The role of financial investors in successful family-firm takeovers: A configurational approach

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ABSTRACT

Family firms increasingly opt for an external succession route and sell shares to financial investors. Yet, not all family-firm takeovers by financial investors are financially successful. To date, however, we lack a nuanced understanding of the conditions under which financial investors' family-firm takeovers will succeed financially. Our fsQCA study builds on 52 interviews to reveal the interplay of three typical levers that financial investors use (i.e., operational, strategic, and governance measures), the market situation, and investor type. We identify three distinct roles (i.e., incentivizers, optimizers, and adjacent investors) that financial investors take in successful family-firm takeover cases. We situate our findings in the literature on resources and their orchestration, to explain how investors create value in each of the identified paths, and we contribute to the literature on family-firm succession and the interplay of family firms and financial investors.

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

INTRODUCTION

Family firms increasingly attract the interest of financial investors (Kurta & Kammerlander, 2022). Hence, researchers increasingly analyze the interplay of financial investors and family firms (e.g., Achleitner & Figge, 2014; Ahlers et al., 2014; Kranitz et al., 2021; Kupp et al., 2019). Financial investors' interest in acquiring family firms is not only the firms' competitive advantages, including their beneficial culture (e.g., Barney et al., 2001) but also the improvement opportunities that investors see and can exploit to increase the acquired family firm's enterprise value (Tao-Schuchardt et al., 2023). For instance, family firms might lack important resources, capabilities to grow, and young managerial talent (Dawson, 2011; Sirmon & Hitt, 2003; Upton & Petty, 2000). Financial investors might address these challenges by providing additional financial resources and managerial know-how regarding deploying these resources (Dreux, 1993; Howorth et al., 2004). Specifically, financial investors may support family firms in various ways, including but not limited to defining strategic planning, optimizing governance by introducing professionalism, providing access to additional expertise from networks (e.g., suppliers, customers, financial intermediaries), recruiting managers, and providing deep knowledge in operational planning to increase efficiency (e.g., Croce et al., 2013; Mitter et al., 2012; Sørensen, 2007).

Hence, the cooperation between family firms and financial investors can be a (financial) success story, as such examples as Birkenstock illustrate. This German family firm received a substantial investment of private equity for further growth, and the family managed to regain control over some of the business units over time (Bennedsen et al., 2023).[1] While prior research has shown

[1] Various available definitions of success embrace financial and non-financial dimensions. The precise definition of success—in particular, its non-financial aspects—heavily depends on the specific stakeholders. We focus in this study on the financial aspect, to increase comparability across cases. Specifically, we focus primarily on the financial improvement of the family firm after takeover by a financial investor. Thus, we define a family-firm takeover as successful when it creates sustained financial value for its shareholders (Achleitner et al., 2010a; Bergström et al., 2007; Loos, 2007; Pindur, 2009).

that financial investors often achieve above-average returns (Achleitner & Figge, 2014; Jensen, 1986), this is not always the case. To better understand the financial success or its lack following a takeover by financial investors, research has started to analyze various value-creation measures—activities that target improving the firm's strategy, operations, or financial aspects, with the ultimate goal of enhancing financial firm value, as the multiples achieved when reselling the firm reflect it (Achleitner et al., 2010a). However, this nascent stream of research has not paid attention to the value-creation measures that acquirers of family firms take. This is an important theoretical research gap because family firms differ substantially from non-family firms in their resource endowments and competitive (dis)advantages, outlined above. Moreover, prior research has argued that (successful) value-creation measures might not only depend on the market environment and specific investor type but also differ across portfolio firm types (Achleitner & Figge, 2014). From a practical perspective, this research gap is highly relevant in light of the large number of family firms around the world (e.g., 90% in Germany, according to *Stiftung Familienunternehmen*, 2019), providing a substantial deal pool for financial investors. To contribute to closing this gap, we ask the following research question: *What configurations of financial investors, market environments, and value-creation measures lead to financial success after a family-firm takeover?*

To answer this question, we draw on fuzzy-set qualitative comparative analysis (fsQCA) (Fiss, 2011; Ragin, 2006) of 52 interviews with investment professionals and experts knowledgeable about 35 family-firm takeover cases. FsQCA has become increasingly prominent in management and family-firm studies (e.g., Douglas et al., 2020; Gilbert & Campbell, 2015; Kimmitt et al., 2019; Roig-Tierno et al., 2016) because it enables studying equifinality and, hence, reveals various configurations that ultimately lead to successful family-firm takeovers. As such, an fsQCA study enables us to make use of the richness of qualitative case data while employing a systematic pattern-analysis approach. We base the interpretation of our findings in extant literature on resources,

especially their orchestration (Heider et al., 2022; Helfat et al., 2007; Mahoney, 1995; Sirmon et al., 2011; Sirmon et al., 2007) and value creation by financial investors (Achleitner et al., 2010b; Berg & Gottschalg, 2005; Jensen, 1989; Kaplan & Strömberg, 2009; Tao-Schuchardt et al., 2023).

