomerate.* First, the post hoc model shows good validity and high explanatory power (Adjusted  $R^2 = 18.33\%$ ). Furthermore, it supports our core arguments. While operational improvements further positively affect the propensity to acquire a carve-out of a multinational conglomerate ( $\beta = 0.275$ ;  $p < 0.1$ ), a buy-and-build strategy is statistically not significant anymore. Moreover, the potential target size positively affects the propensity to acquire a carve-out of a multinational conglomerate ( $\beta = 0.598$ ;  $p < 0.001$ ), showing that financial investors focusing on larger firms are interested in carve-outs. Major reasons for the former owner to carve out a business are often to exit unwanted businesses (Duhaime & Grant, 1984b; Montgomery & Thomas, 1988), to exit declining businesses (Anand & Singh, 1997), and to exit failed acquisitions (Hayward & Shimizu, 2006; Kaplan & Weisbach, 1992), therefore requiring operational improvements afterward to put the business back on the road to success. Buy-and-build strategies with carve-outs, however, are not optimal because such strategies require firms with a specific niche focus to add value by combining several similar firms. Although in our main model, the number of portfolio firms has a significant negative impact on the propensity to acquire a family firm ( $\beta = -0.009$ ;  $p < 0.05$ ), this variable has no significant impact in the post hoc model focusing on carve-outs. Table 6 summarizes the results of this post hoc test.



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Table 6: Post hoc test (dependent variable = propensity to acquire a carve-out of a multinational conglomerate)

	Propensity to acquire a carve-out	
	Model 1	Model 2
<b>Control variables</b>		
Size of target firms	0.646***	0.598***
Number of employees	0.220*	0.234 <sup>+</sup>
Assets under management	-0.249**	-0.234*
Valuation of family firms—Discount	-0.683*	-0.628*
Valuation of family firms—Premium	-1.888 <sup>+</sup>	-1.851 <sup>+</sup>
Valuation of family firms—Varying	0.026	0.028
<b>Independent variables</b>		
Buy-and-build strategy		-0.032
Operational improvements		0.275 <sup>+</sup>
Number of portfolio firms		-0.002
Length of investment horizon		0.009
<b>Observations</b>	142	142
<b>Model probability</b>	0.000***	0.000***
<b>R-squared</b>	0.210	0.241
<b>Adjusted R-squared</b>	0.175	0.183

Notes: \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ , <sup>+</sup> $p < 0.1$

*Propensity to acquire a secondary buyout.* Second, the post hoc model focusing on secondary buyouts also shows good validity and high explanatory power (Adjusted  $R^2 = 12.81\%$ ). In addition, it supports our core arguments. All of our hypotheses are insignificant (Hypothesis 1:  $\beta = 0.020$ ;  $p > 0.10$ ; Hypothesis 2:  $\beta = -0.045$ ;  $p > 0.10$ ; Hypothesis 3:  $\beta = 0.003$ ;  $p > 0.10$ , and Hypothesis 4:  $\beta = -0.013$ ;  $p > 0.10$ ), showing that financial investors consider different drivers when considering to acquire a secondary buyout compared to acquiring a family firm. In addition, out of the control variables, the variable *assets under management* is significant ( $p < 0.05$ ). Furthermore, the post hoc test underlines that financial investors differentiate between acquiring a

## STUDY 2: ARE FAMILY FIRMS THE PREFERRED ACQUISITION TARGETS?

secondary versus acquiring a primary buyout (i.e., buying directly from the family) and see different value creation levers. Table 7 summarizes the results of this post hoc test.

*Table 7: Post hoc test (dependent variable = propensity to acquire a secondary buyout)*

	<b>Propensity to acquire a secondary buyout</b>	
	Model 1	Model 2
<b>Control variables</b>		
Size of target firms	0.005	0.021
Number of employees	-0.039	-0.098
Assets under management	0.262*	0.271*
Valuation of family firms—Discount	0.307	0.280
Valuation of family firms—Premium	0.903	0.910
Valuation of family firms—Varying	0.318	0.299
<b>Independent variables</b>		
Buy-and-build strategy		0.020
Operational improvements		-0.045
Number of portfolio firms		0.002
Length of investment horizon		-0.014
<b>Observations</b>	142	142
<b>Model probability</b>	0.007**	0.047*
<b>R-squared</b>	0.122	0.128
<b>Adjusted R-squared</b>	0.083	0.062

*Notes: \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ , + $p < 0.1$*

## DISCUSSION

Family firms represent a vast deal pool for financial investors (Chrisman et al., 2003; La Porta et al., 1999). Financial investors can support family firms to overcome resource-related challenges (e.g., lack of financial resources and managerial capabilities, nepotism, and succession problems), thereby increasing the enterprise value. However, family firms are often considered

‘difficult’ to work with (Kellermanns, 2004). Our study analyzes what determinants drive the propensity of financial investors to acquire a family firm.

To do so, we build on the RBV and analyze the potential effects of a buy-and-build strategy (e.g., Acharya et al., 2013b; Brigl et al., 2016; Nikoskelainen & Wright, 2007), strategic focus on operational improvements (e.g., Acharya et al., 2013b; Gedajlovic & Carney, 2010; Kaplan & Strömberg, 2009), the number of portfolio firms (e.g., Achleitner et al., 2008; Bernile et al., 2007), as well as the typical length of investment horizon (Dreux, 1993; Poutziouris, 2001; Sirmon & Hitt, 2003) on the propensity to acquire. In essence, we find that a buy-and-build strategy and a strategic focus on operational improvements positively affect the propensity to acquire. Furthermore, we reveal that the number of portfolio firms has a negative effect on the propensity to acquire. However, we fail to show that the typical length of the investment horizon positively affects the propensity to acquire. The following sections examine theoretical contributions, limitations, and avenues for further research.

### **Theoretical Contributions**

**Research on financial investment in family firm literature.** First, we contribute to the literature about financial investments in family firms (e.g., Chirico et al., 2019; De Massis et al., 2008; DeTienne & Chirico, 2013; Zellweger et al., 2012). Former literature in the field of family firms and financial investors has predominantly focused on the entrepreneurial exit process and explored factors that influence the exit decision of family firms to financial investors (e.g., Neckebrouck, Manigart, & Meuleman, 2016; Seet et al., 2010), as well as discussed potential entrepreneurial exit routes of family firms (e.g., Wennberg & DeTienne, 2014; Wennberg, Wiklund, DeTienne, & Cardon, 2010). We build on these existing research streams and extend academic research by shifting the focus from the exiting family entrepreneurs to the acquiring financial investors. In particular, we generate new knowledge regarding financial investor-specific

characteristics and strategies influencing the propensity to acquire a family firm (Ahlers et al., 2014; Dawson, 2009; Granata & Gazzola, 2010). While some prior research argues that family firms are partially inefficient, less professional, and less successful compared to non-family firms (Granata & Chirico, 2010), others argue that family firms have superior financial performance compared to non-family firms (Anderson & Reeb, 2003; Chrisman et al., 2004). However, we try to bring together both lines of argumentation and extend the research streams by arguing that family firms are highly interesting targets for financial investors that are focusing on buy-and-build strategies because family firms are on the one side very often the leaders in their niches (Arregle et al., 2019) but on the other side lacking resources to grow further. Therefore, providing financial investors the opportunity to foster strategic add-on acquisitions to develop niche leaders into global leaders and focus on operational improvements to improve family firms further. In addition, financial investors often manage the uncertainty inherent in implementing new resources better than family firm owner-managers (Sirmon & Hitt, 2003). Understanding the drivers that affect the propensity towards the acquisition of a family firm is crucial to investigating the impact of the investments of financial investors on family firms in the next step (Achleitner et al., 2010b; Martí et al., 2013; Molly, Arijs, & Lambrecht, 2017).

**Research on RBV.** Second, our research also adds to the literature stream on RBV (e.g., Habbershon et al., 2003; Habbershon & Williams, 1999; Sirmon & Hitt, 2003). Primarily, we connect RBV to family firms and the characteristics of financial investors that influence the propensity to acquire a family firm (Ahlers et al., 2014; Dawson, 2009; Granata & Gazzola, 2010). Our study pursues closing the gap on how the level of resources of a family firm affects an external financial investor in the acquisition propensity. Our results are, on the one side, in line with prevailing academic arguments that family firms struggle with limited resources (e.g., limited financial resources, limited quantity, and quality of workforce) (Chrisman et al., 2003; Sharma &

Manikutty, 2005; Sirmon & Hitt, 2003), and, on the other side, in line with the research stream that the investment of a financial investor influences the resource profile and may help to overcome the resource limitations (Achleitner et al., 2008). Furthermore, we take these views one step further and extend existing research by showing that family firms' unique characteristics and limited resource levels make them promising candidates for financial investors that are pursuing a buy-and-build strategy or focusing on operational improvements. We, therefore, also connect the RBV literature with the literature regarding value creation levers of financial investors (Acharya et al., 2013b; Achleitner, Braun, Engel, Figge, & Tappeiner, 2010a; Achleitner & Figge, 2014; Pang, 2021).

### **Limitations and Avenues for Further Research**

Like any research, also this study has several limitations. First, some scholars may dispute that our findings are based on a hypothetical scenario rather than an actual firm acquisition. However, we argue that our chosen research approach allows us to isolate individual characteristics and compare the different firm types (i.e., family firm, carve-out of a multinational conglomerate, and secondary buyout) (Hughes, 1998; Priem et al., 2011). Nonetheless, more research is needed to determine under what conditions a financial investor's acquisition of a family firm becomes realized. Second, our study did not distinguish between minority versus majority firm acquisitions. However, share amount might impact the drivers or inhibitors of a financial investor's acquisition of a family firm. Hence, further research is needed. Third, we limited our analysis to financial investors in the German-speaking region. We admit that investment professionals in other countries with different cultural backgrounds may have different preferences. For example, as a headquarter to the vast majority of the key industry players, the private equity market in the United States is the most mature market worldwide. However, since 1996 private equity as an asset class has been strongly growing in Europe (Wright et al., 2006). Fourth, we can only analyze some of the

potentially relevant drivers of financial investors resulting in the acquisition of a family firm. Therefore, we would like to encourage other researchers to extend our insights and add additional drivers to the analysis, such as sources of capital of the financial investor, industry focus of the financial investor, and other typical value creation levers of the financial investor (e.g., financial engineering, turnaround concepts, etc.). Fifth, researchers might increase the complexity of the case vignette by adding additional dimensions (e.g., different geographies, changes in top-management composition, and changes in the business model) and incorporating a mediator or a moderator (e.g., financial performance).

### **CONCLUSION**

The results of our vignette study enhance the knowledge about the drivers of a financial investor resulting in the acquisition of a family firm. We use the RBV to develop our arguments and validate our hypotheses. We have identified drivers which increase the propensity to acquire a family firm. Notably, financial investors pursuing a buy-and-build strategy tend to acquire a family firm because of their limited resources. Therefore, family firms often focus on niches to leverage their limited resources. Hence, in particular, in such cases, strategic add-on acquisitions and buy-and-build strategies may help to overcome resource shortcomings (Brown et al., 2004). Furthermore, we unveil, that financial investors with a strategic focus on operational improvements, as well as financial investors with a fewer number of portfolio firms rather, tend to acquire a family firm because financial investors see significant improvement potential in family firms but need sufficient experts and capacity to lift all potential areas for improvement successfully. Our findings make an important contribution to the financial investor and family firm literature streams. However, we also raise relevant new questions, hopefully motivating other researchers to further investigate the highly interesting topic and extend our insights.

## STUDY 3: WHAT CONFIGURATIONS LEAD TO SUCCESSFUL FAMILY FIRM TAKEOVERS?<sup>7</sup>

### ABSTRACT

More and more often, family firms pursue the external succession route and sell shares to financial investors. However, not all family firm takeovers by financial investors are successful. Only few prior studies have focused on value creation and performance evaluation of investments by financial investors in family firms. Building on resource orchestration, we use a configurational (fsQCA) approach to investigate the interplay of five critical conditions at the firm, environmental, and owner levels that potentially drive successful takeovers. Building on 52 interviews, we identify three distinctive roles (i.e., incentivizers, optimizers, and adjacent investors) of financial investors leading to successful family firm takeovers. This study, first, contributes to understanding which configurations drive successful family firm takeovers, second, whether family firm takeovers by financial investors create versus destroy value, and third, extends research about resource orchestration by focusing on the investor/owner level.

**Keywords:** *family firms, financial investors, takeover, fuzzy-set qualitative comparative analysis*

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<sup>7</sup> This study is an unpublished working paper based on Kurta and Kammerlander (2022) titled “What configurations lead to successful family firm takeovers?” In addition, this study received a Revise & Resubmit in the European Management Review.

