Stockholm School of Economics
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# Different perspectives on time

A multiple case study on the partnership between private equity firms and family businesses

**Abstract**

Research is undecided on whether private equity firms and family businesses are suitable partners or not, some argue that they are opposite in their very nature. Private equity funds typically acquire majority stakes and offer families a journey of growth for a period of 4-7 years. The authors have conducted a multiple case study of four private equity-family business investments, to understand where the agendas intersect. Findings indicate that transactions in which the family business has reduced emotional attachment and family specific resources prior to entry, are more suitable for private equity firms. The short-term time horizon of private equity firms, in relation to families' contextual factors, determines how value creation plans are implemented. To conclude, family businesses that have retained strong family bonds and rely on family specific resources to run the business, may contradict with the private equity time horizon.

**Keywords:** Private Equity, Family Business, SEW, Familiness, Investments
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# Glossary

PE - Private equity

FB - Family business

SEW - Social emotional wealth

PCV - Permanent capital vehicle

Strategic investor – Typically a competitor or other company

Financial investor – Private equity or other form of financial investor

## Table of Contents

# 1 Introduction

*This chapter presents the background and problem area (1.1) that guide the research question (1.2).*

## 1.1 Background and problem area - private equity and family businesses

Within the foreseeable future, it is estimated that a significant amount of family owned businesses are looking to find successors to their companies, to issue equity to fund their operations, or both (Scholes, Wright, Westhead, Bruining and Kloeckner, 2009; Dawson, 2011). Meanwhile, private equity investments in family businesses are increasing on a European level (Cabral-Cardoso, Cortez and Lopez, 2016). Sweden has a mature private equity market with funds that seek to acquire equity in smaller businesses (SVCA, 2017), often the same size as many family businesses (Brundin, Johansson, Johannisson, Melin and Nordqvist (2012). However, it is widely recognized that the interests of these private equity funds and the owners of family businesses may conflict (Berrone, Cruz and Gomez-Mejia, 2012). Further, the agenda of private equity funds may contradict with family businesses due to a short-oriented time frame of investments (Achleitner, Herman, Lerner and Lutz, 2010). Regarding the time horizon, Zellweger (2007) argues that the long-term investment horizon of family businesses should be regarded as a competitive advantage.

A survey estimated that 25% of all Swedish privately-owned companies will transfer ownership within a 10-year period (Företagarna, 2017) and according to Brundin et. al. (2012), approximately 35% of all Swedish companies within the range of 100-499 employees can be labeled as family firms. PwC (2014) reports that generational succession has become more difficult due to urbanization, demographic changes, climate changes and new technology.

Going forward, a globally emerging trend has accelerated over the last 5 years and many of the world’s largest private equity funds, including Blackstone, CVC Capital Partners and Apollo have raised permanent capital. However, this is still a niche sector and the traditional private equity model is identified by the short-term time frame (Kaplan and Strömberg, 2009)

## 1.2 Purpose and Research Question

Private equity firms and family businesses may, as discussed by Achleitner et al. (2010), be contradicting in their nature regarding the short-term orientation. The private equity perspective is defined by a 3-5-year investment horizon per portfolio company (Kaplan and Strömberg, 2009). On the other hand, family businesses are a heterogeneous group and defined by their contextual factors (Westhead and Howorth, 2007). Literature explains that families often possess a long-term perspective and emotional attachment to their businesses (Berrone et al., 2012). Furthermore, Howorth, Wright, Westhead and Allcock (2016) advices family businesses to carefully evaluate private equity firms, given the two parties' different perspective on time.

This paper aims to study the agenda of the traditional private equity fund model, given by the short-term horizon, and under what circumstances it intersects with the agenda of family businesses. The authors intend to answer the following question:

*Under what* circumstances *do the agendas of private equity funds and family businesses intersect on the Swedish market?*

As such, the authors aim to shed light on the circumstances in which private equity firms and family businesses can be suitable partners, and to further discuss possible implications for private equity firms and family businesses. The authors delimit the study by solely focusing on the agendas and partnerships between the traditional private equity fund model and family businesses, excluding other possible explanatory variables such as sector and economic conditions. Finally, family businesses are defined narrowly as both family owned and managed, and with intergenerational bonds prior to entry.

# 2. Literature review

*This section outlines the definition of Private Equity funds (2.1.1) and the special features of the traditional fund model (2.1.2). This is followed by a discussion of definitions of family businesses (2.1.3) and the definition (2.1.4). The relationship between the parties is discussed (2.2.1) followed by the research gap (2.3). Lastly, the theoretical framework is presented in the following order: Integrated agency-stewardship approach (2.4.1), Social emotional wealth (2.4.1.1), Familiness (2.4.2) and concluded by a demonstration of their relationship (2.4.3).*

## 2.1 Private equity funds and family businesses

### 2.1.1 Private equity funds

The term private equity refers to private investments in either listed or non-listed equity assets (Prowse, 1998). Private equity is further categorized by venture capital, growth equity, buyout and distressed investments (Prowse, 1998)

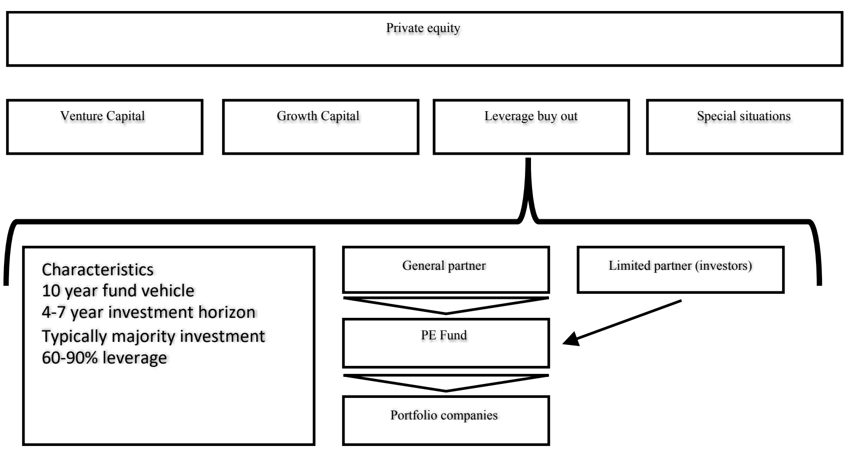
Private equity funds are typically characterized by the buyout model, a lifespan of 10 years, with up to a 3-year extension and an investment horizon of around 3-5 years per portfolio company (Kaplan and Strömberg, 2009). Dawson (2011) and Jensen (1989), suggest that private equity is characterized by the time horizon, focus on profits and that they usually finance their investments with 60%-90% debt (Kaplan and Strömberg, 2009). The fund model can reduce the patience of the investor given the short-oriented time frame, according to Mietzner, Schweizer and Tyrell (2011). The private equity funds raise money as commitments from investors ("limited partners"), typically large institutions and endowments. Once the private equity firm finds a suitable investment and negotiate an investment deal, they withdraw money from the limited partners of the fund (Kaplan and Strömberg, 2009). Given the accountability towards limited partners of the fund, private equity firms focus more on control and formalized procedures (Wulf, Stubner, Gietl and Landau, 2011).

The investment process is threefold; entry, holding and exit. Firstly, during the entry phase, negotiations with the target company may lead to an investment. The private equity firm aim to control their portfolio companies and hence typically acquires a majority stake (Kaplan and Strömberg, 2009). Secondly, financial, governance and operational engineering is applied (Jensen, 1989) during the holding phase. Private equity firms add value through (1) professionalization of management, typically through generous management incentives, (2) add leverage to the investment and (3) control the boards of their portfolio companies (Jensen, 1989). Thirdly, after implementation of value creation plans, private equity firms intend to find an acquirer. Exit routes include sales to other financial investors, strategic investor or IPOs.

2.1.2 Definition of Private equity fund

**Definition of private equity in this study:**

Figure 1:




2.1.3 Family Businesses

Chua, Chrisman and Sharma (1999) discusses three definitions of family businesses: (1) *family owned and family managed*, (2) *family owned but not family managed* and (3) *family managed but not family owned*. The article (Chua et al., 1999) further identifies 9 definitions of the word "family". Litz (1995) mentions that a family business can be managed and concentrated within a family unit, coupled with the aim of intragenerational connections.