Our study reveals three distinct approaches that financial investors pursue and that result in value creation in the acquired family firms, namely, as incentivizers, optimizers, or adjacent investors. While incentivizers focus on implementing governance-related improvements in family firms, optimizers aim to enhance firm operations. Adjacent investors take a rather hands-off approach. Our nuanced analysis shows the conditions that make value creation possible (e.g., positive market situation for adjacent investors) and explains the resources and resource orchestration that the financial investors contribute.

Our research makes three contributions to academic research. First, we add to the discussion about whether financial investors create or destroy value after a family-firm takeover (Bollazzi et al., 2004; Martí et al., 2013; Viviani et al., 2008). We advance this discussion by proposing that the achieved value creation depends on the specific patterns of measures that investors take, the market environment, and investor fit, which allow for more or less effective resource orchestration. Second, we add to the discussion on financial investors' activities after family-firm takeover (e.g., Achleitner et al., 2010a). Contrary to extant research, we suggest that financial investors do not entirely overhaul the acquired firm but engage in selected measures, to avoid overstraining the resources that they and the acquired firms possess. Third, we inform research on external succession in family firms (e.g., Dehlen et al., 2014) by revealing that superior resources and resource orchestration skills might indeed create value in family firms. We also provide family-business practitioners with guidance on how different investors apply different measures in a successful takeover of family businesses.

THEORETICAL BACKGROUND

Family firms, financial investors, and the (orchestration of) available resources

Family firms have a unique bundle of resources (Habbershon & Williams, 1999) and a unique way of orchestrating them (Chirico et al., 2011; Forcadell et al., 2018), entailing advantages and disadvantages. Specifically, the strong overlap of the family and the firm system affects the firm's available resources (i.e., the 'familiness,' Habbershon & Williams, 1999) and how it uses them (Habbershon et al., 2003). While early research focused on the availability of resources (Barney, 1991), more recent literature highlights the need to actively manage and deploy the available resources through mobilization and coordination (Helfat et al., 2007). Such resource orchestration refers to the interaction of resources, capabilities, and managerial know-how, resulting in competitive advantage and, hence, superior financial performance (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, p. 64). Some researchers claim that family firms are superior in orchestrating available resources, due to the availability of patient capital and a long-term orientation (Habbershon & Williams, 1999; Zahra, 2003). However, other researchers argue the opposite, due to family firms' desire to protect their socioemotional wealth (SEW), leading to slow decision-making processes, conservative strategies (Chirico et al., 2011; Le Breton-Miller & Miller, 2006), and struggles with integrating professional, highly competent external employees (Vinton, 1998).

In addition to resource considerations, family firms often confront challenges regarding ownership succession (Hamadi, 2010; Yu et al., 2011). The literature argues that internal succession (i.e., ownership transfer within the family) is most often the preferred choice (DeTienne & Chirico, 2013; Wiklund et al., 2013). One driver of this preference is the SEW-induced desire to keep control and avoid external investors (Jansen et al., 2023). However, evidence shows a strongly increasing share of external successions (Neckebrouck et al., 2016; Thiele, 2017). Lack of resources or inferior resource orchestration might force some family firms to accept external succession, and other drivers

are common societal trends (e.g., the decreasing willingness of next-generation family members to follow the career path of their parents) and the increasing market of potential acquirers (Niedermeyer et al., 2010; Wennberg et al., 2011).

A financial investor's takeover of a family firm[2] may help to overcome the various noted resource-related challenges that family firms face. Financial investors typically provide financial and strategic resources and the necessary expertise to orchestrate them as efficiently as possible (Faccio & Hsu, 2017; Michel et al., 2020; Salerno, 2019). Therefore, financial investors can increase the level of professionalism and, hence, support family firms' gaining a competitive advantage and growing. However, not all family-firm takeovers by financial investors are successful, indicating the need for further research on this topic. For example, several financial investors owned the Fristads Kansas Group, a Scandinavian workwear manufacturer, between 1999 and 2015. Inappropriate strategic decisions (Dämon, 2017) did not allow using resources effectively and, hence, harmed the firm's financial performance. While research dedicated to financial investors' value creation is still largely lacking, the general literature on financial investors has revealed three types of value-creation measures: operational, strategic, and governance engineering (Berg & Gottschalg, 2005; Jensen, 1989; Kaplan & Strömberg, 2009).