### INTRODUCTION

Family firms are the dominant business form in most economies worldwide (e.g., Chrisman et al., 2007; Chua et al., 1999). On the one side, family firms are characterized by various strategic advantages (e.g., fostering entrepreneurial spirit, high degree of employee loyalty, a long-term orientation, and high corporate independence) (Poutziouris, 2001). On the other side, however, family firms face numerous challenges (e.g., resource constraints, limited capabilities, and complex succession processes) (Howorth et al., 2004; Shanker & Astrachan, 1996; Sirmon & Hitt, 2003). Furthermore, family firms often struggle with adequately deploying and orchestrating available resources (Belling, Pidun, & zu Knyphausen-Aufseß, 2022; Chirico et al., 2011). Financial investors might help family firms overcome these challenges by providing additional financial resources and managerial know-how (Dreux, 1993; Howorth et al., 2004).

The cooperation of family firms and financial investors can be a success story like the case of the German family firm Messer Griesheim, which was initially part of a family conglomerate, afterward owned by private equity investors, and ultimately the family regained control over some of the business units (Achleitner et al., 2010b). There are various definitions of success available, however, we focus primarily on the financial success improvement of the family firm takeover by a financial investor. Thus, we define a family firm takeover as successful when it creates a sustained value for its shareholders (Achleitner et al., 2010a; Bergström et al., 2007; Loos, 2007; Pindur, 2009). However, academic research about the relationship between financial investors and family firms is so far ambiguous. On the one side, academic studies show significant positive effects of financial investors' takeovers on family firms, in particular on firm productivity (Achleitner et al., 2010a; Achleitner et al., 2010b; Bernstein & Sheen, 2016), management expertise, and corporate governance (Berg & Gottschalg, 2005; Kaplan & Strömberg, 2009). On the other side, researchers



argue and show that financial investors destroy creative processes, decrease productivity, and decrease the average income per employee after a takeover (Davis et al., 2014).

Moreover, there are several sources of potential conflict in the intersection of family firms and financial investors, such as deviating strategic time horizons (while family firms are long-term oriented, financial investors are relatively short-term oriented) (Achleitner et al., 2008; Braun et al., 2011), deviating risk tolerances (while family firms tend to be risk-averse, financial investors are rather risk-taking) (Anderson & Reeb, 2003; Martí et al., 2013), and deviating goals (while family firms focus on financial and non-financial goals, financial investors focus on financial goals solely) (Berrone et al., 2010). Thus, researchers disagree on whether family firms and financial investors are a good fit. We motivate this study based on the current research inconsistencies. Hence, we aim to analyze the relationship between family firms and financial investors and help improve the understanding of value creation in family firms resulting in a successful takeover. Therefore, we ask the following research question: *What are the configurations of financial investors' takeover of family firms resulting in success?*

Grounding on extant literature on resource orchestration (Helfat et al., 2007; Mahoney, 1995; Sirmon et al., 2011; Sirmon et al., 2007) and value creation in takeovers by financial investors (Achleitner et al., 2010a; Achleitner et al., 2010b; Berg & Gottschalg, 2005; Jensen, 1989; Kaplan & Strömberg, 2009; Loos, 2007; Pindur, 2009), we create a theoretical framework including firm-level, environmental-level, and owner-level drivers that might affect successful family firm takeovers. Methodologically, we draw on fuzzy-set qualitative comparative analysis (fsQCA) (Fiss, 2011; Ragin, 2006), which has become increasingly prominent in management and family firm studies (Douglas, Shepherd, & Prentice, 2020; Gilbert & Campbell, 2015; Kimmitt, Muñoz, & Newbery, 2019; Roig-Tierno, Huarng, & Ribeiro-Soriano, 2016; Waldkirch, Kammerlander, & Wiedeler, 2021). The fsQCA approach allows us to reveal configurations for

successful family firm takeovers. Our analysis is based on 52 interviews with investment professionals and experts on 35 family firm takeover cases.

Building on our findings, this study makes the following contributions. First, drawing on a fsQCA analysis, we outline three individual solutions leading to a successful family firm takeover (i.e., incentivizers, optimizers, and adjacent investors). Therefore, we extend research about value creation measures by explicitly focusing on takeovers of family firms (Achleitner et al., 2010a; Achleitner et al., 2010b; Berg & Gottschalg, 2005; Jensen, 1989; Loos, 2007; Pindur, 2009) and further show that financial investors are focusing on selective value creation measures, instead of a broad set of different measures, as argued in previous research. Second, we extend existing research about the success versus the failure of family firm takeovers by financial investors (Bollazzi et al., 2004; Martí et al., 2013; Viviani, Giorgino, & Steri, 2008). While current research reveals ambiguous results on whether financial investors create value after a family firm takeover, our study shows that family firm takeovers by financial investors are successful under specific conditions. Third, we extend existing research about resource orchestration in family firms (Helfat et al., 2007; Sirmon et al., 2011; Sirmon et al., 2007). While existing research primarily focuses on top management's role in resource deployment, we focus on the external investor and their influence on resource orchestration. Last, our study has several practical implications by showing financial investors how to create value in family firms.

### **THEORETICAL BACKGROUND**

#### **Resource orchestration in family firms**

Family firms are owned and managed with the “intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families” (Chua et al., 1999: 25). Although family firms are heterogenous (Chrisman & Patel, 2012), they are typically characterized by three idiosyncrasies that differentiate them from

non-family firms. First, family owners have significant control over the firm (Carney, 2005), second, family owners' wealth is highly concentrated in the family firm, and third, family owners also pursue non-financials goals (Anderson & Reeb, 2003).

The strong overlap of the family and the firm significantly influences the firm's resources and how it uses them (Habbershon et al., 2003). Moreover, Habbershon and Williams (1999) argue that family firms have a unique bundle of resources due to the close interaction between family and firm, namely "familiness." The resource-based view (RBV) builds on this notion and states that a firm can achieve and sustain a competitive advantage via its resources and capabilities (Barney, 1991). On the one side, family firms have valuable resources, such as highly committed and loyal employees (Donnelley, 1964; Horton, 1986), close relationships between employees and managers (Horton, 1986), more efficient ways of communication, and superior exchanges of information with greater privacy (Donnelley, 1964). Furthermore, family firms are characterized by lower transaction costs (Aronoff & Ward, 1995), a more trustworthy reputation (Tagiuri & Davis, 1996), superior decision-making channels, lower monitoring costs, and fewer organizational structures (Daily & Dollinger, 1992). However, on the other side, family firms are characterized by the unwillingness to include non-family managers, hence limiting growth, professionalism, and resource accumulation (Mitter et al., 2012; Sirmon & Hitt, 2003). Consequently, family firms often lack the required quality and quantity of human resources. Moreover, family firms usually prefer family members over non-family members as employees (Dunn, 1995). In addition, challenges in hiring highly qualified managers due to the limited potential for professional growth, low remuneration, and lack of professionalism (Burack & Calero, 1981; Covin, 1994a, b; Donnelley, 1964; Hiebl, 2013; Horton, 1986; Mitter et al., 2012) hinder family firms' growth and value creation (Hiebl, 2013; Sirmon & Hitt, 2003). Furthermore, family firms are often characterized by scarce financial resources due to their refusal of external investments (i.e., equity and debt

investments) (Sirmon & Hitt, 2003). Lastly, family firms struggle with governance resources due to the altruism of owner-managers (Sirmon & Hitt, 2003).

Several researchers argue that valuable resources alone do not create a competitive advantage; however, it is the active management of the resources that leads to a competitive advantage (Helfat et al., 2007; Mahoney, 1995; Sirmon et al., 2007). Therefore, researchers proposed an extension of the RBV that incorporates managerial actions and how resources are managed and deployed in the firm, namely “resource orchestration.” Resource orchestration is the interaction of resources, capabilities, and managerial know-how, resulting in a competitive advantage and hence superior firm performance (Helfat et al., 2007; Sirmon et al., 2011; Sirmon et al., 2007). Thus, resource orchestration is “concerned with the action leaders take to facilitate efforts to effectively manage the firm’s resources” (Hitt et al., 2011: 64). In particular, family firm owner-managers influence firm performance by structuring the firm’s resource portfolio and by bundling the resources (Sirmon et al., 2007).

Two opposing perspectives emerged in the academic literature about resource orchestration in family firms. Some researchers claim that family firms are superior in orchestrating the available resources due to the availability of patient capital and hence the long-term orientation (Habbershon & Williams, 1999; Zahra, 2003). Other researchers, however, are more pessimistic, arguing that family firms have poor resource orchestration due to the desire to protect the socioemotional wealth of the family for future generations. Consequently, family firms struggle with risk-averse owner-managers, slow decision-making processes, conservative strategies (Chirico et al., 2011; Le Breton-Miller & Miller, 2006), and integrating professional, highly competent external employees (Vinton, 1998). Next, by drawing on resource orchestration in family firms, we show how financial investors may help to overcome the prevalent shortcomings in family firms.

### **Financial investors and family firms**

Family firms have a unique bundle of resources (Habbershon & Williams, 1999) and a unique way of orchestrating those resources (Chirico et al., 2011; Forcadell, Ubeda, & Zúñiga-Vicente, 2018) coming along with advantages and disadvantages as discussed above. Furthermore, family firms are often confronted with challenging ownership succession (Hamadi, 2010; Yu et al., 2011). Literature argues that internal succession (i.e., within family ownership transition) is the preferred choice (DeTienne & Chirico, 2013; Kuratko, 1993; Parker, 2016; Wiklund et al., 2013). However, evidence shows that the share of external successions is strongly increasing (Neckebrouck et al., 2016; Thiele, 2017). Major drivers of this trend are common societal trends (i.e., the next generation can decide independently about their future career, instead of being forced to take over the family firm) and the increasing market of potential acquirers (De Fries, 1993; Morris, Williams, Allen, & Avila, 1997; Niedermeyer, Jaskiewicz, & Klein, 2010; Wennberg, Wiklund, Hellerstedt, & Nordqvist, 2011).

The takeover of a family firm by a financial investor<sup>8</sup> may help overcome the various challenges family firms face. Financial investors are active investors and may provide financial and strategic resources and the necessary expertise to orchestrate them as efficiently as possible (Faccio & Hsu, 2017; Michel, Ahlers, Hack, & Kellermanns, 2020; Salerno, 2019). Therefore, financial investors increase the level of professionalism and hence support family firms to gain a competitive advantage and grow. The major value creation drivers in financial investors' takeovers are financial, operational, strategic, and governance engineering (Achleitner et al., 2010b; Berg & Gottschalg, 2005; Jensen, 1989; Kaplan & Strömberg, 2009).

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<sup>8</sup> There are several types of financial investors: venture capital investors, private equity investors, industry holdings, and family offices. Our study focuses on private equity investors, industry holdings, and family offices because those investor types often invest in mature and mostly privately held firms.

However, not all family firm takeovers by financial investors are successful because of several potential conflicts in the interaction between family firms and financial investors that may hinder successful resource orchestration. For example, the Fristads Kansas Group, a Scandinavian manufacturer of workwear, was owned by several private equity investors between 1999 and 2015. Since then, the firm has been recovering from inappropriate strategic decisions (Dämon, 2017) that did not allow to use the resources effectively.

### **Theoretical framework—what fosters successful family firm takeovers**

While extant research has outlined and investigated top management's role in resource orchestration of firms to gain a competitive advantage (Helfat et al., 2007; Sirmon et al., 2011; Sirmon et al., 2007), we focus on the role of the financial investor in resource orchestration processes, helping family firms to gain a competitive advantage and ultimately resulting in a successful takeover. To categorize the drivers potentially affecting the success of family firm takeovers, we build on existing research (Achleitner et al., 2010a); Kaplan and Strömberg (2009); (Schickinger et al., 2018). Based on the literature, we present five major drivers along three levels: governance driver, strategic driver, operational driver (firm-level drivers), market driver (environmental-level driver), and investor fit driver (owner-level driver).

***Firm-level drivers.*** Financial investors are typically active investors with a dedicated value creation plan (Achleitner et al., 2010a; Jensen, 1989; Kaplan & Strömberg, 2009). To understand the set of changes that the financial investors implement in their portfolio firms, we investigate governance, strategic, and operational drivers to capture the specific firm-level driver.

***Governance driver.*** As a result of the unification of ownership and control, family firms have low agency costs (Jensen, 1986). However, a family firm's corporate governance is also often characterized by inappropriate incentive schemes, altruism, nepotism, and weak risk-bearing attributes (Acharya, Gottschalg, Hahn, & Kehoe, 2013a). Hence, a family firm's governance

structure often creates capital and managerial constraints (Acharya et al., 2013a), resulting in limited resources and poor resource orchestration. Jensen (1989) argues that financial investors' takeovers help solve the corporate governance challenges by better motivating employees, managing resources, and increasing the firm's efficiency. Acharya et al. (2013a) found that one-third of the chief executive officers are replaced within 100 days. Furthermore, financial investors change the compensation of employees by offering key employees a considerable equity upside via stock options (Jensen & Murphy, 1990). In addition to changes in the composition of the board and compensation of employees, financial investors drive changes in firm culture and risk appetite.