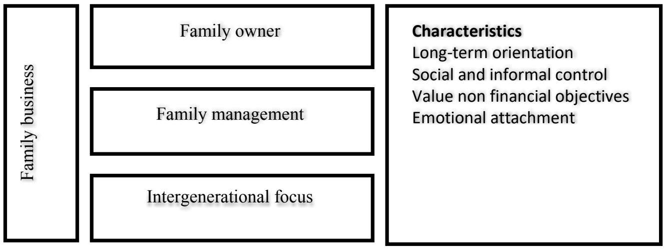
Within a family business, intragenerational connections, social control and trust may be preferred over formal systems (Schulze, Lubatkin and Dino, 2003). Family businesses may therefore need additional planning tasks, which include balancing family and business demands, since they are characterized by non-professionalized procedures and traditions (Berrone et al., 2012). Families tend to be skeptical towards outside investors (Sirmon and Hitt, 2003) and the extent to which families identify themselves with the organization, form the reason to why they seek external capital, including the choice of investor (Jeroen Neckebrouck, Manigart and Meuleman, 2016). In regard to the acceptance of outside investors, studies indicate that driven by the emotional attachment, families tend to overvalue their companies (Zellweger and Astrachan, 2008; Zellweger, Kellermanns, Chrisman and Chua, 2012).

According to Berrone et al. (2012), family businesses are long-term oriented and value non-financial objectives. Dyer (1989) discusses failures of family firms and mentions incompetent management as a reason. Furthermore, research indicates that even post-sale, family members possess an emotional attachment to the firm (Dyer and Whetten, 2006; Lee and Rogoff, 1996). Renato Tagiuri and John Davis (1996) characterize family businesses by three systems: (1) *family*, (2) *ownership* and (3) *business*. As the systems overlap, conflicts in one of the three systems can affect the whole business (Kellermanns and Eddleston, 2004) and as such, family businesses are relatively sensitive to conflicts (Tagiuri and Davis 1996; Kellermanns and Eddleston 2004).

### 2.1.4 Definition of Family Businesses

The word “family unit” or “family” has been defined broadly (Chua et al., 1999) and is not only attributed to the nuclear family but other relatives are also included. As such, the authors can conclude that the term family business can be used in multiple ways, and that the number of existing family businesses consequently differ depending on the definition. This paper will define family businesses according to Litz (1995). The definition used in this paper is hence focused on intergenerational bonds within the business and that the family is majority owners involved in management and board, prior to seeking external equity.

Figure 2:




## 2.2 Relationship between private equity and family businesses

Di Toma and Montanari (2012) suggest that a private equity buyout of a family business may improve organizational capabilities while simultaneously taking the family interest into account. However, given non-professionalized management teams and deficits in transparency, private equity investors may consider family businesses as less attractive investments (Seet, Graves, Hadji, Schnakenberg and Gustafson, 2010). Additionally, managers who are not part of the family, signal a higher degree of professionalization, which is favored by private equity investors (Dawson, 2011).

Private equity firms encourage continued family involvement but that the family involvement should be reduced post-entry (Dawson, 2011). On the basis of family involvement, Howorth, Westhead and Wright (2004) stresses that transfer of knowledge is of importance, firms with a successful partnership perform better than if the family is not involved. Agency costs might occur in family-controlled businesses when family members use their influence to increase the wealth of the family instead of the business (Achleitner et al., 2010)

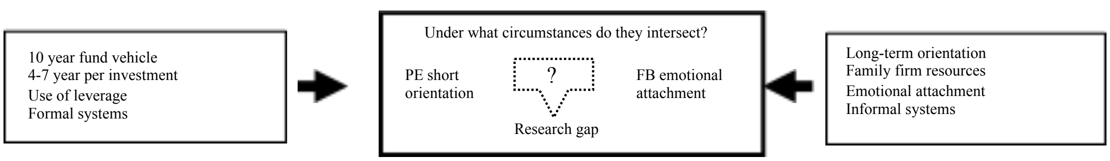
Research on family firms is extensive. Some studies have investigated the characteristics of family businesses and private equity firms as well as their investment criteria. For instance, a quantitative study (Croce and Martí, 2016) that focused on the returns of Spanish private equity owned family businesses revealed a positive impact on performance. A German study (Torsten et al., 2010) analyzed resource deficits in family firms and how private equity firms can add value.

## 2.3 Research gap

As aforementioned, private equity is characterized by the short-term orientation, focus on profits and use of debt (Dawson, 2011; Jensen, 1989). Family businesses, on the other hand, have been described as long-term oriented and with strong emotional attachment to the firm (Berrone et al., 2012). Recent studies have discussed the reconciliation of agency and stewardship perspective as a way to analyze PE-FB relations (Molly, Arijs and Lambrecht, 2018).

This review has concluded that a research gap exists in how the family businesses' distinct resources and values, in relation to the short-term orientation of private equity firms, impact the partnership between private equity firms and family businesses. This study can contribute to literature by adding to the understanding of when the private equity fund agenda intersect with the family businesses' agenda, with regards to family businesses' specific resources and values (Berrone et al., 2012)

Figure 3:



## 2.4 Theoretical framework

### 2.4.1 Corporate Governance - Integrated approach of Agency & Stewardship theory

The agency theory explains the relationship between a principal, in this case the private equity firm, and agents, represented by family firms. The theory can explain misalignments in goals which can be mediated by (1) incentives and (2) monitoring mechanisms (Davis, Schoorman and Donaldson, 1997).

The stewardship theory, on the other hand, explains how managers act in the best interest of the family stewards (Schoorman et al., 1997). According to Schulze et al. (2003), this is typical of family firms and Pieper, Klein and Jaskiewicz (2008) further stresses that there might be a higher goal alignment when social control prevails within family owned businesses. Granata and Chirico (2010) suggest that some family members should stay in the company post PE entry to maintain stewardship behavior.

Due to the principal agent dilemma, Dawson (2011) argues that private equity investors may be more prone to investments where families indicate their willingness to relinquish control by appointing external managers, which may be easier to monitor and control. Dawson (2009), suggests that reduced family presence is desired due to the aforementioned agency costs associated with families. Molly et al. (2018) discuss how both the agency and stewardship theory can be applied to family businesses, which is also supported by Miller, Minichilli and Corbetta (2013). Family business research is thus encouraged to reconcile the two theories, in relation to external owners. In terms of information asymmetries, which often prevail, the agency theory should be used (Dawson, 2011). However, Molly et al. (2018) also argue that the involvement-based culture of family firms through the stewardship theory can be an advantage.

### 2.4.2 Social Emotional Wealth

The sub-dimensions of social emotional wealth (SEW) have been applied to compliment the ambiguousness regarding the agency-steward dilemma in the relationship between PE firms and FBs. In the definition of family businesses, SEW is argued (Berrone et al., 2012) to be the most distinct feature that separates them from other non-family businesses. The concept of SEW originates from the literature of family businesses and the key feature of SEW stresses that strategic decisions may be driven from a noneconomic reference point (Zellweger et al., 2012). Berrone et al. (2012) gathers the existing research connected to SEW under the acronym "*FIBER*", which constitutes of; *family control and influence, family members' identification with the firm, building social ties, emotional attachment* and *renewal of family bonds to the firm.*

The main standpoint of SEW is that families' attachment to their business can express itself as a neglection of financial objectives in order to preserve affective endowment (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson and Moyano-Fuentes, 2007). The opportunity to influence and control the business is in such cases strongly related to enjoyment within the family. (Gomez-Mejia et al. 2007; Berrone et al. 2012). According to (Mustakallio, Autio, and Zahra, 2002), family owners may adopt multiple roles in their business as a way to achieve both formal and informal influence. Social ties are not exclusively reciprocal among family members or within family businesses yet tend to extend to a wider context that leads to important relationships for their firm (Miller, Jangwoo, Sooduck, and Le Breton-Miller, 2009). SEW is also connected to the pecking order theory, which discusses the emotional attachment that family members have to the firm. Family businesses may see external equity as the last option (Romano, Tanewski and Smyrnios, 2001; López-Gracia and Sánchez-Andújar 2007).

The level of SEW may differ between generation such that later generations may experience a lower degree of emotional attachment (Gomez Mejia et al., 2007). Strong family bonds however, are characterized by a reluctance to sell the business and a wish to transfer the business to coming generations. (Berrone, Cruz, Gomez-Mejia and Larraza-Kintana, 2010) In this study, family owners' and members' perceptions of the relationship to both their business and private equity firms is discussed through the conceptual lens of SEW. SEW can possibly provide explanations to why FBs experience the relationship to PE as they do. Moreover, SEW is set in relation to the limited period of time for future influence and attachment to the business when engaging with private equity firms.

### 2.4.3 Resource-Based View - Familiness

The resource-based view (RBV) is a major framework in management that describes the internal strategic advantages of companies (Barney, 1991; Berman, Down and Hill, 2002). Family firms have been identified to possess certain resources, which through the RBV can be regarded both as an advantage and disadvantage (Habbershon and Williams,1999). It is further described that these resources, described as familiness, can be identified as idiosyncratic resources in the interaction between the family and the business (Habbershon and Williams, 1999).