Theoretical framework

Based on our underlying theory—resource-based view and resource orchestration—we describe our theoretical framework, comprising potential conditions for a successful family-firm takeover. Our research aims to understand how financial investors create value in family firms after a takeover. As the previous section outlined, financial investors might help the acquired family firms by providing further resources and helping to mobilize and coordinate them, ultimately leading to

[2] There are several types of financial investors: venture capital investors, private equity investors, industry holdings, and family offices.

competitive advantage and financial success. Combining research on resources (e.g., Chirico et al., 2011; Hitt et al., 2011) and financial investors (e.g., Berg & Gottschalg, 2005; Jensen, 1989; Kaplan & Strömberg, 2009) reveals three firm-level measures (i.e., governance-related, strategy-related, and operational changes in the acquired firm, described in detail below) that financial investors typically use to create value in acquired firms by providing and better orchestrating available resources (governance-related changes, strategy-related changes, and operational changes in the acquired firm, as described in detail below). Moreover, prior research has highlighted the importance of environment-related conditions (i.e., the market situation) and owner-level conditions (i.e., investor fit) for resource orchestration in general (Chen & Tian, 2022; Chirico et al., 2011; Miao et al., 2017) and for successful firm takeover in particular (Achleitner et al., 2010a; Phalippou & Zollo, 2005). Building on this literature, we next present the theoretical frame that guided our analysis. The framework consists of five conditions that emerged from our reading of prior research.

Firm-level conditions. Financial investors are typically active investors with a dedicated plan for how to adjust resources in the acquired firm and, hence, improve firm value (Achleitner et al., 2010a; Kaplan & Strömberg, 2009). As noted above, prior research has identified three different areas that financial investors target when planning resource-related changes in firms.

Governance measures. First, financial investors often change the firm's governance after a takeover. Due to the unity of ownership and control and the resulting lower agency costs (Jensen, 1986), family firms should generally be very efficient in resource deployment. However, inappropriate incentive schemes, altruism, and nepotism might create capital and managerial constraints (Acharya et al., 2013) that lower the amount and quality of available resources and their orchestration. Financial investors might overcome such constraints by replacing top management (Acharya et al., 2013), adapting managerial and employee compensation (for instance, by offering stock options) (Jensen & Murphy, 1990), as well as making changes to the compensation of various

boards. As such, financial investors might better motivate and mobilize employees and coordinate available resources, thereby increasing firm efficiency (Jensen, 1989) and, ultimately, the financial performance of the acquired firm.

Strategic measures. Second, financial investors often change key strategic aspects after a takeover. While family ownership typically implies stable ownership and patient capital (König et al., 2013), their financing strategy also implies lower levels of debt (Achleitner et al., 2008), limiting the amount of financial resources available. Moreover, family-firm idiosyncrasies often entail inertia (König et al., 2013), leading them to miss important strategic opportunities. Financial investors provide family firms with both an adapted financing strategy (Kaplan & Strömberg, 2009) and the managerial and financial resources to implement major strategic change. Furthermore, many financial investors pursue strategic add-on acquisitions to drive business-model change and foster growth (Achleitner et al., 2010a; Valkama et al., 2013). In many cases, the additional knowledge and assets that such add-on acquisitions provide enable family firms to better leverage their own existing resources. In addition, many financial investors hire strategic advisors and external consultants (Kaplan & Strömberg, 2009), which helps overcome family-firm internal limitations in quantity and quality of human resources (Mitter et al., 2012; Sirmon & Hitt, 2003).

Operational measures. Third, financial investors frequently optimize the operations of the acquired family firm to increase revenues and decrease costs (Achleitner et al., 2010a; Kaplan & Strömberg, 2009). While the owner-manager unity and the entailed focus on parsimony (König et al., 2013) often imply superior resource structuring and, hence, family firms' efficiency, their focus on non-financial goals (Berrone et al., 2012) might lead to operational inefficiencies (Bernstein & Sheen, 2016). For instance, the focus on reputation and social ties to stakeholders reduces family-firm owner-managers' willingness to engage in major restructuring and employee downsizing (Stavrou et al., 2007). Financial investors are known to influence resource bundling and leveraging

by introducing (among others) such operational changes (Achleitner et al., 2010a; Achleitner & Figge, 2014; Kaplan, 1989) as increasing sales by changing the market focus or selling to other regions' customers (e.g., by changes in the marketing and sales department), increasing the margins (e.g., by cutting costs through dismissals, process optimizations, or changes in the product mix), or optimizing capital expenditures and working capital.

Environment-level conditions. In addition to the firm-level value-creation approaches that financial investors might take to enhance firm value, the environment (e.g., macroeconomic condition or industry dynamics) also affects the financial success of family-firm takeovers (Achleitner et al., 2010a; Phalippou & Zollo, 2005). The underlying reason is that the available resources and the success of their effective orchestration also depend on the environment in which the firm is embedded (Wright, 2012). Specifically, the success of takeovers is 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 impact the performance of financial investors' takeovers (Achleitner et al., 2010b). In favorable environments, family firms might sell due to either attractive sales prices or the lack of a family-internal successor; otherwise, the motivation to sell might stem from turnaround requirements (Schickinger et al., 2018).