*Strategic driver.* As a consequence of the weak risk appetite, family firms typically avoid critical strategic changes (Acharya et al., 2013a) and hence might miss important opportunities—which financial investors will implement. Furthermore, many financial investors pursue strategic add-on acquisitions to drive business model change and foster growth (Achleitner et al., 2010a; Valkama, Maula, Nikoskelainen, & Wright, 2013). In addition, many financial investors hire strategic advisors and external consultants (Kaplan & Strömberg, 2009), thereby overcoming internal limitations in quantity and quality of employees (Mitter et al., 2012; Sirmon & Hitt, 2003). Lastly, one key driver in financial investors' takeovers is the strategic change of the capital structure and the usage of leverage (Kaplan & Strömberg, 2009), for which family firms are suitable because family firms typically bear only little debt (Achleitner et al., 2008).

*Operational driver.* Weak risk-bearing attributes (Acharya et al., 2013a) and a focus on non-financial goals (Berrone et al., 2012) might lead to operational inefficiencies in family firms (Bernstein & Sheen, 2016) because, for example, family firm owner-managers are more reluctant to implement rigorous restructuring measures. Many investors focus on operational changes to increase the value of their investments (Kaplan & Strömberg, 2009). Indeed, studies show that two-thirds of financial investors' value creation is driven by operational changes and market effects

(Achleitner et al., 2010a). Operational changes comprise all measures that increase the cash flow of the firms, such as topline growth (e.g., via internationalization and change in market focus), margin increase (e.g., via cost-cutting and change in product mix), as well as streamlining of capital expenditures and working capital (Achleitner et al., 2010a; Achleitner & Figge, 2014; Kaplan, 1989).

***Environmental-level drivers.*** In addition to the resource base and orchestration of the available resources, external drivers (i.e., macroeconomic conditions, market drivers, and industry drivers) are crucial for the potential success of financial investors' takeovers (Achleitner et al., 2010a; Phalippou & Zollo, 2005). The success takeovers are often procyclical and strongly dependent on public stock-market returns. The performance of takeovers decreases with the average interest rate level and increases with the average GDP growth rate (Phalippou & Zollo, 2005). Furthermore, major market and industry disruptions significantly impact the performance of financial investors' takeovers (Achleitner et al., 2010b). Therefore, general macroeconomic conditions as well as market and industry trends are critical for the success of takeovers.

***Owner-level drivers.*** Extant research suggests that the interaction of family firms and financial investors bears tensions (Schickinger et al., 2018). Examples are the different pursued goals and the different strategic time horizons of families and financial investors (Berrone et al., 2012; Dreux, 1993; Poutziouris, 2001; Sirmon & Hitt, 2003). However, three major characteristics of financial investors might help improve the financial investor's understanding of the unique resources of family firms, thus improving the resource orchestration capabilities of the financial investor and hence increasing the likelihood of a successful takeover: first, previous experiences with family firms and knowledge of their unique idiosyncrasies. Second, substantial industry experience, and third, focus on small or medium-sized firms due to the higher percentage of family firms within these small or medium-sized firms (Ahlers et al., 2014; Schickinger et al., 2018).



## **METHODOLOGY AND ANALYSES**

### **Fuzzy-set qualitative comparative analysis**

Our study builds on the fuzzy-set QCA (fsQCA) approach introduced by Ragin (2000). FsQCA allows the structuring of case-centered analyses, improving comparative research (Fiss, 2011), and simultaneously preserving the richness and insights of qualitative approaches. Furthermore, fsQCA originates in Boolean and fuzzy algebra, facilitating researchers to analyze medium-sized samples by leveraging combinatorial logics to identify necessary or sufficient combinations of conditions resulting in the occurrence of the defined outcome (Fiss, 2009). Therefore, each case in this study reflects a variety of theoretical properties that help explain a financial investor's successful takeover of a family firm. The utilization of fsQCA provides various advantages in answering our research questions. It provides a more holistic investigation of complexities because it builds on the tenets of equifinality (i.e., different paths can result in the same outcome) and causal conjectures (i.e., the effect of a condition is also visible in combination with others) (Schneider & Eggert, 2014). In contrast to solely numerical and quantitative approaches, fsQCA reflects qualitative differences between the individual cases and, additionally, provides more structured insights than entirely qualitative analyses (Miller, 2018).

### **Empirical context and data collection**

To study what configurations lead to successful family firm takeovers, we rely on a sample of financial investor takeovers of family firms in the German-speaking area. We choose the German-speaking area due to two reasons: (1) the strong prevalence of family firms (around 90 % of all firms are family firms, which account for 32 % of all sales) (Stiftung Familienunternehmen, 2019), and (2) private equity as an asset class has been growing strongly in German-speaking area since 1996 (Wright et al., 2006).

We collected qualitative data appropriate for fsQCA approaches (Kimmitt et al., 2019; Miller, 2018; Wilhelm, Bullinger, & Chromik, 2019). Qualitative case-based approaches are a common method for investigating takeover processes because they can capture the complexities of such processes (e.g., Achleitner et al., 2010b). In addition, adopting a qualitative approach enables us to grasp the complexity and investigate the solution paths, improving theorizing (Kimmitt et al., 2019; Miller, 2018; Wilhelm et al., 2019). Therefore, combining in-depth qualitative case-based data with rigid fsQCA methodology is adequate for generating interesting insights (Tóth, Henneberg, & Naudé, 2017).

As a first step, to build up our sample, we purchased a list including 1,000 financial investors in the German-speaking area using the DDW (Die Deutsche Wirtschaft) database and excluded financial investors with little or no exposure to family firms and little or no recent deal flow, resulting in 138 potentially interesting interviewee partners. As a second step, we contacted the financial investors via e-mail and explained our research question and the research design. In total, 65 investors responded, out of which 35 were able and willing to disclose detailed information about their takeovers, resulting in 35 case interviews. In addition to the 35 case interviews, we conducted 17 expert interviews (e.g., M&A lawyers, private debt professionals, and strategy consultants) to better understand the dynamics behind the takeover of a family firm and to verify the case interviews. Hence, we conducted a total of 52 interviews, mainly in the form of a video conference, due to the global COVID-19 pandemic and the rigid travel restrictions. Based on our theoretical framework, we developed a semi-structured interview guide (available from the authors), including general information about the financial investor, the typical strategy of the financial investor, the motivation and reasons for acquiring a specific family firm, and finally, detailed questions about a highly memorable takeover (information regarding the acquisition of the family firm, the portfolio work during the holding period, and eventually information regarding the

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sales process). On average, the semi-structured interviews lasted 45 minutes and were recorded and transcribed by the authors (resulting in 424 pages of verbatim interview transcripts). Table 8 provides an overview of the key characteristics of the interviewees.

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Table 8: Overview of participating interviewees (case interviews)

#	Interview type	Interviewee position	Type of firm	Target size	Degree of outcome <sup>1</sup>
A	Case Interview	Associate	Private Equity Investor	Mid-Cap	Low
B	Case Interview	Managing Director	Private Equity Investor	Mid-Cap	High
C	Case Interview	Vice President	Private Equity Investor	Large-Cap	High
E	Case Interview	Vice President	Family Office	Small-Cap	High
F	Case Interview	Director	Private Equity Investor	Mid-Cap	High
I	Case Interview	Managing Director	Private Equity Investor	Mid-Cap	Low
K	Case Interview	Associate	Family Office	Mid-Cap	High
L	Case Interview	Vice President	Private Equity Investor	Mid-Cap	High
M	Case Interview	Director	Private Equity Investor	Mid-Cap	Low
N	Case Interview	Vice President	Private Equity Investor	Small-Cap	High
O	Case Interview	Managing Director	Family Office	Small-Cap	High
P	Case Interview	Vice President	Private Equity Investor	Small-Cap	High
Q	Case Interview	Director	Family Office	Small-Cap	Low
R	Case Interview	Vice President	Private Equity Investor	Mid-Cap	Low
T	Case Interview	Managing Director	Industry Holding	Small-Cap	Low
U	Case Interview	Vice President	Private Equity Investor	Large-Cap	Low
V	Case Interview	Managing Director	Private Equity Investor	Large-Cap	High
W	Case Interview	Managing Director	Industry Holding	Small-Cap	Low
X	Case Interview	Director	Private Equity Investor	Large-Cap	Low
Y	Case Interview	Associate	Family Office	Small-Cap	High
AC	Case Interview	Director	Family Office	Mid-Cap	High
AD	Case Interview	Director	Private Equity Investor	Mid-Cap	High
AE	Case Interview	Managing Director	Family Office	Small-Cap	High
AF	Case Interview	Managing Director	Industry Holding	Small-Cap	High
AG	Case Interview	Vice President	Private Equity Investor	Large-Cap	High
AH	Case Interview	Associate	Private Equity Investor	Small-Cap	High
AI	Case Interview	Managing Director	Private Equity Investor	Mid-Cap	High
AJ	Case Interview	Vice President	Private Equity Investor	Small-Cap	High
AM	Case Interview	Managing Director	Private Equity Investor	Small-Cap	High
AN	Case Interview	Managing Director	Family Office	Small-Cap	Low
AP	Case Interview	Associate	Private Equity Investor	Small-Cap	High
AR	Case Interview	Director	Private Equity Investor	Mid-Cap	High
AW	Case Interview	Vice President	Private Equity Investor	Mid-Cap	Low
AY	Case Interview	Director	Private Equity Investor	Large-Cap	High
AZ	Case Interview	Managing Director	Private Equity Investor	Mid-Cap	High

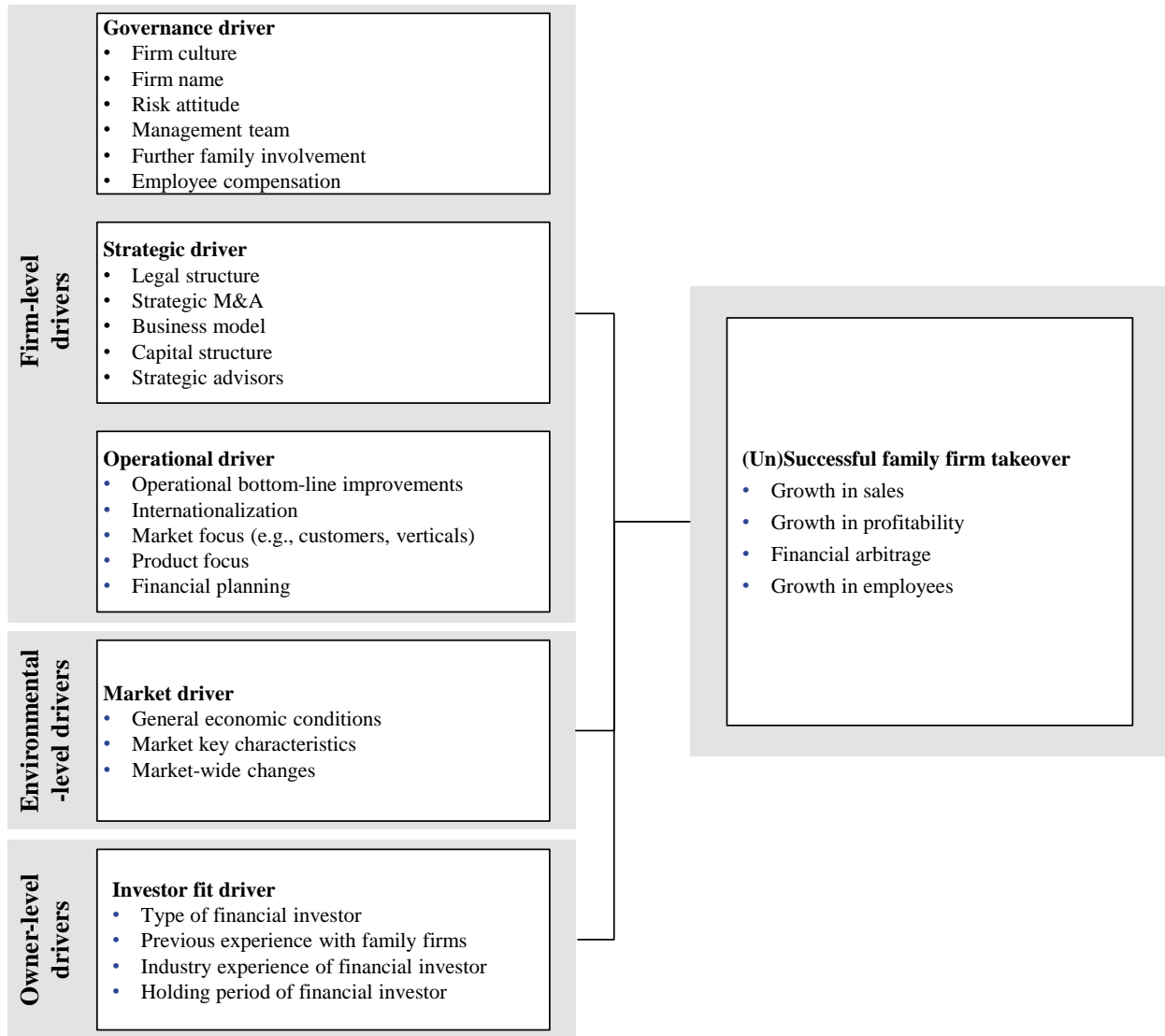
1.: We assess the degree of high (1.00; 0.67) and low (0.33; 0.00) based on set membership.