The concept has received some criticism of being too broad (Moores and Irava, 2010), however, this thesis will build upon the original definition by Habbershon and Williams (1999) and what is further discussed by Sirmon and Hitt (2003), where they have defined familiness as; *Human capital (skills and expertise), Social capital (relationships), Patient Capital (Capital invested within the business long-term), Survivability capital (resources from various family members) and Governance structures (agency costs low) as resources of family firms* (Thiele, 2017).

Sirmon and Hitt (2003) have further described that family firms are characterized by limited professionalization and difficulty of accessing capital. This can be regarded as a resource deficit according to RBV, in contrast to aforementioned five features of familiness. With regards to outside private equity investors and familiness, certain contradictions may appear, for instance in patient capital, given the short time frame of private equity investments or in social capital as they professionalize (Wulf et al., 2010). Familiness can further be difficult to assess from the perspective of a private equity firm (Habbershon and Williams, 1999). However, the uniqueness of family businesses with the presence of family members, can lead to a competitive advantage as explained through RBV (Habbershon and Williams, 1999; Habbershon, Williams and MacMillan, 2003).

To conclude, the theory is broad. Nonetheless, this thesis will build upon the Habbershon and Williams (1999) definition, coupled with the 5 characteristics of Sirmon and Hitt (2003). These concepts may explain what resources family firms have, how private equity can add resources and where it may contradict.

## 2.5 Relationship between theories

The integration of agency theory and stewardship theory is in the relation between PE and FB reasoned to be necessary due to the unique characteristics and motives of FBs (Molly et al., 2018) In addition, (Breton-Miller, Miller, and Lester, 2011) proposes a viewpoint that combines both agency- and stewardship theory in the context of family businesses, with reservation that circumstances may differ regarding to what extent family members are involved in the business. The essence is however that FBs could be motivated by other factors than the ones assumed within the monitoring systems of the traditional private equity model (Molly et al., 2018). SEW can consequently shed light on behaviors of how families and FBs relate to PEs change agenda and value creation plans, which cannot be explained by agency theories solely.

The unique characteristics of FBs are studied under the concept of SEW, which is argued to be the most important aspect that distinguish FBs from other non-family organizations (Berrone et al., 2012). Due to the dilemma of whether agency theory or stewardship theory will prevail, private equity may experience difficulties of properly implementing their control mechanisms (Dawson, 2011). The intrinsic values of families and their social emotional attachment to their business (Berrone et al., 2012) could therefore be explained by the psychological concept of SEW.

Furthermore, the distinct resources of FBs are studied and explained in theories of RBV, namely under the term “familiness” (Berrone et al., 2012). If the stewardship theory will prevail, family businesses constitutes of resources that may remain untapped from a PE perspective. (Molly et al., 2017) The informal networks and tacit knowledge that is incorporated in FBs are naturally of interest for PE firms, which highlights the importance of trust in order to maintain and build upon these.

# 3. Method

*This section describes the methodology used to conduct the study and aims to motivate the choice of research approach (3.1) and design (3.2). Moreover, a detailed presentation of how the data is collected (3.3) follows by the analysis of data (3.4) and the research quality (3.5).*

## 3.1 Research approach

The study aims to understand the contextual factors within FBs, how they can affect relationships with PE firms and when there is an intersection with the PE agenda. To gain an understanding of how the respondents perceive the social realm in which they are operating within, Yin (2003) emphasize that context is of importance. Further, given that the study is focused on a single country and thus with a limited selection of cases, a qualitative in-depth approach was seen as more appropriate.

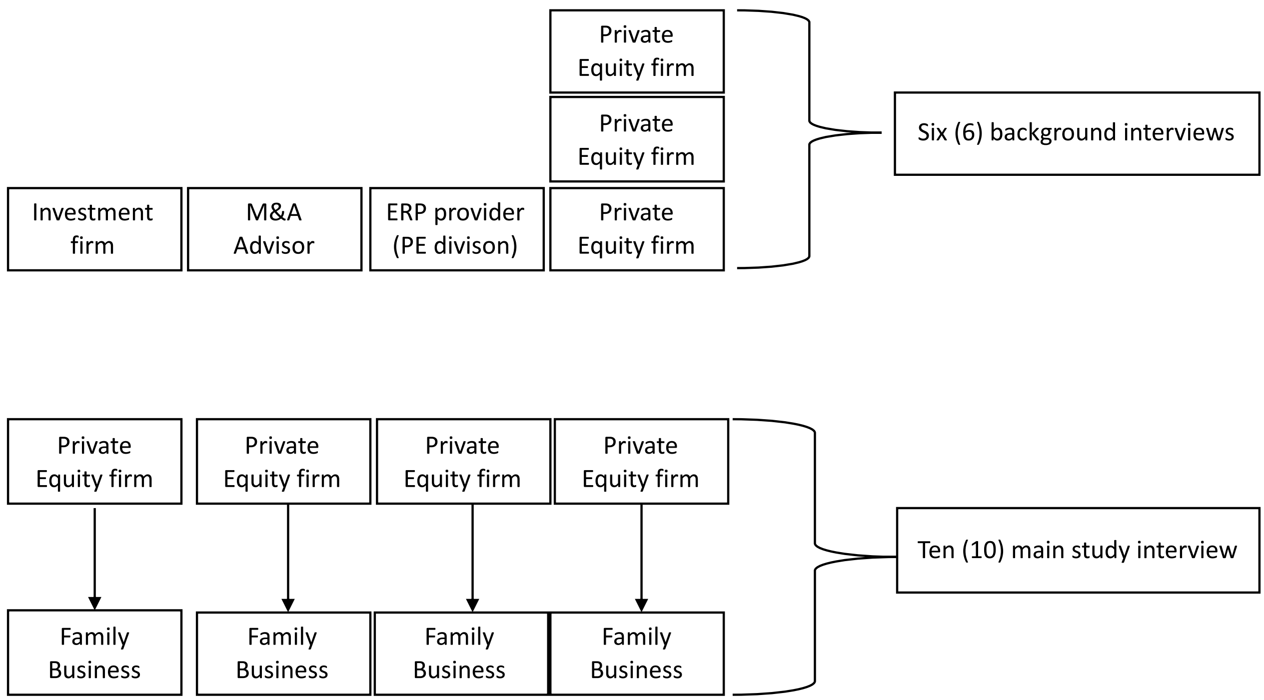
An inductive research with semi structured interviews were initially deemed to be suitable. Although, as the research proceeded, the authors altered the connection between data and theory by weaving back and forth (Bryman & Bell, 2015). This approach entails a learning process of trying to find the best explanation possible (Martela, 2015), and consequently, this paper opts for an abductive approach rather than an inductive.

## 3.2 Research design

A multiple case study is undertaken for the purpose of comparing the cases that are introduced in section (3.5). The authors intention is in line with Bryman & Bell (2015) to consider what is unique and what is common across cases. In addition, a multiple case study enables data both from within cases and across cases to be studied (Yin, 2003).

A survey directed towards FBs was initially considered to measure SEW as suggested by Berrone et al. (2012). However, the choice of conducting qualitative semi-structured interviews with representatives of both parties was found to be more appropriate, as the authors were interested to understand the social context more in-depth. This is also in line with the abductive approach, and that surveys are too simple to shed light on real-life interventions that are complex (Yin, 2003)

Figure 4:




## 3.3 Data Collection

Both private equity and family business representatives have been interviewed. A total of 16 interviews, have been conducted, including 6 background interviews. Out of the 16 semi-structured interviews, the main study is built on 4 case studies with a total of 10 interviews.