Owner-level conditions. Despite their similarities, not all financial investors are the same (Kammerlander & Bertschi-Michel, 2023). Owner-level conditions must be considered in family-firm takeovers, as extant research suggests. The interaction of family firms and financial investors bears tensions (Schickinger et al., 2018) that might affect resource orchestration. Examples include tensions due to pursuing different goals and families' and financial investors' different strategic time horizons (Berrone et al., 2012; Dreux, 1993; Poutziouris, 2001; Sirmon & Hitt, 2003), which might require different resource-deployment settings. Research has indicated that the following

characteristics of financial investors might particularly determine their interaction with the family firm (Ahlers et al., 2014; Schickinger et al., 2018): first, the financial investor's prior experiences with family firms (and/or small or medium-sized businesses) and knowledge about their resource idiosyncrasies; second, industry experience; third, a convergence of the time horizons in strategic planning (i.e., long-term vs. short-term holding periods of the financial investor). Fulfilling these aspects improves the financial investor's understanding of the unique resources that family firms possess, the resources they lack, and how resource orchestration in family firms works. As such, a better investor fit might help the investor in creating value in acquired family firms.

Extant literature suggests that financial investors add resources to the acquired firm and affect the firm's resource orchestration, aiming to make it more effective and ultimately lead to value creation. The literature identifies several measures that financial investors may take, as well as potential boundary conditions, including the market environment. However, to date, we do not have any insights into whether financial investors "pull all levers" simultaneously to optimize the family firms' resources and their deployment or selectively engage in improvement activities. Moreover, the effect of the various levers might be contingent on the market situation or the investor fit. As previous research suggests, the interaction between family businesses and financial investors is fraught with tension. We must gain a better understanding of the specific configurations that lead to value creation. Current knowledge does not allow us to speculate on the complementarity vs. substitutability of the various value-creation measures; hence, we chose an exploratory pattern-detecting approach.

METHODOLOGY AND ANALYSES

Fuzzy-set qualitative comparative analysis

Our study builds on the fuzzy-set QCA (fsQCA) approach that Ragin (2000) introduced. FsQCA allows the structuring of case-centered analyses, improving comparative research (Fiss,

2011) and simultaneously preserving the richness and insights of qualitative approaches. We consider fsQCA an appropriate methodology for our research study; it allows us to systematically answer our research question, which aims to identify different configurations or patterns that result in a specific outcome, i.e., a successful family-firm takeover. Furthermore, fsQCA, which originated in Boolean and fuzzy algebra, facilitates researchers' analysis of medium-sized samples and leveraging combinatorial logics to identify necessary or sufficient combinations of conditions that will result 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 use of fsQCA provides various advantages in answering our research question, including 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 quantitative approaches, fsQCA reflects qualitative differences between individual cases and provides more structured insights than entirely qualitative analyses (Miller, 2018). Due to the multilevel characteristics of successful family-firm takeovers (Achleitner et al., 2010a; Achleitner et al., 2010b) and the broad set of potential value-creation drivers (Achleitner et al., 2010a; Loos, 2007; Pindur, 2009), we selected fsQCA and collected qualitative data (Kimmitt et al., 2019). So far, a qualitative, case-based research design has been the prevalent method for investigating the success of family-firm takeovers (e.g., Achleitner et al., 2010b) because such research designs are well suited to capturing their complexity (Loos, 2007; Pindur, 2009). By adopting a qualitative research design, we can interpret the individual solution paths, improving theorizing (Kimmitt et al., 2019; Miller, 2018; Wilhelm et al., 2019). Therefore, qualitative case-based data combined with rigorous fsQCA methodology is ideal for creating novel insights in research fields such as ours (Tóth et al., 2017).

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 medium-sized family firms in the German-speaking area, due to their importance for the economy and the typical common strengths and weaknesses of this specific type of firm (De Massis et al., 2018). On the one hand, German medium-sized family firms strongly focus on innovation and are often regional or even (inter)national leaders (De Massis et al., 2018), pointing to superior resource orchestration. On the other hand, they typically lack financial resources, due to their aversion to external capital (Habbershon & Williams, 1999), indicating improvement potential regarding resource levels and orchestration. Hence, this form of organization was highly relevant for our analysis. We also aimed to ensure that the researchers and interviewees shared the same native language, allowing them to better engage in in-depth discussions and secure their understanding of fine nuances during interviews.

We collected qualitative data appropriate for fsQCA approaches (Kimmitt et al., 2019; Miller, 2018; Wilhelm et al., 2019). Qualitative case-based approaches are a common method for investigating takeover processes because they can capture their complexities (e.g., Achleitner et al., 2010b), thereby improving theorizing (Kimmitt et al., 2019; Miller, 2018; Wilhelm et al., 2019). Combining in-depth qualitative case-based data with rigid fsQCA methodology is adequate for generating novel insights (Tóth et al., 2017).