In addition, we conducted 17 expert interviews with venture capital investors, private debt investors, and lawyers (relevant cases are: D, G, H, J, S, Z, AA, AB, AK, AL, AO, AQ, AS, AT, AU, AV, and AX).

### **Explanatory conditions and calibration of set memberships**

FsQCA, as a set-theoretic methodology, builds on theoretical conditions that might impact the focal outcome variable (i.e., successful takeover) and that are theoretically motivated (Douglas et al., 2020; Greckhamer, Misangyi, Elms, & Lacey, 2008). Like previous studies published in leading management journals (e.g., Cao, Wang, Berkeley, & Tjahjono, 2022; Colovic, Lamotte, & Yang, 2022), also our theoretical framework is based on three general theoretical conditions derived from existing literature (Achleitner et al., 2010a; Schickinger et al., 2018) which might have an impact on the success of takeovers: (a) firm-level drivers, (b) environmental-level drivers, and (c) owner-level drivers. We split the three theoretical categories into five super-conditions to grasp the richness of the empirical data (Gilbert & Campbell, 2015). *Firm-level drivers* include (1) governance driver, (2) strategic driver, and (3) operational driver, *environmental-level drivers* include (4) market driver, and *owner-level drivers* include (5) investor fit driver. These super-conditions are based on 23 variables that function as formative indicators. The attached Figure 4 summarizes the research framework.

Figure 4: Theoretical framework



The fsQCA approach requires that all measures are calibrated, which is particularly important for qualitative data (Basurto & Speer, 2012). The thresholds for each calibration are grounded in theory and an in-depth understanding of existing research (Miller, 2018). Tóth et al. (2017) developed the Generic Membership Evaluation Template (GMET) to provide maximum transparency and structure in the fsQCA analysis. Hence, we use GMETs to transform our qualitative interview data into so-called set memberships. For each of the 35 individual cases, we developed five GMETs that include the abovementioned five theoretical super-conditions.

Furthermore, we wrote short assessments for all variables related to the five super-conditions supported by interview quotes and additional knowledge from secondary data (e.g., press material). In the first step, we measure each variable individually via a four-value fuzzy-set scale (ranging from 0.00 to 1.00<sup>9</sup>). In a second step, we average the variables' scores to derive the super-condition's score (Basurto & Speer, 2012). Last, the outcomes of the GMETs were discussed among the authors until a consensus was derived (Miles, Huberman, & Saldaña, 2018). Table 9 summarizes the theoretical conditions, including measures and membership scores.

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<sup>9</sup> 0.00 being worst and 1.00 being best; individual thresholds are 0.00, 0.33, 0.67, and 1.00.

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Table 9: Coding procedure and set membership calibrations

Condition/ Outcome	Super-conditions/ Conditions	Definition and question	Coding scheme & set membership calibration	Key sources
<b>Outcome</b>	<b>(Un)Successful takeover</b>			
	Growth in Sales	Is annual sales development below or above average (before versus after)?	0.00 (“Decline in sales”) to 1.00 (“Strong increase in sales”)	(Achleitner et al., 2010a; Bergström et al., 2007; Loos, 2007; Pindur, 2009)
	Growth in profitability	Is profitability development below or above average (before versus after)?	0.00 (“Decline in profitability”) to 1.00 (“Strong increase in profitability”)	(Achleitner et al., 2010a; Bergström et al., 2007; Loos, 2007; Pindur, 2009)
	Financial Arbitrage	Have you achieved a multiple expansion (increase in valuation)?	0.00 (“Decline in valuation”) to 1.00 (“Strong increase in valuation”)	(Achleitner et al., 2010a; Bergström et al., 2007; Loos, 2007; Pindur, 2009)
	Growth in Employees	Is the employee-development below or above average (before versus after)?	0.00 (“Decline in employees”) to 1.00 (“Strong increase in employees”)	(Achleitner et al., 2010a; Bergström et al., 2007; Loos, 2007; Pindur, 2009)
<b>Firm-level drivers</b>	<b>Governance Driver</b>			
	Firm Culture	Has the firm culture changed after the acquisition? If yes, in what way?	0.00 (“Major, negative change”) to 1.00 (“Major, positive change”)	(Astrachan, 1988)
	Firm Name	Is the name of the family firm replaced after the takeover?	0.00 (“No change”) to 1.00 (“Full change”)	(Jaskiewicz, Lutz, & Godwin, 2016)
	Risk Attitude	Has risk attitude changed after acquisition? If yes, to what degree?	0.00 (“No change”) to 1.00 (“Entire change”)	(Loos, 2007)
	Management Team	Is the top management of the firm replaced after the takeover?	0.00 (“No change”) to 1.00 (“Entire change”)	(Kaplan & Strömberg, 2009)
	Further family involvement	Are family members further involved (e.g., operationally, strategically)?	0.00 (“Family further operationally involved”) to 1.00 (“No involvement”)	(Tappeiner et al., 2012)
	Employee compensation	Is there a change in employee compensation models after the takeover?	0.00 (“No change”) to 1.00 (“Entire change”)	(Jensen, 1989; Kaplan & Strömberg, 2009)
<b>Firm-level drivers</b>	<b>Strategic Driver</b>			
	Legal Structure	Was there a change in the firm’s legal structure after the takeover?	0.00 (“No change”) to 1.00 (“Entire change”)	(Bergström et al., 2007)
	Strategic M&A	Are there any strategic M&A activities after the takeover?	0.00 (“No strategic M&A”) to 1.00 (“Full-fledged M&A”)	(Brigl et al., 2016)
	Business Model	Was there a change in the firm’s business model after the takeover?	0.00 (“No change”) to 1.00 (“Entire change”)	(Bergström et al., 2007)
	Capital Structure	How much leverage is used (e.g., measures in EBITDA)?	0.00 (“No usage of leverage”) to 1.00 (“Very high usage of leverage”)	(Jensen, 1989; Kaplan & Strömberg, 2009)



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	Strategic Advisors	Are there external strategic advisors hired after the takeover?	0.00 (“No usage of advisors”) to 1.00 (“Very significant usage of advisors”)	(Achleitner et al., 2010b)
<b>Firm-level drivers</b>	<b>Operational Driver</b>			
	Operational bottom-line improvements	Are there any operational improvement initiatives started after the takeover?	0.00 (“No improvements”) to 1.00 (“Full-fledged improvement program”)	(Jensen, 1989; Kaplan & Strömberg, 2009)
	Internationalization	Is there an internationalization strategy pursued after the takeover?	0.00 (“No internationalization”) to 1.00 (“Full-fledged internationalization”)	(Loos, 2007; Pindur, 2009)
	Market focus (e.g., new verticals)	Is there a change in market focus after the takeover?	0.00 (“No change”) to 1.00 (“Entire change”)	(Berg & Gottschalg, 2005; Loos, 2007; Pindur, 2009)
	Product Focus	Is there a change in product focus after the takeover?	0.00 (“No change”) to 1.00 (“Entire change”)	(Berg & Gottschalg, 2005; Loos, 2007; Pindur, 2009)
	Financial Planning	Is there a change in financial planning after the takeover?	0.00 (“No change”) to 1.00 (“Entire change”)	(Acharya, Amihud, & Litov, 2011)
<b>Environmental-Market level drivers</b>	<b>Driver</b>			
	General economic conditions	What are the general economic conditions during the holding period?	0.00 (“Strong economic downturn”) to 1.00 (“Strong economic upswing”)	(Achleitner et al., 2010a; Kaplan, 1989; Valkama et al., 2013)
	Market key characteristics	What is the degree of stability of the market/industry (before and after)?	0.00 (“Very unstable market”) to 1.00 (“Very stable market”)	(Valkama et al., 2013)
	Market-wide changes	Are there any market-wide changes after the takeover?	0.00 (“Entire market disrupts”) to 1.00 (“No market disruption”)	(Achleitner et al., 2010a; Kaplan, 1989; Valkama et al., 2013)
<b>Owner-level drivers</b>	<b>Investor fit Driver</b>			
	Type of financial investor	What type of financial investor is it?	0.00 (“Venture Capital Investor”) to 1.00 (“Family Office”)	(Bierl et al., 2018; Schickinger et al., 2018)
	Previous experience with family firms	How familiar is the financial investor with family firms?	0.00 (“No focus on family firms”) to 1.00 (“Very strong focus on family firms”)	(Bierl et al., 2018; Schickinger et al., 2018)
	Industry experience of financial investor	Does the financial investor have a dedicated industry focus?	0.00 (“No industry focus”) to 1.00 (“Very strong industry focus”)	(Bierl et al., 2018; Schickinger et al., 2018)
	Holding period of financial investor	What is the typical holding period of the financial investor?	0.00 (“0-3 years”) to 1.00 (Longer than ten years”)	(Dreux, 1993; Kaplan, 1989; Schickinger et al., 2018; Sirmon & Hitt, 2003; Zellweger, 2007)

**Outcome condition: Successful family firm takeover**

The outcome variable of this study is a *successful family firm takeover*. While success is a very broad term, we focus on the financial success improvement of the family firm takeover by the financial investor (Achleitner et al., 2010a; Bergström et al., 2007; Loos, 2007; Pindur, 2009; Tsai & Yang, 2013). Therefore, we evaluate (a) growth in sales and (b) growth in profitability, both compared to pre-takeover and compared to the competition (Achleitner et al., 2010a; Tsai & Yang, 2013). In addition, we capture (c) financial arbitrage (i.e., higher exit valuation multiple than entry valuation multiple) (Achleitner et al., 2010a; Loos, 2007; Pindur, 2009). Lastly, we measure (d) employee growth (Kaplan & Strömberg, 2009; Loos, 2007; Pindur, 2009). After evaluating each component based on the four-value fuzzy-set scale, we calculate the average.

**Explanatory conditions: Drivers at the firm, environmental, and owner-level**

*Firm-level drivers.* We measure firm-level drivers through three individual indicators: *governance driver*, *strategic driver*, and *operational driver*. The *governance driver* captures the effects of a changing corporate governance structure and agency costs through the radical shift in the ownership structure after takeover (Acharya et al., 2013a; Jensen, 1989; Loos, 2007). Therefore, we measure (a) whether there is a change in firm culture after the takeover (Astrachan, 1988) because firm culture is very important for strategic success and financial performance (major, positive change = “1.00” and major, negative change = “0.00”) (Denison, 1984). We measure (b) whether there is a change in the family firm name (“0.00” = no change in the firm name and “1.00” = change in the firm name) because, very often, the firm name and the family name are closely related (Jaskiewicz et al., 2016). We measure (c) whether there is a change in risk attitude (i.e., the willingness to bear the risk, for example, to drive growth) after the family firm takeover (major change in risk attitude = “1.00” and no change in risk attitude = “0.00”) (Loos, 2007). We measure (d) whether there is a change in the management team (holistic change of the

management team = “1.00 and no change in management team = “0.00”), and (e) whether family members are further involved in the firm (no further involvement of family members = “1.00” and further operational involvement of family members = “0.00”) (Kaplan & Strömberg, 2009). Lastly, we measure (f) whether there is a change in management compensation (ranging from “0.00” = no change in compensation to “1.00” = substantial change of compensation) to better align interests and potentially reduce agency costs (Jensen, 1989; Kaplan & Strömberg, 2009).

Second, the *strategic driver* captures the effects of changing strategic aspects after the family firm takeover, which often result in a substantial change in the firm’s resource base (Berg & Gottschalg, 2005). In many cases, there is a strategic refocusing after takeovers. Therefore, we measure (a) whether there is a change in the legal structure, e.g., to reduce the overall complexity (ranging from “0.00” = no change in legal structure to “1.00” = substantial change of legal structure) (Bergström et al., 2007). We measure (b) whether any strategic M&A is pursued to change the strategic direction and foster firm growth (ranging from no strategic M&A activities = “0.00” to substantial M&A activities = “1.00”) (Brigl et al., 2016). We measure (c) whether there is a change in the business model (ranging from “0.00” = no change in business model to “1.00” entire change of business model) (Bergström et al., 2007), and (d) whether there is a change in the capital structure through the takeover because the usage of high leverage in the course of takeovers can foster growth (ranging from “0.00” = no usage of leverage to “1.00” = very high usage of leverage) (Jensen, 1989; Kaplan & Strömberg, 2009; Ljungqvist & Richardson, 2003). Lastly, we measure (e) whether any strategic advisors are hired to support the takeover and the value creation within the holding period (ranging from no usage of strategic advisors = “0.00” to “1.00” substantial reliance on advisors) (Achleitner et al., 2010b).