### 3.3.1 Background interviews

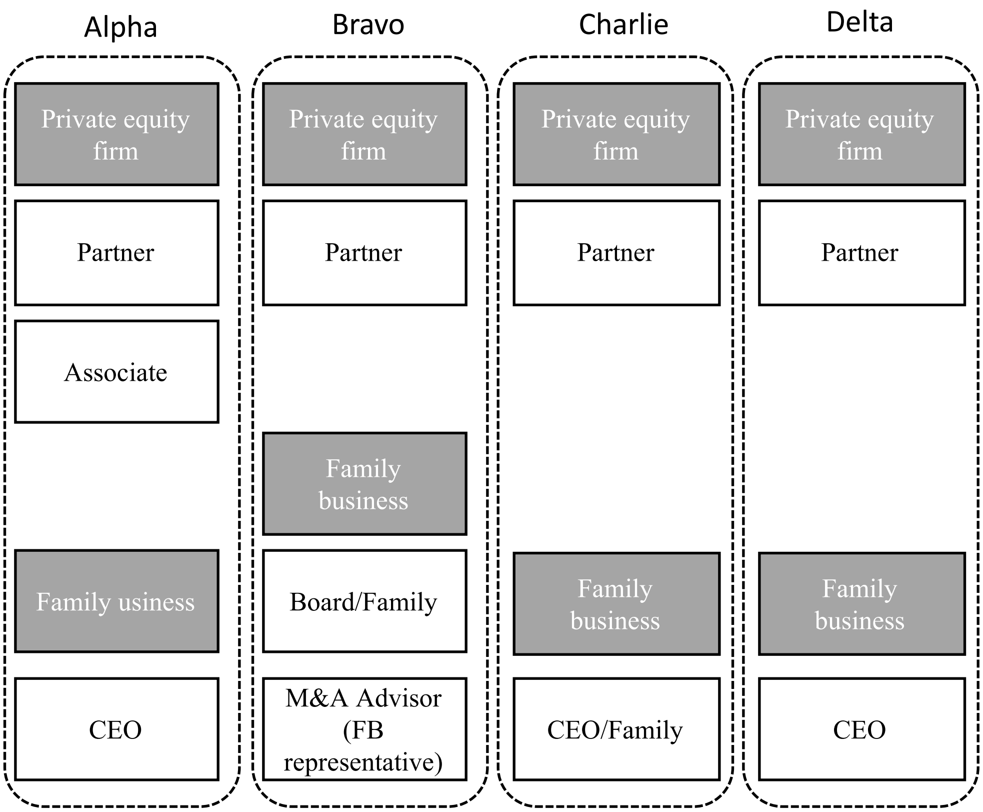
An initial pilot interview was conducted with a partner of a permanent capital vehicle (PCV) in private equity. The expert interviewee has investment banking, family business and private equity experience that contributed with industry knowledge. This interview narrowed down the scope with regards to issues of consideration for the relationship between PE firms and FBs, and how contextual factors may affect the partnership during entry, holding period and exit. The authors were then able to develop a final interview guide, which formed the basis for the data collection by identifying relevant themes to cover.

Furthermore, five additional background interviews have been conducted. One with an M&A advisor specialized towards FBs, to understand FBs motives. One with a global private equity ERP provider to understand how PE firms implement value creation plans. Finally, three interviews have been conducted with PE firms that adopts the traditional private equity fund model, which is in line with this paper's definition of private equity funds.

The background interviews with PE firms, along with main case interviews with PE firms contributed to distinguish commonalities among PE firms. Small cultural differences between PE firms can affect what kind of FBs aimed to target. Nevertheless, this study has treated PE firms as homogenous by focusing on the traditional fund model.

3.3.2 Cases - The main study

Figure 5




3.3.3 Private Equity Firms

This study focuses on the traditional private equity fund model in contrast to a permanent capital vehicle. Regarding size, lower mid-market has been investigated given the more complex management structures and lower level of professionalization in businesses acquired. Also, a large set of PE firms operate in this area, which increased the availability of data. With regards to geography, the study will focus private equity firms based in Stockholm. Stockholm is the main financial center in Scandinavia and employ approximately 500-600 partners and investment professionals (SVCA, 2017).

Two interviews were conducted with partners and one with an associate, who had operational experience from one of the cases. The partners had between 10-30 years of experience from a wide sample of cases and thus gave the opportunity to compare different investments. The PE firms then formed the basis in the selection of cases that were to be investigated, in a manner of purposeful snowball sampling (Bryman and Bell, 2015).

Given the geographic proximity, all interviews with PE firms were conducted face to face. This would facilitate the trust building between the interviewers and the interviewees (Bryman and Bell, 2015).

### 3.3.4 Family Businesses

In order to investigate the perspective of the counterparty and the possibility to discern contradictions, the authors have interviewed FB representatives. Four family businesses were chosen based on the transaction history of the PE firms that have been interviewed. This was opted in order to do within case analysis and compare PE and FB. Two other FBs were considered, but access was not granted due to confidentiality.

The cases have been split into pre and post exit. Family members and external management have given another dimension to the data collection. The FB respondents have been important in exploring the contextual factors of FBs and related families. Moreover, the interviews with FBs enabled findings of contradicting nature, in relation to the ones of PE firms. To widen the scope further, one M&A advisor have in case Bravo acted as a representative for the FB perspective. The M&A advisor have advised the family and represented the connected FB in the sales process of the FB.

Given cost and logistical issues, all interviews outside of Stockholm have been conducted via phone. Interviews conducted via phone may have affected the trust building. Nevertheless, the FBs seemed to be able to speak more freely regarding the investments than PE firms. Telephone interviews can provide a better setting for sensitive questions due to lower level of distress (Bryman and Bell, 2015).

### 3.3.5 Semi-structured interviews

The interviews were adjusted to the different parties'. Besides the adjustment to the two parties of PE firms and FBs, interviews were conducted with a semi-structured approach following, with help from the initial expert interview, predetermined themes to cover. This approach enabled questions to be of an open-ended character, which allowed the respondents to follow-up on unintended paths of thoughts without interference from any possible pre-understandings of the social phenomena that the authors may have had. The respondents were thus able to emphasize relevant aspects according to their perception of the social context, which limited the risk of bias answers that otherwise may hinder a qualitative collection of data.

### 3.3.6 Secondary data

Reports from SVCA (Swedish Private Equity & Venture Capital Association) have been used to understand the Swedish private equity market and trends within it. Also, reports from PwC have increased the understanding of recent trends of family succession. Articles on difficulties to deploy capital within private equity and the focus longer time horizon and permanent capital vehicles have been read. Additionally, internal documents from M&A advisor Bravo and the PE division of a global ERP company, have improved our understanding between PE firms and FBs.

## 3.4 Data analysis

All data in the main study was recorded and transcribed (appendix 1), except from two interviews with M&A advisor Bravo due to integrity and confidentiality. The data analysis followed an iterative process in line with the abductive approach that this study adopts.

Through screening the transcripts, data was firstly categorized under the three main phases in the process of a transaction: *entry, holding and exit*. This approach subsequently facilitated further categorization of data according to sub-themes. Eventually, a more detailed outlining of themes emerged when identifying common themes through comparison of the different cases. Data were finally categorized on an inter and intra case basis to facilitate further analysis and was set in relation to theory.

## 3.5 Ethical Considerations

Since the study aims to understand the relationship between PE firms and FBs, a beforehand understanding of the sensitiveness and confidentiality of information guided the ethical considerations. All interviewee prospects were informed that the information gathered for this study would be handled with great cautiousness and was to be anonymized throughout the thesis, to establish trust. All PE firms were asked for consent before contact with prospect interviewees of current portfolio companies (FBs). In order to not intrude on the privacy of the PE firms. Due to the sensitivity of information, some interviewees (see appendix 1) declined to be recorded. The authors respected their decision and notes were in that case taken frequently from one the interviewers. Notes were afterwards sent to ask for confirmation of content.

The confidentiality of information was difficult to approach. Any information that could reveal the interviewees or their firm/investments has been excluded from the paper. Such information includes for instance year of investments, purchase and selling prices and detailed years of interviewees' industry experience. Although, the confidentiality of investments in relation to the private equity's reputation may in some cases have limited the degree of sincere and detailed responses. This issue emphasized the importance of getting the perspective of both parties for comparisons.

## 3.6 Research Quality

### 3.6.1 Credibility

The authors will outline how credibility has been ensured, which is regarded as requisite by Creswell and Miller (2000). The participation of both authors during interviews, transcription rules and individual but simultaneous coding of data limited any pre-understandings of the social context to affect the analysis. Further, every case had a connection in interviews between PE and FB.

Although this has led to a smaller sample of cases, a direct connection between PE and FB was deemed essential to better understand the context. Expert interviews with various perspectives were conducted, both private equity firms and family firm representatives, coupled with background interviews to understand the industry and context in which PE and FB operates. This study has hence preceded the information in a triangular manner, which can increase the credibility (Bryman and Bell 2015).

### 3.6.2 Transferability

Shenton (2004) discusses that transferability is to what extent that the study can be applied by others. Transferability is difficult to ensure since the research adopts a qualitative approach with a smaller sample. However, the contextual uniqueness and aspects of the social world is studied in qualitative research (Bryman & Bell, 2015), which is opted for with the family businesses that have been studied. The sample is small, but in order to understand how PE firms operates in different social contexts, the heterogeneity of family businesses and the effort to maximize differentiation of interviewees is considered to be of value. The multiple case study approach can improve the transferability of the study by comparing cases. Furthermore, to account for transferability, a clear description of the social context and the assumptions of the social context is given throughout this paper.