As a first step, to build up our sample, we purchased a list including 1,000 financial German-speaking investors in the area. Using the DDW (*Die Deutsche Wirtschaft*) database, we 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, of whom 35 were able and willing to disclose detailed information about their takeovers, resulting in 35 case interviews. To ensure comparability, all 35 cases shared the following

characteristics: (1) Financial investment after 2012, based in the German-speaking area; (2) Mature business life-cycle of acquired target; (3) Major shares owned by family pre-investment, no previous investment of a financial investor prior to takeover; (4) Small-to-medium-sized family firms (annual revenue up to EUR 250 million) pre-investment. In addition, we also used interviews with experts who were knowledgeable about the cases to double-check and validate the insights that the semistructured case interviews generated, comparable to previous research in this area (Castellarin et al., 2023; Waldkirch et al., 2021). In more detail, we asked the experts who had acted (for instance) as the consultants or the lawyers working on the specific deals about their own perspectives on the specific takeover cases in our sample. Their answers helped us to gain an insightful and knowledgeable outside perspective on our cases, to correctly interpret and assess the insiders' (e.g., investment professionals') answers, and to generally triangulate our findings.

We conducted a total of 52 interviews, mainly in the form of video conferences, due to the global COVID-19 pandemic and rigid travel restrictions. Based on our theoretical framework, we developed a semistructured interview guide (available from the authors), including general questions about the financial investor, its typical strategy, the motivation for acquiring a specific firm, and detailed questions about a highly memorable takeover (i.e., information regarding the acquisition, the portfolio work during the holding period, and information regarding the sales process). On average, the semistructured interviews lasted 45 minutes, and we recorded and transcribed them, resulting in 424 pages of verbatim interview transcripts. Table 1 provides an overview of the interviewees' key characteristics.

---------------Insert Table 1 about here---------------

Explanatory conditions and calibration of set memberships

As a set-theoretic methodology, fsQCA builds on theoretical conditions that might impact the focal outcome variable (i.e., successful takeover) and are theoretically motivated (Douglas et al.,

2020; Greckhamer et al., 2008). Like previous studies (e.g., Cao et al., 2022; Colovic et al., 2022), our theoretical framework was based on three general theoretical conditions derived from existing literature (see section on theoretical background; e.g., Achleitner et al., 2010a; Schickinger et al., 2018), which might impact the success of takeovers: (a) firm-level conditions, (b) environment-level conditions, and (c) owner-level conditions. As already outlined in the theoretical background section, we split these three categories into five super-conditions to grasp the richness of the empirical data (Gilbert & Campbell, 2015). *Firm-level conditions* include (1) governance measures, (2) strategic measures, and (3) operational measures; *environment-level conditions* include (4) market situation; *owner-level conditions* include (5) investor fit. These "super-conditions" are based on 23 variables that function as formative indicators. Figure 1 summarizes the research framework.

---------------Insert Figure 1 about here---------------

The fsQCA approach requires calibrating all measures, particularly important for qualitative data (Basurto & Speer, 2012). Like previous research in comparable studies (e.g., Waldkirch et al., 2021), we decided on a four-set-fuzzy-set-scale (i.e., fsQCA with values 0.00, 0.33, 0.67, and 1.00) instead of a binary crisp-set scale. This is because fsQCA allows us to: (1) capture nuances; (2) better deal with ambiguity and complexity in the cases; (3) differentiate more precisely between the individual cases; (4) reveal subtle differences and similarities that might be overlooked with binary crisp-sets. We set the thresholds of each value for each of the variables after familiarizing ourselves with the literature, specifically grounding the thresholds for each calibration in theory and our in-depth understanding of existing research (Miller, 2008).

After completing the interviews and summarizing all insights and information, we assessed the qualitative information based on our previously set thresholds. We relied on Generic Membership Evaluation Templates (GMETs). Tóth et al. (2017) developed the GMET approach (see example in the Appendix) to provide maximum transparency and structure in the fsQCA analysis. Following

their guidance, for each of the 35 individual cases, we completed five GMETs (i.e., one GMET per case and per super-condition; 175 GMETs in total).

We first wrote short assessments for all conditions in the GMETs (see Table 2 in the next section for an overview and detailed explanations) supported by interview quotes and additional knowledge from secondary data (e.g., press material). Then, based on the thresholds mentioned above, we assessed each condition individually via a four-value scale. Subsequently, and in lie with prior research, we averaged the variables' scores to derive the super-condition's score (Basurto & Speer, 2012). Last, we discussed the outcomes of the GMETs until we reached a consensus (Miles et al., 2018).