Third, the *operational driver* captures the effects of measures that target the firm’s operational effectiveness (Loos, 2007). Therefore, we measure (a) whether any operational bottom-

line improvement programs are initiated to reduce overall costs (ranging from “0.00” = no operational improvement program to “1.00” = substantial operational improvement program) (Jensen, 1989; Kaplan & Strömberg, 2009) and (b) whether any internationalization strategies are pursued to increase sales and grow (ranging from “0.00” = no internationalization strategy to “1.00” = substantial internationalization strategy) (Loos, 2007; Pindur, 2009; Tomo, Mangia, Pezzillo Iacono, & Canonico, 2022). We measure (c) whether there is a shift in market focus (ranging from “0.00” = no change in market focus to “1.00” = entire change of market focus) and a shift in (d) product focus (ranging from “0.00” = no change in product focus to “1.00” = entire change of product focus) (Loos, 2007; Pindur, 2009). Lastly, we measure (e) whether there are any changes in the financial planning to improve data transparency and decision-making processes (ranging from “0.00” = no change in financial planning to “1.00” = substantial change of financial planning) (Acharya et al., 2011).

***Environmental-level drivers.*** One of the key drivers influencing successful family firm takeovers is the external environment (Achleitner et al., 2010a). We measure the impact of the external environment on the takeover via a multifaceted indicator, namely the market driver. Research has focused on the effects of macroeconomic conditions, GDP development, market cyclicity, and market disruptions on the performance of financial investor deals (e.g., Kaplan, 1989; Valkama et al., 2013). Therefore, we consider (a) the general economic conditions (ranging from “0.00” = strong economic downturn to “1.00” = strong economic upswing), (b) market key characteristics (ranging from “0.00” = very cyclical to “1.00” very anti-cyclical), and (c) market-wide changes to reflect potential market disruptions during the holding period (ranging from “0.00” = entire market changes to “1.00” = no market changes).

***Owner-level drivers.*** We measure owner-level drivers through a multifaceted indicator, the *investor fit driver*, which is, according to prevalent literature, particularly relevant to understanding

family firm takeovers (e.g., Bierl et al., 2018; Schickinger et al., 2018). We measure (a) the type of financial investor and, therefore, scrutinize how strategically close the financial investor is with family firms (ranging from venture capital investor = “0.00” to family office = “1.00”). We consider (b) the investor’s previous experience with family firms and, therefore, consider how familiar the financial investor is with the idiosyncrasies of family firms (ranging from “0.00” = no focus on family firms to “1.00” = very strong focus on family firms) (Bierl et al., 2018; Schickinger et al., 2018). We consider (c) the industry experience of the investor in the family firm’s industry (ranging from “0.00” = no industry experience to “1.00” = very strong industry experience) and, therefore, whether the financial investor can handle the related complexities (Bierl et al., 2018; Schickinger et al., 2018). Finally, we consider (d) the typical holding period of the financial investor and, therefore, we also reflect on the strategic time horizon, which might foster or hinder the collaboration between family firms and financial investors (ranging from typical holding period below three years = “0.00” to typical holding period of more than ten years = “1.00”).

#### **Constructing a truth table and deriving an intermediate solution**

After having assigned membership scores for all five conditions and outcomes, we analyze potential necessary conditions and sufficient (combinations of) conditions (Schneider & Wagemann, 2010). In the first step, we use the fsQCA 3.0 software to check for the potential prevalence of *necessary* conditions. As we find no high consistency values (above the typically applied threshold of 0.9) for any necessary conditions (Greckhamer, Furnari, Fiss, & Aguilera, 2018), we conclude that no individual condition is necessary for a successful family firm takeover. In the second step, we use the truth table analysis in the fsQCA 3.0 software to identify *sufficient* (combinations of) conditions. In a third step, we adjust the automatically generated truth table in two ways, based on extant research (e.g., Gilbert & Campbell, 2015; Muñoz & Dimov, 2015; Waldkirch et al., 2021): (1) frequency threshold (i.e., the minimum number of observed cases per

configuration) and (2) level of raw consistency. Regarding frequency, we include all observed solutions in our analysis and cover more than 80 % of the cases (Greckhamer et al., 2018). Regarding consistency, we check the truth table for breakpoints (Basurto & Speer, 2012; Schneider & Wagemann, 2010) at various raw consistency levels (i.e., 0.90 level, 0.95 level, and 0.99 level) and ultimately choose 0.90 as the cutoff threshold as it provides a good balance between solution consistency and solution coverage and is also above the typically required cut off point of 0.80 (Greckhamer et al., 2018).

We derive six solution terms in the intermediate solution (Table 10). The solution terms have, in total, a solution coverage of 0.831 and a solution consistency of 0.877, and they are, therefore, in line with comparable fsQCA research (Greckhamer, 2016; Kimmitt et al., 2019; Wilhelm et al., 2019). While the solution coverage shows how much of the overall outcome is explained by the solution paths, the solution consistency is the ratio of the cases showing both configuration and outcome, and the cases showing the configuration but not the outcome (Pittino, Visintin, & Lauto, 2018).

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Table 10: Outcome “successful family firm takeover”; analysis of sufficient conditions at consistency >0.90 and frequency=1 (intermediate solution)

	Incentivizers			Optimizers		Adjacent investors
	Path 1	Path 2a	Path 2b	Path 3a	Path 3b	Path 4
Governance driver	●	●	●	⊗	⊗	
Strategic driver	⊗	●				⊗
Operational driver	⊗			●	●	
Market driver		⊗	●		●	●
Investor fit driver			⊗	⊗		●
Number of cases <sup>1</sup>	6	5	6	3	6	8
Raw coverage	0.555	0.508	0.516	0.521	0.629	0.642
Unique coverage	0.004	0.051	0.041	0.003	0.004	0.031
Consistency	0.925	0.962	0.983	0.906	0.922	0.935
Total coverage	0.831					
Total consistency	0.877					

Note: White crossed-out circles indicate the absence of a condition, and black filled circles indicate the presence of a condition.

Only including positive outcomes.

**Assessing the robustness of the solution**

We conduct several robustness checks to scrutinize our results (Douglas et al., 2020; Skaaning, 2011; Thomann & Maggetti, 2017). First, we increased the consistency threshold to 0.95 (Skaaning, 2011; Tóth et al., 2017). No changes in the configurations were observed. Second, we increased the frequency threshold to two (Skaaning, 2011; Tóth et al., 2017), and the results remained largely stable. Third, we changed the PRI score (i.e., proportional reduction in inconstancy) to >0.5 and to >0.7 (Douglas et al., 2020). Again, our results remain robust. Fourth, we performed a CRISP QCA approach, which aligns with our paths. The following table summarizes the robustness checks.

Table 11: Robustness check summary

	Incentivizers			Optimizers		Adjacent investors
	Path 1	Path 2a	Path 2b	Path 3a	Path 3b	Path 4
Consistency >0.95	✓	✓	(✓)	(✓)	(✓)	(✓)
Frequency =2	(✓)	(✓)	(✓)		(✓)	(✓)
PRI >0.5	✓	✓	✓	✓	✓	✓
PRI >0.7	(✓)	✓	✓	(✓)	✓	✓
CRISP	(✓)	(✓)	(✓)	(✓)	(✓)	(✓)

Note: *ü* is placed in cases with similar solution paths. *(ü)* is set in patients with identical solution paths. However, one condition is included or excluded compared to the initial analysis.

To further assess the robustness of our solution, we performed an analysis with the opposite outcome condition: non-successful family firm takeover. This robustness check analysis uncovers five novel paths utterly different from those in our main analysis. Hence supporting the argumentation of our main analysis. First, paths 1, 2, and 5 show that pulling one single driver (either the governance driver or the operational driver) is too little in times of market stress (characterized by the absence of the market driver); thereby, in line with the argumentation in the main analysis (path 2a). Second, path 3 shows that the organization might be overwhelmed by pulling both the strategic and operational drivers, resulting in an unsuccessful outcome. Thereby, it is in line with our main analysis and the argumentation that in normal times financial investors only focus on single drivers. Third, path 4 is entirely new, showing that the combination of the operational and investor fit drivers is insufficient for a successful family firm takeover.



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Table 12: Robustness check (Outcome “Non-successful family firm takeover”)

	Path 1	Path 2	Path 3	Path 4	Path 5
Governance driver	●	●	⊗	⊗	⊗
Strategic driver		⊗	●	⊗	
Operational driver	⊗	⊗	●	●	●
Market driver	⊗	⊗			⊗
Investor fit driver	⊗		⊗	●	⊗
Number of cases <sup>1</sup>	2	1	2	4	2
Raw coverage	0.423	0.473	0.430	0.594	0.457
Unique coverage	0.005	0.004	0.011	0.076	0.005
Consistency	0.925	0.927	0.945	0.888	0.910
Total coverage	0.656				
Total consistency	0.842				

Note: White crossed-out circles indicate the absence of a condition, and blue filled circles indicate the presence of a condition.

Only including negative outcomes.

## FINDINGS

### Configurations for successful family firm takeovers

Our fsQCA analysis shows that a successful family firm takeover can result from multiple configurations. In the first step, we derived a solution table including six unique paths for successful family firm takeovers. In a subsequent step, we aggregated the six paths into three configurations (see Table 10). We follow commonly used notations for our analysis: “●” demonstrates the presence of a condition, “⊗” indicates the absence of a condition, and a blank space reflects a “does not matter” situation (i.e., the condition can either be present or absent) (Fiss, 2011; Gilbert & Campbell, 2015). In the following section, we describe the three inductively identified types of configurations resulting in a successful family firm takeover, which we label as follows: (1) incentivizers, (2) optimizers, and (3) adjacent investors. We leverage qualitative

insights to provide case narratives and insightful characterizations to explain the mechanisms at play (Gilbert & Campbell, 2015; Kimmitt et al., 2019).

***Incentivizers (Paths 1, 2a, and 2b)***. In the first identified solution, the governance driver fosters successful family firm takeovers. Thereby, financial investors mainly focus on professionalizing management and governance structures and, in a second step, on better incentivizing employees and the firm's culture.

The first path, 1, is additionally characterized by the absence of the *strategic driver* and the *operational driver*. In this path, the financial investor focuses solely on improving the governance mechanism (e.g., firm culture, risk attitude, management, compensation models) after the takeover and neglects further improvement drivers. In this path, the financial investor bundles its available resources, time, and managerial competencies to pursue governance improvements. This might be required because, on the one side, financial investors' resources are limited (Bernile et al., 2007), and, on the other side, family firm takeovers are more complex than non-family firm takeovers—in particular with regard to corporate governance—due to the inherent family dynamics (Chua et al., 1999).

An example of this path is case L, the successful takeover of a bicycle manufacturer by a private equity investor. The aim of this takeover was to solve the internal succession challenges, increase the degree of professionalism, and intensify growth. “*The family firm was owned and managed by two family members. However, they were getting old and wanted to retire. We successfully managed the external succession and replaced the former family managers with external managers.*” By replacing the family members as key decision-makers, the financial investor also triggered various other governance changes, such as changing the risk profile, changing the firm culture, and increasing professionalism. “*Next to the top management, we also hired several 2<sup>nd</sup> level managers [...]. In addition, we introduced an employee incentivization*

*program to align interests and better motivate the managers.”* As such, the financial investor reduced agency costs, attracted better-educated employees as top managers and, therefore, solved one of the key challenges of family firms, lack of human capital (Howorth et al., 2004; Shanker & Astrachan, 1996; Sirmon & Hitt, 2003). Furthermore, the financial investor incentivized top management to better allocate and deploy the available resources, thereby improving resource orchestration. Moreover, the financial investor made the firm independent from the former owning family. *“In a first step, we improved the degree of professionalism, and going further, the firm is ready to grow and internationalize as a next step.”* Lastly, the financial investor intentionally decided against strategic and operational changes by focusing on adjustments to the family firm’s governance. *“[...] we see adjustments of the management, culture, and compensation packages as key during our holding period. After implementing those adjustments, however, we will exit the firm, and the next potential owner can build on solid firm governance and focus on growth and increasing the operational efficiency.”*

The second path, 2a, is additionally characterized by the presence of the *strategic driver* and the absence of the *market driver*. Similar to the previous path, a significant focus is on governance improvements after the takeover. However, in path 2a, the firm faces market turbulences (due to the absence of the *market driver*). Therefore, the financial investor is also forced to focus on the *strategic driver* to ensure continuing competitive advantage.