# 4. Empirical findings

*The main study consists of 4 cases and 10 interviews. Interviews with 3 private equity firms are presented as background interviews of the traditional private equity fund model (4.1) as the interview guide used did not differ from the one used in the main study. A summarizing table of the contextual factors within family businesses are further presented (4.2) followed by the main cases in the study (4.3), (4.4), (4.5) and (4.6).*

## 4.1 Private equity firm background interviews

Table 1

| | Commong themes among Private Equity background interviews |
|---|---|
| Family succession | Mentioned family succession as the main reason for seeking external equity |
| Complex ownership transferring | Indicate that FB transaction may be complex |
| Reinvestment and partnership | Prefer that families reinvest |
| Informal structures in family business | Informal structures are common in FBs |
| PE want to professionalize and add value | PE prefer FBs which are partly professionalized |

## 4.2 Summarizing table of themes covered in the cases

Table 2

| | Cases Pre PE Exit | | Cases Post PE Exit | |
|---|---|---|---|---|
| **FB Circumstances Pre Acquisition** | **Case Alpha** | **Case Bravo** | **Case Charlie** | **Case Delta** |
| **Family Generation** | (+) 2nd generation | (+) 2nd generation | (+) 2nd generation | (+) 2nd generation |
| **Succesion** | Yes (family disputes) | Yes (children not wanting to be operationally involved) | Yes (family disputes) | Yes (children pursuing other careers) |
| **Emotional Attachment** | Father (also founder) had strong attachment | Family | Relatives had strong attachment | Family |
| **External Management** | No (son assumed role of CEO) | External CEO appointed pre sales process | No (family CEO) | Yes (external CEO) |
| **Level of Professionalization** | Social control, informal influence no control mechanisms | Started process of professionalization by advice from M&A | Started process of professionalization | Started process of professionalization |
| **Reasons for choosing PE** | Indifferent regarding investor type | Maintain involvement for a period of time | Family wished to maintain ownership | Continued influence through board |
| **Circumstances post PE Acquisition** | | | | |
| **Family Reinvest in FB** | No | Yes | Yes | Yes |
| **Management changes** | Adding knowledge and compentencies, 4 CEOs in a limited period of time | Adding knowledge and compentencies around current CEO | Adding knowledge and compentencies around current CEO | Adding knowledge and compentencies around current CEO |
| **Emotional Attachment** | Father was still attached to the business | Family cared about the heritage | Family CEO cared about the culture | Satisified with influence from the board |
| **Control Systems Implementation** | Not succesfully implemented | Functioning systems | Functioning systems | Functioning systems |
| **Value Creation Plans** | Integration of acquisition for synergies and to complement the family business | Several of acquisitions | Expand to new markets | Professionalize controlling systems |
| **FB Exit Considerations** | CEO thinks the exit can be fluid | Son fears exit will occur sooner than expected | CEO wanted exit to continue development | Neutral |
| **PE Exit Considerations** | Time constraint limits value adding activites | Fluid depending on development | PE did not want to risk exit by starting new processes | Fluid depending on development |

## 4.3 Case Alpha

### 4.3.1 FB Alpha's perspective - CEO Alpha

Prior to selling the FB, the father had passed the control of the business on to one of his sons. The son had formal responsibility as CEO, but the father controlled the business with informal power, which led to family disputes. Consequently, the firm was sold at 100% to a private equity firm.

CEO Alpha entered FB Alpha as the fourth CEO in a limited period of time and experienced the situation to be more complex than what had been described in advance. CEO Alpha explains that there were tensions in the corporate atmosphere:

*"The belief was that it [the situation] would resolved by increasing volumes, but it was more fundamental things that needed to be corrected."*

CEO Alpha describes how PE Alpha conducted their due diligence, that they did not speak to the employees within the business but rather relied on reports and numbers to steer activities:

*"I think that it is very important, especially when it is a family business, that you talk to the employees to understand how things work. "*

The previous top-down management of the father was difficult for PE Alpha to replace with formal systems. PE Alpha hired several consultants to deliver reports but with varying results. None of the suggested solutions were fully implemented and the lack of communication with employees led to an underestimation of efforts needed for change. CEO Alpha explains the difficulty in adapting employees to a new reporting system as it contrasted FB Alpha's culture:

*"I have changed the ERP systems and underestimated the process completely. How can you make people work in an ERP system if they have never done so before?"*

That could have been a reason to why former employees had to be replaced, to bring in new knowledge, but according to CEO Alpha:

*"[Private equity] had strong opinions about which key figures to keep or to replace, but they had little understanding of that. ("...") You can't replace an entire organization and believe that it will work with new people ("..."). Even if we do things differently, history is very important. It must be something that is interrelated [with the business]".*

CEO Alpha had to replace some of the earlier recruitments and recruit externally but also internally. Furthermore, an external chairman can provide a cultural linkage between the PE Alpha and CEO Alpha. After a recent period of restructuring, when talking about the exit CEO Alpha said:

*"We [private equity and I] are discussing that question, we have started to reach an acceptable level, but I think the exit can be fluid."*

4.3.2 PE Alpha's perspective - PE Alpha Partner and PE Alpha Associate

PE Alpha acquired 100% of FB A and simultaneously made a merger with another firm to complement the already existing business. However, the merger would complicate the investment and PE Alpha emphasize the importance to understand the businesses and different roles in organizations.

In one instance, PE Alpha Associate described that the change process differed since the family did not reinvest.

*"You will not understand the effect that the family had on sales and the organization and so on, until they have left the company"*

PE Alpha further emphasized processes and routines as crucial, and that it is a clear warning signal if they are not professionalized. As described, businesses in the lower mid-market are considered to be facing a great deal of challenge, if managed without formal structures. In this case, PE Alpha Associate explains that FB Alpha did not have any professionalized structures:

*"The CFO had a very good sense of the business but was completely unstructured"*

PE Alpha Partner emphasize, with regards to the time frame, that they do not want to spend up to 9 months of getting to know the FB after entering. One interview described the initial holding period as a "window of opportunity" and another as a 100-day plan. Further, the need for quick actions in the work of change is due to the time frame, either it happens now or never.
*"We have a need of quickly getting processes and routines in place"*

PE Alpha faces demand from their limited partners and therefore emphasizes the need of detailed reports of how the company is developing each month. PE Alpha Associate explains that after acquiring a new business, a typical question from their investors may be:

*"When will you sell and what will the multiple be? ("...")*
*[We] are thinking more about how the business will look like towards an exit".*

PE Alpha considers FB Alpha current state to be a perfect opportunity for M&A or invest for a expansion phase. Nevertheless, PE Alpha would like to have more time to undertake such value adding activities.

## 4.4 Case Bravo

### 4.4.1 FB Bravo - Family (and Board Member) Bravo and M&A Advisor Bravo

FB Bravo had been run by the father and his two sons for decades before they decided to partner with an external investor due to succession FB Bravo had made several acquisitions in order to grow the business and was looking to scale even further. The current owners did not consider themselves to be competent enough and did not want to pressure their children to take over the business. By advice from M&A Advisor Bravo, the family appointed an external CEO before the acquisition:

*The person behind is of importance, whether family CEO or external, but often is an external CEO preferred [from a PE perspective].*

The reason to why a PE firm was chosen in contrast to a strategic investor was discussed within the family. Family Owner Bravo speaks about how the history of FB Bravo was essential in the decision. The family still wanted the business to remain in the same city and retain some of the family values, which were possible with a private equity owner.

*"We cannot affect anything next time the business is going to be sold, but this time we can"*

M&A Advisor Bravo explains that PE firms prefer to enter businesses with as little friction as possible in order to implement their strategy. FB Bravo had already improved and professionalized the company, partly with input from M&A Advisor Bravo. Consequently, PE Bravo contribute with the speed of acquisitions given financial strength. M&A Advisor Bravo explains:
*"One of the largest contributions is their knowledge of M&A"*

Family Bravo explains how PE Bravo add value through clear routines, discussions of multiples and focus on the next step. It is described how the PE Bravo wants to retain the family as an important signal and that key employees have been able to become shareholders. PE Bravo highlighted that they are not the PE Bravo that buy a business and exit quickly. However, Family Bravo says:

*"The business has grown massively and will grow even more. This journey is quicker than I thought"*

#### 4.4.2 PE Bravo's perspective

PE Bravo states that the family consisted of capable individuals who had started succession in the business by appointing an external CEO. According to the PE Bravo, family members said:

*"It is easier to share a bag of money than strategies and visions"*

The private equity firm describes this case as a typical family situation. Further, family business can see the benefit in how a private equity firm is managing the succession, professionalize and help to expand the company. PE Bravo explains:

*" The private equity firm is expected to develop the business. Families are demanding more of us, taking references and scheduling meetings [prior to investment]. Private equity firms must put in a lot of time to prove how [we can add value]"*

In determining the attractiveness of a family businesses, PE Bravo looks to what extent the family has professionalized the business. In this case, FB Bravo was run by an external CEO but with active family members. PE Bravo describes the importance to understand how the managerial and operational tasks are divided within the company. It is necessary with clarity upfront of how the family is involved and how a future cooperation will look like, who will run the company and what strengths they will build upon. PE Bravo describes how the family understood and accepted the time horizon.