---------------Insert Table 2 about here---------------

Outcome condition: Successful family-firm takeover

The focal outcome variable of this study is a *successful family-firm takeover.* While success is a very broad term, we focus on the financial success of the acquired firm after the financial investor's takeover(Achleitner et al., 2010a; Bergström et al., 2007; Loos, 2007; Pindur, 2009; Tsai & Yang, 2013). In line with prior research, we evaluated (a) growth in sales and (b) growth in profitability, compared to both pre-takeover and the competition (Achleitner et al., 2010a; Tsai & Yang, 2013). In addition, we captured (c) financial arbitrage (i.e., higher exit valuation multiple than entry valuation multiple) (Achleitner et al., 2010a; Loos, 2007; Pindur, 2009). Last, we measured (d) employee growth (Kaplan & Strömberg, 2009; Loos, 2007; Pindur, 2009). After evaluating each component based on the four-value fuzzy-set scale, we calculated the average. Twenty-four out of the 35 cases were deemed successful and 11 unsuccessful.

Explanatory conditions at the firm, environment, and owner levels

Firm-level conditions. As noted above, we measured firm-level conditions through three indicators: *governance measures*, *strategic measures*, and *operational measures*. *Governance*

measures comprise activities related to changing control and oversight, accountability, stakeholder relations, and internal structure (Acharya et al., 2013; Jensen, 1989; Loos, 2007). These not only imply additional resources (e.g., managerial talent) but also affect who directs resource orchestration in the firm. Hence, we measured (1) whether there was a change in the management team (please see Table 2 for details on coding), and (2) whether family members were further involved in the firm (Kaplan & Strömberg, 2009), to capture changes in the individuals steering the firm. Moreover, we measured (3) whether there was a change in management compensation to better align interests and, hence, reduce agency costs (Jensen, 1989; Kaplan & Strömberg, 2009). As identification with the firm also drives interest alignment, we further measured (4) whether there was a change in firm culture after the takeover (Astrachan, 1988). Indeed, research has found that firm culture is very important to financial performance (Denison, 1984). For the same reason, we measured (5) whether there was a change in the family firm name because, very often, the firm name and the family name are closely related (Jaskiewicz, et al., 2016). Last, we measured (6) whether risk attitude (i.e., the willingness to bear the risk, for example, to drive growth) changed after the takeover (Loos, 2007).

Second, *strategic measures* are oriented toward long-term growth, firm development, and transformation (i.e., change in the firm's direction), which often result in a substantial change in the firm's resource base and its orchestration (Berg & Gottschalg, 2005). Specifically, we measured (1) whether there was a change in the business model (Bergström et al., 2007) and (2) whether any strategic merger and acquisition (M&A) was pursued to change the strategic direction and foster firm growth (Brigl et al., 2016). For instance, stock listing goes along with fundamental changes in decision-making and provides resources for further growth, so we also measured (3) whether the legal structure changed (Bergström et al., 2007). Changes to the capital structure also substantially affect the available resources in the family firm and, hence, are a prerequisite for transformation. Therefore, we measured (4) whether the takeover changed the capital structure because the use of

high leverage in the course of takeovers can foster growth (Jensen, 1989; Kaplan & Strömberg, 2009; Ljungqvist & Richardson, 2003). Last, we measured (5) whether any strategic advisors were hired to support the takeover and the value creation within the holding period (Achleitner et al., 2010b), as the appointment of strategic advisors indicates a major rethinking of the firm's strategic positioning.

Third, we included *operational measures.* Compared to strategic measures, operational measures are primarily geared toward immediate efficiency improvements, cash flow increases, and cost reduction, to enhance short-term financial performance. Therefore, we measured (1) whether any operational bottom-line improvement programs were initiated to reduce overall costs (Jensen, 1989; Kaplan & Strömberg, 2009). We also measured (2) whether sales were expanded internationally (Loos, 2007; Pindur, 2009; Tomo et al., 2022), (3) whether market focus shifted, and (4) whether product focus changed (Loos, 2007; Pindur, 2009). Measures (2) to (4) can be achieved by, e.g., shifting resources within the marketing and sales department, so they can be effective in the short term and present rather tactical and execution-oriented changes. Last, we measured (5) whether there were any changes in the financial planning to improve data transparency and decision-making processes (Acharya et al., 2011), which, again, allow for increased firm efficiency.

Environment-level conditions. One of the key factors influencing successful family-firm takeovers is the external environment (Achleitner et al., 2010a). We measured the impact of the external environment on the takeover success via a multifaceted indicator, namely, the market situation. Prior research has already revealed the effects of macroeconomic conditions, GDP development, market cyclicality, and market disruptions on the performance of financial investors' takeovers (e.g., Kaplan, 1989; Valkama et al., 2013). Therefore, we considered (1) the general economic conditions, (2) market key characteristics, and (3) market-wide changes to reflect potential market disruptions during the holding period.