An example of this path is case AG, the successful takeover of a car repair shop chain by a private equity investor. The initial investment assumption of the financial investor was financing of growth and internationalization. However, the firm faced significant COVID-19 market turbulences after takeover, making strategic reconfigurations necessary to minimize the negative impact of the lockdown. In the first step, the financial investor focused on improvements in corporate governance. *“After the takeover, we have changed the firm’s culture, it was initially a*

*very dusty and rusty culture. We modernized the culture, incorporated flat hierarchies, and set up an employee compensation model for more than 500 employees.”* However, the market conditions significantly deteriorated and interrupted the firm’s day-to-day business. *“Unfortunately, the firm was strongly impacted by the global COVID-19 pandemic. [...] During the lockdowns, fewer cars were on the road. Hence the sales dropped by more than 30% across all the core markets.”* As a result of the substantial sales decline, the financial investor planned various strategic reconfigurations to tackle the new environment. *“We changed the business model from a typical car repair shop to an emergency service provider. [...] Therefore, we were able to stabilize the topline decline and increased valuation due to changed comp set.”*

The third path, 2b, is additionally characterized by the presence of the *market driver* and the absence of the *investor fit driver*. Similar to the previous two paths (path 1 and 2a), the focus of the financial investor in this path is the improvement of the corporate governance. However, in this specific path, the absence of the *investor fit driver* (i.e., the fit between the family firm and the financial investor) is compensated by the *market driver* (i.e., highly attractive external environment).

An example of this path is case AD, the successful takeover of a business service firm by a private equity investor, who substantially changed the corporate governance and followed a buy-and-build strategy. To achieve a successful takeover and to improve resource orchestration, the financial investor first rebuilt the governance structure. *“We firstly hired a new management team, consequently the firm culture changed, and the risk appetite increased significantly.”* However, the financial investor had neither a dedicated family firm nor an industry focus. *“We are a typical private equity investor with a holding period of roughly four years. We are investing across industries and across business types.”* As a consequence, the investor was neither aware of the unique idiosyncrasies of family firms nor of the unique resource bundles and challenges family

firms have (Habbershon & Williams, 1999), which made it difficult to orchestrate resources appropriately. As a consequence, the financial investor quickly faced internal troubles due to prejudices towards the employees, putting the success of the takeover at risk. *“At the beginning, we faced several internal problems because the employees were very skeptical towards us as the new owner.”* Despite the internal problems, the financial investor and the firm significantly benefitted from the positive external environment. As a side benefit of the market-driven growth, the skeptical employees have been convinced by the financial investor’s ambitions and, ultimately, supported the buy-and-build strategy. *“Luckily, our growth ambitions were supported by favorable market conditions. Hence the employees saw the positive development very quickly. [...] Buoyed by the first successes of our new strategy, we were able to convince skeptical employees and inspired them with our growth plans.”*

All three paths (path 1, 2a, and 2b) highlight a solution in which the major focus lies on the governance driver. The solution is remarkable in two ways. First, the solution emphasizes that financial investors may focus their resources and managerial capacities on a single driver (i.e., governance driver) due to their limited resources (Bernile et al., 2007) and deliberately disregard other drivers (i.e., strategic driver and operational driver). However, if required due to unforeseen events (e.g., pandemics), they increase their resources on the specific firm to master the challenging situation. Second, for financial investors with a missing understanding of unique family firm idiosyncrasies and missing market understanding, the sole focus on the governance driver is not sufficient for a successful takeover (Chua et al., 1999).

***Optimizers (Paths 3a and 3b).*** The second identified solution for successful family firm takeovers differs from the first identified solution because in this case operational (instead of governance) improvements are deployed. However, comparable to the first solution, also in this

case, financial investors focus their available resources on one key set of resource orchestration activities (i.e., operational driver) and simultaneously neglect other drivers to save resources.

Path 3a is additionally characterized by the absence of the *investor fit driver* (and absence of the governance driver). In this path, the *investor fit driver* is absent. Hence the financial investor might not be familiar with the unique idiosyncrasies of family firms (Anderson & Reeb, 2003; Carney, 2005). Therefore, instead of focusing on governance changes, which are typically complex in family firms due to the overlap of the family and the firm (Habbershon & Williams, 1999) and require intimate knowledge about family firm idiosyncrasies, the focus is on operational changes, which typically constitute a core strength of financial investors (Loos, 2007; Pindur, 2009) and do not require any specific family firm expertise. Hence, the financial investor bundles its available resources and focuses solely on operational improvements to optimally allocate and orchestrate the resources in the family firm.

An example of this path is case AY, the successful takeover of a healthcare firm by a private equity investor. After the takeover, the financial investor created a value creation plan with external strategic advisors and identified several areas for development. *“At the beginning of the investment, we hire external strategy advisors and work on a value creation plan, which is the agenda for the upcoming holding period. [...] In this specific case, one major improvement driver was the improvement of the operational footprint because the firm had many inefficient production sites, which we consolidated and therefore increased the operating margin by more than five percentage points.”* The financial investor has no preferences for family-owned firms or a specific industry; instead, it operates very opportunistically in identifying investment targets. *“We invest in all kinds of firms with which we believe we can earn some money. [...] We mainly focus on internal topics like cost-cutting, production footprint, and efficiency increase of processes, therefore, we do not need explicit family or industry expertise.”* To safeguard the implementation of the value creation

plan, the financial investor has internal operational experts who work closely with the portfolio firms' management. *"Next to the investment team, we have an operational team, focusing on implementing the measures concepts."*

The second path, 3b, presents a combination of the presence of the *operational driver* and the *market driver* with the absence of the *governance driver*. Similar to the previous path, the key focus is on operational improvements, however, in this path, the takeover is supported by the market driver (i.e., a favorable market environment).

An example of this path is case F, the successful takeover of a healthcare firm by a private equity investor. The financial investor made only a few changes to the firm's corporate governance to prepare the firm for the following growth strategy. However, a strong internationalization strategy is pursued. *"The main reason for our investment into the firm was growth financing. [...] We expanded very quickly into more than eight countries and simultaneously extended business relationships with new customer groups. [...] There was no time for other important changes and work because the expansion required all of our attention."* The fast internationalization is supported by a favorable market environment allowing for growth. *"The market for the firm's products is very strongly growing with double-digit CAGR, which is pushing the internationalization."* The financial investor in this case, once again, explicitly focuses on one driver (i.e., operational driver) and consciously ignores other active drivers to concentrate its efforts and resources. In addition, the environmental-level driver (i.e., market driver) supports the strong growth. *"As a result of the internationalization push and the strongly growing market, we were able to double annual sales within a few years."*

***Adjacent investors (Path 4).*** The third identified solution for successful family firm takeovers, which consists of path 4, presents a combination of the presence of the *market driver* and the *investor fit driver* as well as the absence of the *strategic driver* to foster successful family

firm takeovers. It is interesting that no firm-level drivers (i.e., governance, strategic, and operational driver) are present in this solution. Thus, this solution represents a less active investor type, most probably due to only few available resources on the investor level. In this case, a successful family firm takeover is driven by the investor fit and the external market environment.

An example of this path is case P, the successful takeover of a software firm by a private equity investor that only invests in family-owned or founder-led software firms. The financial investor has a deep understanding of the unique family firm idiosyncrasies and an extensive market and industry know-how. Compared to other cases, the financial investor has limited capital inflow and hence has fewer available resources and less managerial capabilities to steer the portfolio firms after a takeover actively. *“I would say we are a mix of a private equity investor and a family office because we have a planned holding period of around five years, but all of our capital stems from our founder and owner.”* The financial investor observes potential takeover candidates for a long time and is in regular exchange with the owning family. *“We were in contact for around three years before we finally invested in the company. Therefore, we built a very close relationship with the owners, and as soon as they wanted to sell, we were the most obvious and most reliable buyer.”* In addition to the strong focus on (former) family firms, the financial investor is focused on the software market and, therefore, might be able to screen the specific market and assess the respective firm in a more advanced way and more efficiently than other financial investors without a dedicated focus. *“[...] we are a pure software investor, that’s our home turf. We only invest in firms that understand the underlying business and market.”*

#### **A model of how financial investors foster successful family firm takeovers**

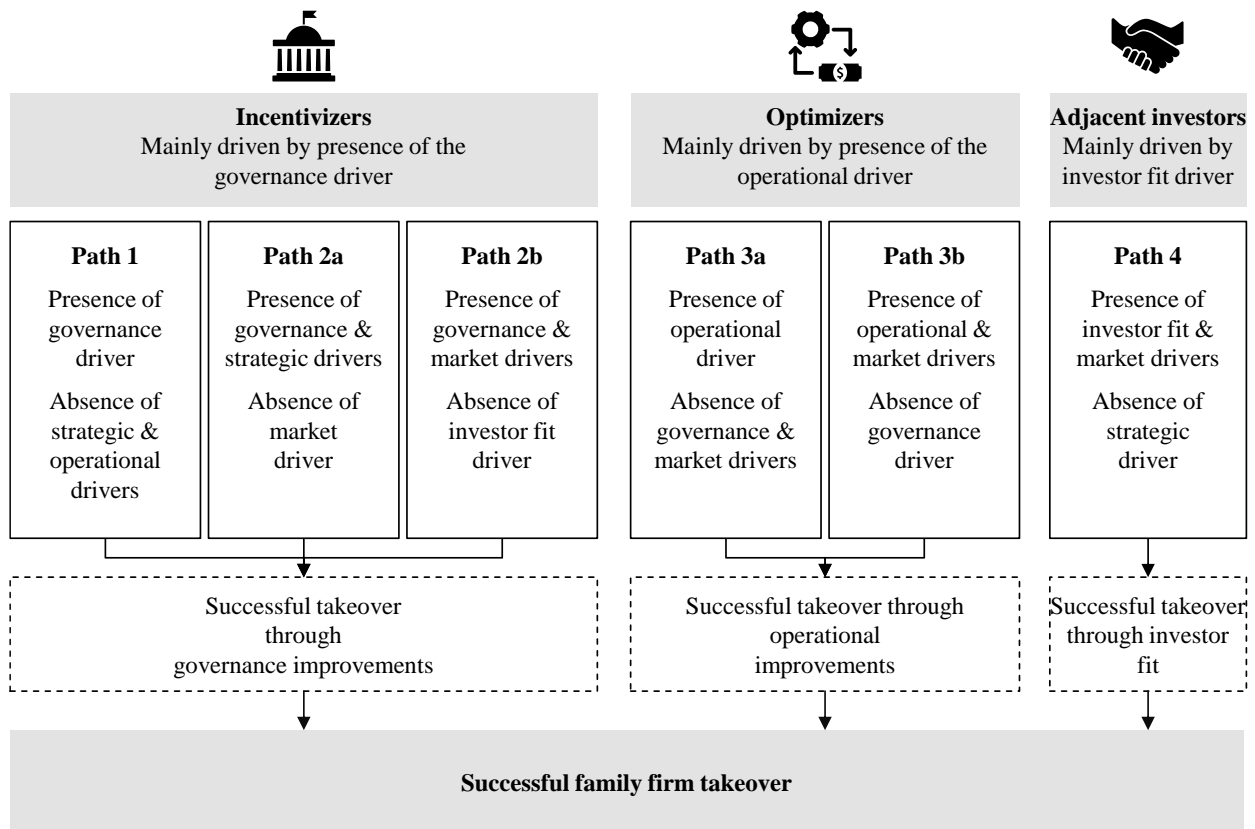
While family firm takeovers by financial investors are becoming more and more common (Kranitz et al., 2021), research has revealed ambiguous results regarding the impact of financial investors on the success of family firms (Bollazzi et al., 2004). Especially, there is conflicting



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evidence about whether financial investors foster or hinder the availability and orchestration of resources (Davis et al., 2014; Martí et al., 2013; Viviani et al., 2008). In order to answer this question, we focused our analysis on how financial investors foster successful family firm takeovers through five distinctive drivers (i.e., governance driver, strategic driver, operational driver, market driver, and investor fit driver) along three levels (i.e., firm level, environmental level, and owner level). Figure 5 summarizes our model that outlines three solutions that lead to successful family firm takeovers by financial investors.

Figure 5: Model of how financial investors foster successful family firm takeovers



As our model outlines, two out of three solutions strongly depend on firm-level drivers, and one path strongly depends on the owner-level driver. However, no path is mainly reliant on environmental-level drivers. This finding signals that either the active management of the portfolio firm might lead to takeover success or the excellent fit of the investor and the acquired firm.

However, the external environment plays only a marginal role for the success of family firm takeovers.

In solution 1 (i.e., incentivizers), the financial investors bundle their resources and managerial capabilities after the family firm takeover, mainly focusing on improving the management capabilities, incentive schemes, firm culture, and risk taking of the family firm. By focusing on the abovementioned improvements, the financial investors change the family firm structures and internal capabilities to enable family firms to orchestrate and use the available resources more efficiently, leading to successful takeovers. Therefore, the financial investor is only indirectly involved in the resource orchestration and depletion of the family firm.

In solution 2 (i.e., optimizers), the financial investors, like in solution 1, bundle their resources and managerial capabilities after the family firm takeover and mainly focus on operational improvements. Specifically, they support the family firm to internationalize, change the product focus and market focus, and increase operational efficiency. Thereby, the financial investor provides financial resources and managerial capabilities in special topics, thus being directly involved in the resource orchestration after the takeover.