*"In this case, the family would most likely be able to sell the company to a competitor, however they wanted to be part of another journey ("..."). "Given that the family have reinvested, they will probably receive much more value for the remaining 30% than the 70% they sold for instance."*

When asked if exit is discussed with the family, PE Bravo explains:

*"Not that much, [it is] internally and we will discuss it even more, but not much with the family. They have bought themselves into this journey [with us]"*

## 4.5 Case Charlie

### 4.5.1 FB Charlie's perspective - Family CEO Charlie

FB Charlie was a business group passed on by a father and the responsibility was divided between closely related family. Family CEO Charlie acted as CEO for one of the businesses.
The decision to consider an external investor was due to the need of capital in order to scale the business. Family CEO Charlie further stated that the other family members had greater emotional attachment to the business than he did and that the other family members were less professional in their approach.

*"That is why it has not gone so good [for the other business], they have only had one [person] in the board. They did not want to have two [external] since they would feel manipulated."*

Family CEO Charlie preferred to run the business in a professional partnership with PE Charlie, without interference from the family. He reinvested according to agreements while the rest of the family continued as owners and participated on board level, although not in operational roles. Family CEO Charlie stated:

*"They [PE Charlie) looked at which people that were crucial for taking the business forward."*

The management team around Family CEO Charlie was considered to consist of key figures for the business future. It is mentioned how attracting talented people to the business is one of the core benefits of PE Charlie. To add to the current competences, a CFO was hired but also industry experts and a sales manager. Family CEO Charlie explains:

*"In the acquisition process, there was no issues with regards to processes, routines and calendar systems"*

FB Charlie reached a larger return earlier than expected and given the large return, the private equity firm avoid planned changes in order to prepare the company for a sales process and an exit.

Given the time horizon of the investment, the business was sold on to another investor relatively fast.

4.5.2 PE Charlie's Perspective

PE Charlie explains that FB Charlie was able to go for a globalization and that PE Charlie needed to add the skills necessary. The main reason the success was furthermore created by building a new platform and assist the recruitment of the right people for this project.

"We want to add something, M&A, enter a new country or new region or source from somewhere else"

PE Charlie built a new platform of talented people to address the issues regarding growth. A sound working environment in the board is key as well as the linkage between the private equity firm and portfolio company, according to the partner. Consequently, they are able to have a strategic opinion and interfere in strategic decisions. PE Charlie explains that chemistry is important and that they seek families to reinvest in their investment:

*"They [FB Charlie] have done something very well and we want to add something"*

It's further mentioned how a lot need to be done to grow the revenue 3-5 times over the course of the holding period years. For instance, PE Charlie was concerned that family business was too dependent on Family CEO Charlie: *"We always need to transform management team and professionalize"*

PE Charlie will from day one of contact with the family analyze whether they will keep the existing CEO or not. For instance, they analyze if new management skills are needed with regards to what the strategy will entail. Moreover, the timeframe is normally not considered as an issue. PE Charlie explains that they are able to hold the businesses for a longer period if needed, but states that:

*"We always control the exit".*

## 4.6 Case Delta

### 4.6.1 FB Delta's Perspective - CEO Delta

FB Delta had gone through a succession. The current external CEO explained that the family were careful in the selection of an investor. As such, the family wanted to make sure that FB Delta would be in good hands. CEO Delta explains:

"[The family must] have credibility to customers ("..."), take responsibility for the transaction and the route taken"

The family took the family business reputation and history into account when evaluating investors. Furthermore, the family were able to continue as minority owners and as members of the board. According to CEO Delta, family members may have a good sense of the business by applying rule of thumbs or heuristics and the family managed the business differently than the external CEO. If you manage someone else's money, the mandate differs, states CEO Delta:

*"It is a lot of informal decisions in these type of companies, as long as it is operated by the family, I would say. This company had an external CEO.* ("...") *The family is a symbol that [FB Bravo's] values persist and as such, by taking responsibility for [bringing in an external investor] they can build trust towards both employees and customers. "*

FB Delta's employees thought of PE Delta as short-term investor prior to exit and consequently, adapted by exaggerating and focusing on short term profits to match up with what they thought the PE firm wanted. PE Delta wanted to work with the business plan, improve the use of resources and leverage their connections. However, CEO Delta explains that:

*"Maybe you are in a hurry to some extent. They [private equity] like fast failures, quick growth, and if it does not work, then you correct it"*

CEO Delta further states that decisions made on behalf of PE Delta were made with a long-term focus. According to the external CEO, the PE firm prefer to acquire a majority but include the family as minority owners, which can lead to a stable de-connection from the family while taking the opportunity to use their 50-60 years of experience.

*"Buyers are intelligent and there is a need for long-term plans. We have to run the company in an infinite time perspective even if it will be sold in 5 years"*

4.6.2 PE Delta's Perspective

According to PE Delta, non-financial areas are of more importance in the acquisition processes with family businesses. Families tend to care more about their reputation and hence, a PE firm can be a more attractive partner in contrast to a strategic investor. Although sales price is of importance, other values also explain the process according to PE Delta:

*"You [PE Delta] want to continue the journey but with a professional partner and simultaneously receive a bag of money. That combo appeals the most"*

PE Delta states that they seek the family to reinvest. With regards to management, PE Delta says that they have a representative that works together with the family on the board. They also leverage their network to find people for the board or other special competences.

*"Since we do not have a sector focus, we tie up knowledgeable people"*

PE Delta always use an external chairman as a linkage between the private equity form and the FB Delta. A family business that already has an external management team can facilitate a better partnership. PE Delta also describes that they have a financial focus and utilize knowledges from industry experts to complement CEOs:

*"If you are going to do a M&A, the CEO must have the ability to integrate and understand the dynamics. Not only purchase agreements but also how to integrate [the M&A] into the business"*

PE Delta further emphasize that they want to fulfill their change agenda when they enter and add value:

*"It is a catalyst towards change when we enter"*

# 5. Analysis

*Originating from the empirical insights, this section will cover the themes that have been analyzed through the theoretical framework this paper adopts. Moreover, each presented theme is followed by an intersection of the PE and FB relationship in the following order; private equity time horizon (5.1), family involvement (5.2), governances structures (5.3) and family reinvestment (5.4).*

## 5.1 Private equity time horizon

### 5.1.1 Focus on exit

All PE firm interviewees have described that the time frame is taken into account in their investment decisions and change agenda. The need for PE firms to implement changes in an early phase of the investment is emphasized by all interviewees. The time horizon is considered as a limited window of opportunity, both with regards to when changes are implemented and to what extent. PE Alpha Partner explains:

*"That is typically how a PE-strategy works. We initially invest in changes and account for the costs the first year. Then the results come after two, three or four years." ("....") with the PE-model and the short holding period that is expected, issues regarding generations, management, and transformation might be more complex. We place higher demands on being able to solve this in a short period of time".*

This indicates that the time frame may pose a contradiction in relation to FBs (Achleitner et al. 2010), which is a commonality among all cases, and is also supported through the PE background interviews. In case Alpha, activities that in retrospect should have been undertaken at a later stage, were set out to be implemented immediately to utilize the window of opportunity. Informal structures explained through familiness, in which the long-term focus may possess a contradiction, can explain this. Family CEO Charlie explains how PE Charlie avoided further actions to professionalize the ERP system, given the risk of short term loss prior to exit:

*"[PE Charlie] would rather not engage in it. It could jeopardize the exit, and of course, become a real disaster. As such, they want to do it [changes] in the beginning of the holding period".*

This was not considered to be a problem, since Family CEO Charlie could continue shortly afterwards with the next investor. However, Family Bravo explains his perception of the fast journey with FB Bravo:

*"I would want to participate in the journey a little bit longer, even if I would only own a few percent".*

Consequently, this is interpreted as the short time horizon of PE firms might not always take the degree of SEW of families into account.