Owner-level conditions. We measured owner-level conditions through a multifaceted

indicator, the *investor fit*. According to extant literature, it is particularly relevant to understanding family-firm takeovers (e.g., Bierl et al., 2018; Schickinger et al., 2018). We measured (1) the type of financial investor and, therefore, how strategically close the financial investor is to family firms. We considered (2) the investor's previous experience with family firms and, therefore, how familiar the financial investor is with their idiosyncrasies (Bierl et al., 2018; Schickinger et al., 2018). We also considered (3) the investor's experience in the family firm's industry. Finally, we considered (4) the typical holding period of the financial investor and, therefore, the strategic time horizon, which might foster or hinder the collaboration between family firms and financial investors.

On average, the 35 cases had the following averages: outcome variable successful family-firm takeover (0.57), governance measures (0.49), strategic measures (0.43), operational measures (0.53), market situation (0.54), and investor fit (0.57).

Constructing a truth table and deriving an intermediate solution

Having assigned membership scores for all five conditions and outcomes, we ran a first analysis to identify potential necessary conditions and sufficient (combinations of) conditions (Schneider & Wagemann, 2010). We used the fsQCA 3.0 software to check for the potential prevalence of *necessary* conditions. As we found no high consistency values (above the typically applied threshold of 0.9) (Greckhamer et al., 2018), we concluded that no individual condition was necessary for a successful family-firm takeover. In the next step, we used the truth table analysis in the fsQCA 3.0 software to identify *sufficient* (combinations of) conditions. We adjusted 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 included all observed solutions in our analysis and covered more than 80% of the cases (Greckhamer et al., 2018). Regarding consistency, we checked the truth table for breakpoints

(Basurto & Speer, 2012; Schneider & Wagemann, 2010) at various raw consistency levels (i.e., 0.90, 0.95, and 0.99) and ultimately chose 0.90 as the cutoff threshold as it provided a good balance between solution consistency and solution coverage and was also above the typically required cutoff point of 0.80 (Greckhamer et al., 2018).

We derived six solution terms in the intermediate solution of the truth table (Table 3). In total, the solution terms had a solution coverage of 0.831 and a solution consistency of 0.877. Therefore, they were 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 the identified solution paths explained, 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 et al., 2018).

---------------Insert Table 3 about here---------------

Assessing the robustness of the solution

We conducted several robustness tests 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); we observed no changes in the identified configurations. Second, we increased the frequency threshold to two (Skaaning, 2011; Tóth et al., 2017), and the results remained largely stable. Third, we changed the proportional reduction in inconstancy score (PRI) to >0.5 and >0.7 (Douglas et al., 2020). Again, our results remain robust. Fourth, we performed a CRISP QCA approach, which also aligned with our paths. Table 4 summarizes the outcomes of all robustness checks.

To further assess the robustness of our solution, we additionally performed an analysis with the opposite outcome condition, i.e., unsuccessful family-firm takeover, resulting in a set of paths

fundamentally different from those leading to successful takeovers.[3] Details on all robustness tests are available from the authors.

In addition, we performed the fsQCA analysis with the individual components of the outcome separately as a robustness test.[4] Tables 4 and 5 summarize the main results of the robustness tests.

---------------Insert Tables 4 and 5 about here---------------

FINDINGS

Configurations for successful family-firm takeovers

Our fsQCA analysis shows that a successful family-firm takeover can result from multiple configurations. We identified six solution paths that we inductively grouped into three roles that financial investors can assume for successful family-firm takeover: (1) incentivizers, (2) optimizers, and (3) adjacent investors. In what follows, we leverage qualitative insights to provide case narratives and insightful characterizations, to explain the mechanisms at play and illustrate how additional resources and adapted resource orchestration by the financial investor lead to financial success when certain configurations are present (Gilbert & Campbell, 2015; Kimmitt et al., 2019).

Incentivizers (Paths 1, 2a, and 2b). In the first identified solution, the financial investor

[3] This robustness check uncovers five paths much different from those in our main analysis for the positive outcome ("successful family-firm takeover"), which support the argumentation of our main analysis. Paths 1, 2, and 5 show that pulling one single lever (either governance measures for Paths 1 and 2 or operational measures for Path 5) is insufficient in times of market stress, i.e., the absence of (a favorable) market situation. This finding is in line with the argumentation in the main analysis (Path 2a). Path 3 shows that pulling both strategic and operational measures, at the same time might overwhelm the organization, resulting in an unsuccessful outcome. Hence, in line with our main analysis is the argument that in "normal times," financial investors only focus on one selected set of measures. Path 4 shows that the combination of operational measures and investor fit does not lead to a successful family-firm takeover. Several potential explanations for this path call for refinement and testing in further research. First, operational measures require much effort, and family offices might not possess the required resources and expertise to successfully implement them. Second, as a matter of willingness, operational improvements often go along with employee dismissals, a decision that some German family offices might not want to make due to their values.