In solution 3 (i.e., adjacent investors), the takeover of the family firm by the financial investor benefits from the financial investor's deep industry expertise and the thorough understanding of the unique family firm idiosyncrasies. Such financial investors are usually highly specialized due to size and resource constraints. Therefore, they do not intensely focus on firm-level drivers (i.e., governance, strategic, and operational drivers). However, as a consequence of the financial investors' deep expertise, external trends (i.e., market driver) can be better interpreted and foreseen, thereby enabling an improved and more accurate usage of the available resources.

## **DISCUSSION**

Investments of financial investors can have a significant positive effect on firm performance (Bloom et al., 2015). Previous research argues that firms acquired by financial investors are well managed and have better incentive schemes, more efficient processes, and more effective monitoring practices than firms without financial investors (Bloom et al., 2015). However, previous research also reveals ambiguous results regarding the impact of financial investors on family firms' financial performance and growth (Bollazzi et al., 2004). To better understand whether and how financial investors create value after takeovers, we conducted a case-based fsQCA study.

Our model carves out three configurations, consisting of a total of six paths, leading to successful family firm takeovers: *incentivizers*, *optimizers*, and *adjacent investors*. Our findings provide a nuanced understanding that extends existing literature about financial investments in family firms. Specifically, our findings reveal how combinations of different drivers at the firm, environmental, and owner-level lead to successful family firm takeovers. Our findings showcase six individual paths leading to successful family firm takeovers, which we have summarized into three configurations (i.e., *incentivizers*, *optimizers*, and *adjacent investors*, as abovementioned).

Solution 1 (including paths 1, 2a, and 2b) highlights a financial investor focusing on governance improvements. By doing so, the financial investor builds on typical weaknesses of the family firm's resources, such as low levels of professionalism, lack of capabilities, nepotism, low employee compensation, and centralized firm culture with the family in the spotlight (Chrisman et al., 2003; La Porta et al., 1999). However, in times of market stress and turbulence, the financial investor additionally needs to focus on strategic reconfigurations. Solution 2 (including paths 3a and 3b) highlights a financial investor focusing on operational improvements. Thereby, financial investors address the scarce resources of family firms (Chrisman et al., 2003; La Porta et al., 1999). They support family firms financially to grow and expand, as well as with managerial expertise

and know-how. Interestingly, we reveal that in the case of the presence of the operational driver, the governance driver is in both paths (3a and 3b) absence hence showing that financial investors are only focusing on one driver. Therefore, we can conclude that financial investors typically focus their resources and capabilities (Bernile et al., 2007). Solution 3 (path 4) is substantially different from the first two solutions, because these investors does not focus on any specific value creation measure; instead they focus on the strategic investor fit with the acquired family firm. Financial investors belonging to this solution benefit from having deep industry experience and a strong understanding of the family firm idiosyncrasies. Therefore, our findings reveal that financial investors with an excellent fit to family firms might be more beneficial in family firm takeovers than those with a poor fit (Schickinger et al., 2018).

### **Theoretical and practical contributions**

Our study makes several contributions to the academic debate about the collaboration of financial investors and family firms. First, building on a fsQCA analysis, we outline three specific solutions leading to a successful family firm takeover. Thereby, we extend existing research about value creation after financial investors' takeovers of family firms (Achleitner et al., 2010a; Achleitner et al., 2010b; Berg & Gottschalg, 2005; Jensen, 1989; Loos, 2007; Pindur, 2009). Existing literature argues that financial investors simultaneously employ a broad set of improvement levers after a family firm takeover (Achleitner et al., 2010a; Achleitner & Figge, 2014; Bergström et al., 2007). However, we show that the limited resources and managerial capabilities of financial investors (Bernile et al., 2007) as well as the family firm idiosyncrasies (Chua et al., 1999) lead to the implementation of selective improvement measures. Focusing on too many improvement measures, the financial investor would be in danger of losing the overview, overloading the family firm with too many tasks, and thereby overwhelming the complex family firm organization. We show in our study that there are, in general, two types of financial investors

focusing on value creation improvements: financial investors that focus on governance improvements and financial investors that focus on operational improvements. Furthermore, we show that a good investor fit (i.e., deep family firm expertise and deep industry knowledge) might lead to a successful takeover, thereby supporting existing conceptual literature regarding the collaboration of financial investors and family firms (Schickinger et al., 2018).

Second, we extend existing research about the success versus the failure of family firm takeovers by financial investors (Bloom et al., 2015; Bollazzi et al., 2004; Martí et al., 2013; Viviani et al., 2008). Current research argues that financial investors create value and improve firm performance after takeovers (Bloom et al., 2015). However, in the specific case of a family firm takeover, current research shows ambiguous results (Bollazzi et al., 2004; Martí et al., 2013). Our study focuses on this ambiguity and aims to improve the understanding of the research inconsistencies. We show that family firm takeovers by financial investors can be successful and improve financial performance. However, financial investors must focus on a narrow, dedicated set of improvement measures to achieve this. By doing so, the financial investor saves its internal resources and ensures that the complex family firm organization is not overwhelmed after the takeover.

Third, we extend existing research about resource orchestration in family firms (Helfat et al., 2007; Sirmon et al., 2011; Sirmon et al., 2007). Existing research mainly focuses on top management's role in resource orchestration. In contrast, we focus on the role of the external investor (i.e., financial investor) and how the investor might influence resource orchestration. Our study findings reveal that a financial investor improves the resource availability of family firms hence supporting family firms to gain a competitive advantage (Ahlers et al., 2014; Dawson, 2009; Granata & Gazzola, 2010). Moreover, our study shows that financial investors are either directly

(i.e., by focusing on operational improvements), or indirectly (by focusing on governance improvements) orchestrating family firms' resources.

In addition to those theoretical contributions, our study is relevant for investment professionals and family firm owner-managers. We provide practical insights for investment professionals on how they might foster successful family firm takeovers, either by focusing on governance improvements or operational improvements. However, in the case of focusing on governance improvements, additional strategic reconfigurations are required in times of market turmoil. We provide practical insights for family firm owner-managers by showing that there are different types of financial investors and that, in particular, financial investors with previous family firm experience and deep industry expertise might foster successful family firm takeovers. Therefore, family firm owner-managers need to be aware of the individual differences when selecting the new owner.

### **Limitations and directions for future research**

Like any research, also this study has several shortcomings and limitations. First, our research is based on qualitative interview data, therefore, further analyses of the fsQCA membership calibrations are recommended (e.g., large-scale surveys). Second, we mainly interviewed investment professionals. However, we acknowledge that by doing so, we have neglected the view of other parties with potentially diverging opinions (e.g., family members, employees, etc.). Therefore, further analyses should collect data from different stakeholder groups. Third, we focused on the German-speaking area. However, we acknowledge that different cultural backgrounds might lead to different views. Furthermore, the private equity market in the United States is more mature than the analyzed market, therefore, potentially also providing a different perspective. However, since 1996, private equity in Europe has been strongly growing (Wright et al., 2006). We encourage fellow researchers to build on our insights and extend it by adding

additional conditions and drivers (e.g., funding cycle, vintage of the fund, etc.). Fourth, we do not differentiate between the different forms of takeovers (e.g., the firm has been taken over completely, the firm has been taken over, but family remains control, and the firm has been taken over and the family remains a minority-shareholder). However, we acknowledge that the different forms of takeovers may lead to different outcomes. Therefore, encouraging fellow researchers to analyze the differences between the three forms of takeovers in more detail. Fifth, another limitation concerns focusing on financial success improvement rather than a broader definition, including non-financial considerations. Therefore, future research should focus on non-financial success improvement regarding different stakeholder groups (e.g., family, employees, community). Last, our study did not differentiate between minority and majority investments of financial investors. However, existing literature shows that it might impact the success of family firms' takeovers (Martí et al., 2013), thus requiring further research in this area.

## **DISCUSSION AND CONCLUSION OF THE DISSERTATION**

The primary objective of this dissertation is to advance the theory of external investments in family firms. The dissertation comprises three independent studies that each address essential dimensions of external investments in family firms. The first study extends research on external investments in family firms by fundamentally analyzing the decision criteria of family firm owner-managers for using external minority investments, thus representing a first interim step of external succession. The second study changes the point of view and contributes by analyzing the drivers of financial investors' preference for acquiring a family firm. Finally, the third study analyzes drivers resulting in financial investors' successful or unsuccessful acquisitions of family firms. In the following, I synthesize the studies' theoretical and practical contributions. Afterward, I discuss potential limitations and provide opportunities for future research. Table 13 provides an overview of the studies' main considerations.



Table 13: Summary of main topics addressed within the doctoral dissertation

	<b>Research gap and inconsistencies</b>	<b>Theoretical contributions</b>	<b>Practical contributions</b>	<b>Limitations &amp; future research avenues</b>
<b>External investors and family firms</b> <i>All studies</i>	Previous research has examined the relationship between external investors (e.g., Howorth et al., 2004; Scholes et al., 2008a). However, previous researchers mainly focused on the entrepreneurial exit process and explored factors that influence the exit decision of family firms to financial investors (e.g., Neckebrouck et al., 2016; Seet et al., 2010).	Further advancing our knowledge about external investors and family firms by, firstly, analyzing potential drivers of family firm owner-managers leading to a minority sale to a strategic investor, secondly, analyzing potential drivers of financial investors' preference for acquiring a family firm, and thirdly, by analyzing value creation levers of financial investors after a family firm takeover.	The collaboration of external investors on the one side and family firms on the other side can be success a story. In particular, in such cases where both parties focus on their strengths. However, the collaboration also provides various potential areas for conflict.	Future research could further advance our understanding of external investments in family firms by studying diverse cultural contexts and quantitatively examining how family firms' idiosyncrasies influence the collaboration between external investors and family firms.
<b>Socioemotional wealth theory</b> <i>Study 1</i>	Previous research mainly explored the restricted SEW perspective (e.g., Berrone et al., 2012) and the resulting negative effect on the willingness to sell (e.g., DeTienne & Chirico, 2013).	Building on the extended SEW theory (Miller & Le Breton–Miller, 2014) by focusing on employee orientation and the effect on the willingness to sell.	Illustrating an alternative succession method that addresses family internal challenges (e.g., family conflicts) and financial constraints (e.g., liquidity shortages, growth financing) while preserving the SEW of the family.	The study focuses on family firms headquartered in the German-speaking area. However, family firm owner-managers in other contexts with different cultural backgrounds may have a different valuation of SEW and may decide differently.
<b>Financial performance literature</b> <i>(Study 1)</i>	Previous studies argue that external investments are often brought into firms to resolve poor performance (e.g., Hotchkiss et al., 2021; Tappeiner et al., 2012)	Expanding the existing research stream by theorizing that family firm owner-managers with a high degree of employee orientation and pure family management	The study's findings may help external investors to improve their understanding of the complex and close ties between families and their firms. Family firm owner-	Some researchers might criticize that the insights are based on hypothetical scenarios instead of actual firm sales. Therefore, further studies should analyze under

## DISCUSSION AND CONCLUSION OF THE DISSERTATION

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	because poor financial performance is an acute risk for family firms and could end in insolvency.	stick to their firms, especially in financially poor times.	managers are not only looking for a buyer for their firm but even more for a strategic partner to further develop and grow their firm.	what circumstances minority sales to strategic investors become a reality.
<b>Resource-based view literature</b> ( <i>Study 2</i> )	Existing literature argues that family firms struggle with limited resources (e.g., limited financial resources, limited quantity, and quality of workforce) (Chrisman et al., 2003; Sharma & Manikutty, 2005; Sirmon & Hitt, 2003) and that financial investors influence the resource profile and may help to overcome these resource limitations (Achleitner et al., 2008).	On the one side, the study results are in line with prevailing academic arguments. On the other side, the study results take these views one step further and extend the existing research by showing that family firms' unique characteristics and limited resource levels make them promising candidates for financial investors pursuing a buy-and-build strategy or focusing on operational improvements.	The study provides practical insights for investment professionals and family firm owner-managers by showing what strategies the financial investors might pursue to cope with the typical resource level of family firms.	The study only analyzes some of the potentially relevant drivers of financial investors resulting in the acquisition of a family firm. Therefore, I would like to encourage other researchers to extend the insights and add additional drivers to the analysis, such as sources of capital of the financial investor, industry focus of the financial investor, and other typical value creation levers of the financial investor (e.g., financial engineering, turnaround concepts, etc.).
<b>Value creation levers in family firms</b> ( <i>Study 3</i> )	Existing literature mainly argues that financial investors simultaneously lift a broad set of improvement levers after a family firm takeover to achieve a successful family firm takeover (Achleitner et al., 2010a; Achleitner & Figge,	I argue and show that limited resources and managerial capabilities of financial investors on the one side (Bernile et al., 2007) and the unique family firm idiosyncrasies on the other side (Chua et al., 1999) lead to the implementation of selective improvement	The study provides practical insights for investment professionals on how they might foster successful family firm takeovers by focusing on governance or operational improvements. However, in the case of focusing on governance improvements, additional	The findings outline three configurational solutions (i.e., combinations of individual value creation levers), future research could analyze whether such solutions are exclusionary or can be jointly utilized to drive a successful family firm takeover.