### 5.1.2 Intersection between Family Business and Private Equity

A comparison of the cases suggests that the time frame can contribute positively with a sense of urgency. Nevertheless, the short-term orientation of PE firms may not always take familiness (Sirmon and Hitt, 2003) or SEW into account (Berrone et al., 2012). It is interpreted that family firms with a lower level of SEW and familiness, particularly social- and patience capital, could facilitate intersection, and thus be more aligned with the short-term time horizon of PE firms.

## 5.2 Family involvement

### 5.2.1 Willingness to relinquish control and influence

All cases include some form of succession, supporting that later generations tend to have a lower degree of SEW (Gomez Mejia et al., 2007). However, in all FBs except for FB Alpha, a possibility for continued family involvement has been determinant when evaluating external investors. All cases support that families still have an emotional attachment to the business and that they wish to retain influence over decision making (Berrone et al., 2012).

CEO Delta explains:

*“[Family Delta] wanted to find an attractive investor and maintain the business’ independence, staff and current operations [“...”], preserve the history [“...”] and partnership [with PE Delta] to participate in a journey through the board”.*

The cases further support that SEW exist and may affect PE investments (Berrone et., 2012). Case Charlie and Bravo indicate how non-financial objectives affected by the decision of the private equity firm (Gomez-Mejia et al., 2007). In case Charlie, the family was divided regarding degree of attachment to the firm. Family CEO Charlie had a weaker attachment and accepted reduced influence. Both FB Charlie and FB Bravo made sure that the private equity strategy was aligned with the family strategy prior to the acquisition. Family CEO Charlie explains:

*“We had a good connection [from the beginning], and it continued throughout the partnership”.*

Nevertheless, an emotional attachment of family owners can express itself as an unwillingness to physically move out of the business’ premises. For instance, by keeping the old desk or enter the premises uninvited as the father did in FB Alpha. As such, family members may try to keep influence and intervene in flows of information and decisions. This is regarded as a risk by PE firms and findings suggest that reduction of influence is not an easy practice. As interpreted, informal networks and social control built around families within the businesses can be deeply rooted, and PE firms try to map it out prior to an investment. PE Bravo explains:

*"It is important to understand the division of roles [prior to entry]. It is extremely important in a family business".*

The family sold the entire company in Case Alpha and consequently, reduced all of its influence. A similarity between case Bravo, Charlie and Delta is that the family was willing to reduce influence but at the same time act as minority owner. PE Delta explains:

*"We want to push through changes in these businesses. ("…"). We need a majority to push these initiatives through".*

### 5.2.2 Intersection between FB and PE

In order for the agenda between PE firms and FBs to intersect, the cases indicate that family influence and consequently familiness and SEW should be reduced (Dawson, 2011). Due to information systems and uncertainty whether social control will prevail or not in the family businesses, PE needs a majority to push their change agenda through.

## 5.3 Governance structures

### 5.3.1 Professionalization of management and systems

All PE firms in the study indicate that investments are more attractive if the family has professional management, preferably an external CEO or Chairman. It signals that the family self-willingly has limited their control over the business by delegating responsibility and is perhaps willing to professionalize management further. Family CEO Charlie explains that:

"*They [PE Charlie] saw it as a risk that I might be controlling too much in detail, micromanaging ("…"). It is common, and that they might become very dependent on me. But they realized it was not like that."*

The PE firm interviewees perceive FBs to possess less control mechanisms, which contradicts the aforementioned desire of the private equity fund model. PE firms have in all cases indicated that they need professionalization in family businesses and that formal control systems such as financial reporting is essential. PE Alpha Partner explains:

*"The conditions must be there for the business to be able to answer to the changes. [The efforts] are easily misdirected otherwise. ("…") "It is difficult if you do not completely understand the business [due to non-professionalized systems]".*

PE Alpha initially faced problems in understanding FB Alpha, given that the business lacked professional management and formal structures, such as ERP systems and financial reporting systems. PE Alpha's unsuccessful attempt to bring in new management and competencies highlights, in contradiction to the other cases, the importance of a fundamental level of professionalized system. FB Charlie had understood the importance of professionalization. FB Bravo had also, through advice from M&A advisor Bravo, started to implement control systems prior to the partnership. PE Bravo explains:

*"We are going to professionalize [the business]. You want increased return on equity".*

Aforementioned relationships have been interpreted as stable partnerships since investment and that family representatives are represented in either management or board and projected commitment to their businesses.

### 5.3.2 Intersection between FB and PE

Businesses that already are professionalized to some degree can have increased possibilities for instant value adding activities, as suggested in case Bravo, Charlie and Delta. FBs governance is explained as a competitive advantage, according to literature on familiness and family business resources (Habbershon and Williams, 1999). However, in line with Dawson (2011) findings suggest that FBs' should have started to professionalize governance prior to investment in order to intersect with PE firms. In addition, it signals a reduced familiness and SEW, since a process of implementing formal monitoring mechanism has been initiated.

## 5.4 Transition phase

### 5.4.1 Different resources

Familiness (Sirmon and Hitt, 2003), is a commonality among all cases, although to a varying degree as expressed during interviews. The degree of how independent the business is in relation to the family, is grasped by knowing to what extent the family has maintained informal structures and networks compared to its level of professionalization. Family CEO Charlie explains:

*" It is really important to understand the entrepreneurial risk, how dependent is the business on these people [the family]? If they control 40% of the customers and 40% of the suppliers, the entrepreneurial risk might be too significant".*

A commonality between case Bravo, Charlie and Delta is that the family continued to be involved in the business either on an operational or board level. As such, PE firms across all cases have expressed that they want the family to reinvest if possible and remain in the business for a transition phase (Dawson, 2011) since they can project stability to their business (Miller & Le Breton-Miller, 2005). Moreover, these actions are completed to make sure that the private equity firm does not experience a deficit in families' long term-oriented resources (Sirmon and Hitt, 2003). Family Owner Bravo explains:

*"They [PE Bravo] wanted to keep us. It is an important signal to the business that we remain and project stability in the business. Key figures have had the chance to invest as well, people who worked with us for a long period of time have had the chance to invest, and 100% have done so".*

As suggested in all cases, FBs lack certain knowledge and resources, such as professionalization and capital (Sirmon and Hitt, 2003). PE firms want to be able to add value and implement changes, such as M&A, recruiting, board work and professionalization (Kaplan and Strömberg, 2009). These are areas in which the PE firms aim to add value and indicate that this can be facilitated by a future involvement of the family. PE Alpha Associate explains:

*"In order to reduce the risk, it might be better to keep this person in the business for a period of time to ensure a smooth transition".*

All cases suggest that PE firms aim at reducing the business' dependence on individuals within families over the course of the holding period and replacing it with corporate governance systems. However, the transition phase can be important for PE firms in terms of transferring tacit knowledge, the possibility to utilize informal networks and to keep stability in the business.

### 5.4.2 Intersection between FB and PE

Families have been interpreted to play an important role in maintaining and transferring knowledge and resources of familiness through a transition phase. The transition phase, which can be mediated through family reinvestments, supports changes by reducing friction and legitimizing the change agenda during the "window of opportunity" (Berrone, 2012). This indicates that certain resources are tied to the family, which can be crucial for the future success of the family business (Sirmon and Hitt, 2003) and implementation of value creation plans.

# 6 Discussion and Conclusion

## 6.1 Intersection of family business and private equity

This paper has studied four family business buyouts by conducting interviews with both private equity and family firm representatives. Further, three background interviews with private equity firms have been conducted to understand the industry, including their experience and view of investments in family businesses. For the last 30 years, private equity firms and strategic investors have formed the basis of external equity financing for family businesses.

Howorth et al (2016) describes that family businesses need to evaluate the contrasting time horizon between them and private equity firms. The time horizon sets the basis of activities that private equity firms perform, which are distinct and have been proven to add value over a relatively short period of time (Croce and Martí 2016).

This paper aims to study:

*Under what* circumstances *do the agendas of private equity funds and family businesses intersect on the Swedish market?*

The authors suggest that the traditional private equity fund model agenda has a greater chance to intersect with the family businesses' agenda when SEW is low (appendix 2) within the families. A lower level of emotional attachment among families, is according to the findings, coupled with that families may have started processes of professionalization or are more open to it. This is further needed for PE firms to implement their incentive systems and minimize information asymmetries to properly be able to implement their change agenda and value creation plans. Finally, a family that is willing to reduce its influence but at the same time reinvest, can facilitate a stable partnership. However, the short term-oriented partnership may not always account for families that experience a higher SEW.

As such, the private equity fund model may not be suitable for family businesses that have retained a strong family firm culture and informal systems, which is explained as typical family business values (Berrone et al., 2012). Lower levels of professionalization in family businesses may lead to a greater chance that SEW and familiness manifest, and consequently affect the relationship between PE and FB. The private equity time horizon follows a rapid change process (Kaplan and Strömberg, 2009) which contradicts aforementioned family business values and may cause friction. In these instances, other investor types which align the time horizon of FB may prove to be more suitable.

## 6.2 Contribution to literature

Going forward, a larger number of family firms are estimated to be up for sale and a greater variety of investor types will be available. For instance, permanent capital vehicles (PCV) that may account for families' long-term orientation. Hence, this paper adds knowledge and relevance in a more complex investor landscape by analyzing how the family businesses' agenda and private equity firms' agenda intersect.

We add to literature by exploring how the time horizon can restrict value creation plans in family businesses given the distinct resources of family businesses defined by familiness and the concept of social emotional wealth. As such, this study further suggests that family businesses should have some level of professionalization prior to private equity investment, e.g. external management or financial reporting systems, to take the traditional private equity fund model's definite time horizon into account.

## 6.3 Practical implications

This paper suggests that private equity firms should look into adopting a longer time horizon than the 10-year fund vehicle and 4-7 year holding period, in order to exploit opportunities of family business investments and to curb competition. A longer time horizon might be of particular value when investing in family businesses in order to reconcile with families' social emotional wealth. A prolonged holding period could also enable family involvement for a longer time frame, which could attract family members who wish to sustain influence or attachment. Another alternative for private equity firms to meet the contextual needs of families and family businesses, may be to broaden their mandate and consider minority investments to a wider extent.

PCVs add variety to the investment landscape, which can possibly increase the bargaining power of families in relation to private equity funds. PCVs may appeal more to family businesses by presenting themselves as long-term investors without a predetermined exit, which reduces uncertainty of who the next investor will be and may be more aligned with the long-term goals of family businesses.

## 6.4 Limitations and future research

The empirical findings in this paper are drawn from a small sample, in contrast to quantitative research. Moreover, the authors did not apply any psychological metrics to measure the affective endowment of families. Although, with help of the five dimensions of *FIBER* and connected examples of family statements that Berrone et al. (2012) have provided, data were interpreted and connected to relevant aspects of SEW. Moreover, this study is limited to the Swedish market that may have affected the results.

For the future, the authors identify possibilities for researchers to adopt a longitudinal research of how families' SEW evolves with, and how it might affect investments of both private equity and other financial investors that differ regarding the time horizon. This would contribute to knowledge of how family businesses can evaluate different investors, with regards to the contextual factors of families, their businesses and the degree of SEW. Also, researching the heterogeneity within private equity investors may provide further insights.

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# 8. Appendices

## Appendix 1

| Date | Length | Company | Interviewee | Experience | Interview Method | |
|---|---|---|---|---|---|---|
| 2018-03-21 | 45 min | PCV | Manager | 10-15 years | Face to face | Notes |
| 2018-03-22 | 66 min | Private equity fund | Partner | 20-30 years | Face to face | Recorded and transcribed |
| 2018-03-27 | 60 min | Private equity fund | Partner | 15-20 years | Face to face | Notes |
| 2018-04-05 | 59 min | Private equity fund | Partner | 15-20 years | Face to face | Recorded and transcribed |
| 2018-04-28 | 62 min | M&A advisor | Partner | 15-20 years | Phone | Recorded and transcribed |
| 2018-04-28 | 42 min | Global ERP provider | Consultant | 15-20 years | Face to face | Notes |

| Date | Length | Case | Interviewee | FB Experience | | |
|---|---|---|---|---|---|---|
| 2018-03-29 | 56 min | Alpha | CEO | 1-5 years | Phone | Recorded and transcribed |
| 2018-03-27 | 60 min | Bravo (M&A -FB representative) | Partner | 20-30 years | Face to face | Notes |
| 2018-04-04 | 53 min | Delta | CEO | 5-10 years | Phone | Recorded and transcribed |
| 2018-04-09 | 25 min | Charlie | Family & CEO | 20-30 years | Phone | Recorded and transcribed |
| 2018-04-16 | 46 min | Charlie | Family & CEO | 20-30 years | Phone | Recorded and transcribed |
| 2018-04-16 | 56 min | Bravo | Family & Board | 20-30 years | Phone | Recorded and transcribed |
| 2018-04-16 | 60 min | Bravo (M&A -FB representative) | Partner | 20-30 years | Face to face | Notes |

| Date | Length | Case | Interviewee | PE Experience | | |
|---|---|---|---|---|---|---|
| 2018-03-28 | 62 min | Alpha | Partner | 20-30 years | Face to face | Recorded and transcribed |
| 2018-03-29 | 62 min | Alpha | Associate | 1-5 years | Face to face | Recorded and transcribed |
| 2018-04-04 | 52 min | Bravo, Charlie, Delta | Partner | 10-15 years | Face to face | Recorded and transcribed |

Appendix 2

**Table of measuring SEW (Source Berrone, Cruz, Gomez-Mejia, 2012)**

**Family Control and Influence: Lee and Rogoff (1996), Klein, Astrachan, and Smyrnios (2005)**
• The majority of the shares in my family business are owned by family members.
• In my family business, family members exert control over the company's strategic decisions. In my family business, most executive positions are occupied by family members.
• In my family business, nonfamily managers and directors are named by family members.
• The board of directors is mainly composed of family members.
• Preservation of family control and independence are important goals for my family business.

**Identification of Family Members With the Firm: O'Reilly and Chatman (1986), Allen and Meyer (1990), Carlock and Ward (2001), Klein et al. (2005)**
• Family members have a strong sense of belonging to my family business.
• Family members feel that the family business's success is their own success.
• My family business has a great deal of personal meaning for family members.
• Being a member of the family business helps define who we are.
• Family members are proud to tell others that we are part of the family business.
• Customers often associate the family name with the family business's products and services

**Binding Social Ties: Miller and Le Breton-Miller (2005),Miller, Jangwoo, Sooduck, and Le Breton-Miller (2009), Cruz et al. (2010)**
• My family business is very active in promoting social activities at the community level.
• In my family business, nonfamily employees are treated as part of the family.
• In my family business, contractual relationships are mainly based on trust and norms of reciprocity.
• Building strong relationships with other institutions (i.e., other companies, professional associations, government agents, etc.) is important for my family business.
• Contracts with suppliers are based on enduring long-term relationships in my family business

**Emotional Attachment of Family Members: O'Reilly and Chatman (1986), Allen and Meyer (1990), Carlock and Ward (2001), Eddleston and Kellermans (2007)**
• Emotions and sentiments often affect decision-making processes in my family business.
• Protecting the welfare of family members is critical to us, apart from personal contributions to the business.
• In my family business, the emotional bonds between family members are very strong.
• In my family business, affective considerations are often as important as economic considerations.
• Strong emotional ties among family members help us maintain a positive self-concept.
• In my family business, family members feel warmth for each other

**Renewal of Family Bonds Through Dynastic Succession: Lee and Rogoff (1996), Zellweger, Kellermans, Chrisman, and Chua (2011)**
• Continuing the family legacy and tradition is an important goal for my family business.
• Family owners are less likely to evaluate their investment on a short-term basis.
• Family members would be unlikely to consider selling the family business.
• Successful business transfer to the next generation is an important goal for family members.

Appendix 3

**Interview Guide Private Equity - Example questions**

**Presentation**

- Presentation of research topic and ourselves
- Information on confidentially
- Approval of recording

**Introduction**

- Ask for company and interviewee background

**Family firms**

- Discussion on definition of family firm?
- General discussion of family firms?

**Case discussion**

- Sourcing and due diligence phase: Family situation? Why interesting deal?
- Entry phase: What changes did you implement? Family involvement?
- Holding phase: How did value adding activates go?
- Exit: How was the family involved? What type of investor?

**Example questions ending interview**

- Would you like you add anything?
- Can we contact FB?

Appendix 4

**Interview guide family firm - Example questions**

**Presentation - Example questions**

- Presentation of research topic and ourselves
- Information on confidentially
- Approval of recording

**Introduction – example questions**

- Ask for company and interviewee background

**Family business – example questions**

- General discussion of family firms?

**Case discussion**

- Sourcing and due diligence phase: Family situation? Why PE?
- Entry phase: What changes did they implement? Family involvement?
- Holding phase: How did value adding activates go?
- Exit: How was the family involved? What type of buyer?

**Example questions ending interview**

- Would you like you add anything?