## DISCUSSION AND CONCLUSION OF THE DISSERTATION

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	2014; Bergström et al., 2007).	measures to achieve a successful family firm takeover.	strategic reconfigurations are required in times of market stress.	
<b>Success versus failure of family firm takeovers</b> (Study 3)	Current research argues that, in general, financial investors create value and improve firm performance after takeovers (Bloom et al., 2015). However, in the specific case of a family firm takeover, current research shows ambiguous results (Bollazzi et al., 2004; Martí et al., 2013).	Focusing on this ambiguity and aiming to improve the understanding of the research inconsistencies. I show that family firm takeovers by financial investors can be successful and improve financial performance.	Showing configurations that might lead to successful family firm takeovers. Thereby providing investment professionals with analyses and insights on how they can foster successful family firm takeovers.	A potential limitation of the study is focusing on financial success rather than a broader definition. Therefore, future research can focus on non-financial success (e.g., what does the takeover mean for various stakeholder groups?).
<b>Resource orchestration literature</b> (Study 3)	Previous researchers mainly focused on top management's role in resource orchestration and resource usage (Helfat et al., 2007; Sirmon et al., 2011; Sirmon et al., 2007).	Focusing on the role of the external investor, and how the investor might influence resource orchestration. Our study reveals that external investors improve the resource orchestration of family firms, thereby, support family firms to gain a competitive advantage and survive (Ahlers et al., 2014; Dawson, 2009; Granata & Gazzola, 2010).	Providing practical insights for family firm owner-managers by showing that there are different types of financial investors and that, in particular, financial investors with previous family firm experience and deep industry expertise might foster successful family firm takeovers and has superior resource orchestration skills.	I mainly interviewed investment professionals and extracted their takeover insights and knowledge. However, we acknowledge that by doing so, we have neglected the view of other parties that might be different from those of the investment professionals (e.g., family members, employees, etc.).

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## **MAIN THEORETICAL CONTRIBUTIONS OF THE DISSERTATION**

Extant research acknowledges that family firms, due to their idiosyncrasies, differ from non-family firms in their collaboration with external investors and the perception of external investors (Arregle et al., 2017; Duran et al., 2016; Gómez-Mejía et al., 2010). Yet, several unaddressed research gaps and inconsistencies remain towards developing a comprehensive understanding of external investments in family firms. In particular, this dissertation provides three novel insights into: (1) family firms' drivers to sell a minority stake to a strategic investor, (2) financial investors' preferences for acquiring a family firm, and (3) configurations driving a successful family firm takeover by a financial investor. The major theoretical contributions are discussed below.

First, all three studies advance the research on external investments in family firms (e.g., Chirico et al., 2019; De Massis et al., 2008; DeTienne & Chirico, 2013; Zellweger et al., 2012). In particular, Study 1 contributes by analyzing family firms' characteristics that impact the willingness to sell a minority stake to a strategic investor. Although some academic research on majority investments already exists (e.g., Chirico et al., 2019; De Massis et al., 2008; DeTienne & Chirico, 2013; Zellweger et al., 2012), there is only little research about minority investments (e.g., Henn & Lutz, 2016; Tappeiner et al., 2012). Moreover, the available research about minority investments primarily focuses on financial investors instead of strategic investors. This is noteworthy since strategic investors are more comparable to the selling family firms in terms of time horizon, strategic rationale, and often socioemotional endowment and may therefore be regarded as "preferred investors" by family firms. Furthermore, Study 2 enhances existing literature about external investments in family firms by shifting the focus from the exiting family firm owner-managers to the acquiring financial investors. In particular, I analyze financial investor-specific characteristics and strategies affecting the propensity to acquire a family firm (Ahlers et

al., 2014; Dawson, 2009; Granata & Gazzola, 2010). On the one side, some researchers argue that family firms are sometimes inefficient, less professional, and less successful compared to non-family firms (Granata & Chirico, 2010). On the other side, some researchers argue that family firms have superior financial performance compared to non-family firms (Granata & Chirico, 2010). In Study 2, I combine both lines of argumentation and enhance existing research by arguing that family firms can be highly attractive acquisition targets for financial investors. In addition, Study 3 contributes by outlining three individual solutions that might lead to a successful family firm takeover (i.e., incentivizers, optimizers, and adjacent investors). By doing so, I extend existing research about value creation after financial investors' takeovers of family firms (Achleitner et al., 2010a; Achleitner et al., 2010b; Berg & Gottschalg, 2005; Jensen, 1989; Loos, 2007; Pindur, 2009). While previous research argues that financial investors lift a broad set of improvement levers after a family firm takeover, I argue and show that due to the limited resources and managerial capabilities on the financial investors' side (Bernile et al., 2007), and the unique idiosyncrasies on the family firms' side (Chua et al., 1999), only selective improvement levers are lifted to achieve a successful family firm takeover.

Second, Study 1 also contributes to the extended SEW theory (Miller & Le Breton–Miller, 2014) by emphasizing employee orientation and its impact on the willingness to sell. Contrary to my study, various previous studies focused mainly on the restricted SEW perspective (e.g., Berrone et al., 2012) and the negative impact on the willingness to sell (e.g., Berrone et al., 2012). However, Study 1 predicts that a higher level of employee orientation results in a higher willingness to sell. While initial research on SEW places the immediate family and thus the shareholders' interest in the spotlight, I predominantly pay attention to the firm's employees and their interests (e.g., Berrone et al., 2012).

Third, Study 1 enhances research on the impact of financial performance on the willingness to sell. Some previous researchers argue that family firms mainly use external investments to resolve poor financial performance (e.g., Hotchkiss et al., 2021; Tappeiner et al., 2012) due to the high risk of poor performance, with potential insolvency as the worst case scenario. Family firm owner-managers are stronger affected by poor financial performance than shareholders of non-family firms because they can lose financial wealth and SEW. Moreover, families could blame themselves in society due to their close ties to the firm (e.g., Hotchkiss et al., 2021; Tappeiner et al., 2012). Nevertheless, I build on this research stream by arguing that family firm owner-managers with a high degree of employee orientation and pure family management are highly committed to their firm, especially in financially poor times.

Fourth, Study 2 contributes to the literature about RBV (e.g., Habbershon et al., 2003; Habbershon & Williams, 1999; Sirmon & Hitt, 2003). In particular, I connect the RBV to family firms and the characteristics of financial investors that impact the propensity to acquire a family firm (Ahlers et al., 2014; Dawson, 2009; Granata & Gazzola, 2010). Thereby, the study tries to close the research gap on how the level of resources of a family firm influences an external financial investor in the acquisition propensity.

Fifth, Study 3 enhances existing research about the success versus failure of family firm takeovers by financial investors (Bloom et al., 2015; Bollazzi et al., 2004; Martí et al., 2013; Viviani et al., 2008). While current research shows ambiguous results on whether financial investors create value or destroy value in family firms, I argue and show that financial investors can create value after family firm takeovers by focusing on a selective and dedicated set of improvement levers.

Sixth, Study 3 also contributes to the research stream about resource orchestration in family firms (Helfat et al., 2007; Sirmon et al., 2011; Sirmon et al., 2007). While existing research mainly

focuses on top management's role in resource orchestration and resource usage, I focus on the role of the external investor (i.e., financial investor) and how financial investors may affect resource orchestration in family firms. The study shows that financial investors improve the resource level of family firms and simultaneously improve the resource orchestration, either actively (i.e., by focusing on operational improvements) or passively (i.e., by focusing on governance improvements).

### **MAIN PRACTICAL CONTRIBUTIONS OF THE DISSERTATION**

External investments in family firms have become increasingly popular in recent decades and nowadays represent a promising cooperation for both parties. However, external investments in family firms bear various challenges due to the significant differences (particularly regarding time horizons, stakeholder orientations, risk attitudes, and financial versus non-financial wealth) (Berrone et al., 2010; Gómez-Mejía et al., 2007). This dissertation makes several practical contributions by informing external investors and family firm owner-managers about how a success story can be written.

For family firm owner-managers, this dissertation and, in particular Study 1 illustrates an alternative succession method that addresses family internal challenges (e.g., family conflicts) and financial constraints (e.g., liquidity shortages, growth financing) while still preserving SEW of the family. In addition, Study 3 provides further practical insights for family firm owner-managers by showing that there are different types of financial investors and that especially financial investors with previous family firm experience and strong industry know-how may foster successful takeovers. Thereby, I argue that family firm owner-managers may be aware of the differences when selecting the new owner of their firm.

For external investors, this dissertation and in particular, Study 1 helps to improve the understanding of the complex and close ties between families and their firms. Therefore, family

firm-owner managers are not only looking for a buyer for their firm but even more for a strategic partner to further develop and grow their firm. Furthermore, Study 3 provides practical insights to external investors on how they may foster successful family firm takeovers by focusing on operational or governance improvements. Nevertheless, in the case of market stress, additional strategic reconfigurations might be necessary to turn the takeover into a success story.

Overall, this dissertation provides essential advice for family firm owner-managers and external investors about how cooperation can succeed and achieve sustainable growth for both parties.

*Table 14: Overview of main practical contributions of the dissertation*

<b>For family firm owner-managers</b>	<b>For external investors</b>
Providing an alternative succession method that addresses family internal challenges (e.g., family conflicts) and financial constraints (e.g., liquidity shortages, growth financing) while still preserving SEW of the family.	Improving the understanding of the complex and close ties between families and their firms.
Providing an overview of the different financial investor types and describing their main differences (e.g., time horizon, industry focus, previous family firm expertise).	Providing insights on how financial investors may foster successful family firm takeovers by focusing on operational or governance improvements.

## SUMMARY OF LIMITATIONS AND FUTURE RESEARCH

This dissertation has several limitations, most of which are promising avenues for further research. First, all three studies focus on the German-speaking area, therefore, I must acknowledge that family firm owner-managers or external investors in other contexts with different cultural backgrounds may decide differently. Hence, future research can build on my analyses and extend to other geographical areas.

Second, Studies 1 and 2 are based on hypothetical scenarios instead of actual firm sales or acquisitions, which some researchers might criticize. However, I argue that the proposed research



design isolates individual characteristics, such as financial performance in Study 1 or the firm type in Study 2, from other potentially disruptive characteristics (Finch, 1987; Hughes, 1998; Priem et al., 2011). Nevertheless, further research should study under what circumstances minority sales to strategic investors (Study 1) and financial investors' acquisitions of family firms (Study 2) become realized.

Third, research in the area of external investments in family firms is highly complex, as previous research revealed (Wiklund et al., 2013). Therefore, in Study 1, I could only choose some potentially relevant drivers of the family firm owner-managers' willingness to sell. In Study 2, I could only analyze some of the potential drivers of financial investors resulting in the acquisition of a family firm. Therefore, I encourage other researchers to extend my insights and add additional drivers to the analyses.

Fourth, Study 3 is based on qualitative interview data, hence further analyses of the fsQCA membership calibrations are recommended (for example, through a survey with more extensive data sets). Furthermore, I mainly interviewed investment professionals and absorbed their insights and knowledge. However, I acknowledge that by doing so, I have neglected the view of other very important parties that may have different views than the interviewed investment professionals. Hence, further studies should consider different target groups and collect data from various stakeholder groups.

Fifth, while my findings in Study 3 reveal three configurational solutions, future research could study whether such solutions are exclusionary or can be jointly utilized to drive a successful family firm takeover. Furthermore, another limitation of Study 3 is the sole focus on financial success rather than on a broader definition. Therefore, future research can focus on non-financial success (for example, what is the impact of the takeover for various stakeholder groups?).

Sixth and last, Study 3 does not differentiate between minority and majority financial investments. However, extant literature shows that it might impact the success of the family firms' takeover (Martí et al., 2013), hence requiring further research.

### **CONCLUDING REMARKS**

Family firms are the most prevalent firm type worldwide and represent our economy's backbone and prosperity. Next to several strategic advantages, family firms struggle with various strategic disadvantages arising through the close ties between the family on the one side and the firm on the other. Selling to an external investor might be an appropriate solution to overcome these challenges. However, on the one side, family firm owner-managers are generally reluctant to firm sales due to the risk of losing SEW. On the other side, external investors are sometimes hesitant to invest in family firms because of their unique characteristics and inherent complexities. My research demonstrates that a cooperation between family firms and external investors can be very promising for both parties, resulting in superior firm performance and long-term firm continuity. First, I identified drivers resulting in a minority sale to a strategic investor (i.e., high degree of employee orientation) and drivers hindering a minority sale to a strategic investor (i.e., high degree of family prominence). Second, I identified drivers of a financial investor resulting in the acquisition of a family firm (i.e., a planned buy-and-build strategy, planned operational improvements, and the number of portfolio firms of the financial investor). Third, based on a fsQCA analysis, I developed three major configurational solutions resulting in successful family firm takeovers (i.e., incentivizers, optimizers, and adjacent investors). Based on these findings, this doctoral dissertation concludes that external investors are rather a blessing than a curse for family firms.

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