[4] The results are in line with our main analysis. Specifically, the nuanced results show that the identified solutions from the main analysis fully hold for growth in sales and employees, while they are somewhat less stable for growth in profitability. One explanation might be that profitability growth is a complex matter that only becomes effective over longer time periods. For financial arbitrage, all paths except Path 1 remain stable. This finding indicates that the sole focus on governance does not sufficiently optimize resource orchestration to achieve improvements in the financial arbitrage category.

focuses on governance measures to achieve financial success in the acquired family firms. Specifically, the respective financial investors professionalize management teams and boards (i.e., providing certain human resources that family firms typically lack). Moreover, they take actions to adapt the compensation structures and improve the firm culture, to mobilize firm members to leverage the available resources in the best possible way.

Also characterizing the first path, Path 1, is the absence of *strategic measures* and *operational measures*. Hence, in this path, the financial investor focuses solely on improving the governance of the acquired family firms and purposefully neglects further improvement measures. In this path, the financial investor bundles the available financial and physical resources, managerial time, and managerial competencies, to pursue governance improvements to the best possible degree. Such a focus indicates that on the one hand, financial investors' resources are limited (Bernile et al., 2007) and, on the other hand, family-firm takeovers are more complex than non-family-firm takeovers—particularly regarding corporate governance—due to inherent family dynamics (Chua et al., 1999). Hence, working on improving family-firm governance might be particularly time- and resource-consuming and need much coordination.

An example of this path is Case L, the successful takeover of a bicycle manufacturer by a private-equity investor. The owning family had aimed for a sale to a financial investor because they faced internal succession challenges and saw the need to increase the firm's 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 second-level managers […]. In addition, we introduced an employee incentivization program to align interests and better motivate the managers. […] Furthermore, we conducted management workshops to discuss and align guardrails for the company culture*."

By introducing such governance measures, the financial investor not only reduced family-related agency costs but also attracted better-educated employees as top managers. As such, they could add valuable human resources that the family firm had lacked.[5] But the financial investor not only added new resources; acting as a sparring partner in discussions with top management and making the family firm independent of the former owning family could help the management structure and leverage the available resources: "In a first step, we improved the degree of professionalism, and going further, the firm is ready to grow […] as a next step." Considering the choice of this specific approach (i.e., focusing solely on governance measures), the financial investor representative recalled in the interview with us:

"*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.*"

In addition to the presence of *governance measures*, the second path, Path 2a, is notable for the presence of *strategic measures* and the absence of (a favorable) *market situation*. Like the previous path, a substantial focus on governance improvements after the takeover characterizes this path. However, in Path 2a, the family firm faces market turbulence. Consequently, a mere focus on governance improvements is not sufficient to achieve financial success; the financial investor must also focus on *strategic measures* to ensure continuing competitive advantage.

An example of this path is Case AG, the takeover of a car repair shop chain by a private-equity investor. The initial investment assumption of the financial investor was providing resources and resource orchestration knowledge to finance growth.

[5] Lacking human resources is a key challenge for many family firms (Howorth et al., 2004; Shanker & Astrachan, 1996; Sirmon & Hitt, 2003).

"*The family firm has grown strongly over the last years and reached a stage and size that exceeded the capabilities of the owning family and their employees. […] New external capabilities and knowledge were necessary to reach the next level of the firm's development.*"

Hence, the financial investor initially 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, soon after the takeover, the firm faced significant COVID-19 market turbulence. Market conditions significantly deteriorating and interrupting the firm's day-to-day business made strategic reconfigurations necessary, to mitigate the lockdown's negative impact.

"*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 supported the management in planning various strategic reconfigurations to tackle the unfamiliar 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 key in this situation was to shift all the available resources and the attention to work on this business-model shift.*"

By actively changing the focus of how the company leveraged resources, the financial investor could make the takeover financially successful.

The presence of (a favorable) *market situation* and the absence of *investor fit* (in addition to *governance measures*) characterizes the third path, Path 2b. Similar to the previous two paths (Paths 1 and 2a), the focus of the financial investor is, again, the improvement of governance. However, in this path, a favorable, highly attractive external *market situation* compensates for the absence of *investor fit*.

An example of this path is Case AD, the takeover of a business service firm by a private-equity investor, following a buy-and-build strategy. *"We focus on solid, profitable firms with a downside-protection and a non-cyclical business model that are looking for partners that support*

them." To improve resource availability and orchestration, the financial investor first rebuilt the governance structure, an important prerequisite for achieving financial success.

> "*We firstly hired a new management team; later, the firm culture changed, and the risk appetite increased significantly.*"

However, the financial investor had neither a dedicated family-firm focus (or experience with this type of firm) nor a dedicated industry focus on the service sector.

> "*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 aware of neither the unique idiosyncrasies of family firms nor their unique resource bundles and challenges, making it difficult for the investor to orchestrate resources appropriately. More specifically, the financial investor quickly faced internal troubles after the takeover, due to prejudices among the employees that put the success of the takeover at risk. "*At the beginning, we faced several internal problems because the employees were very skeptical toward us as the new owner.*" However, due to the positive market situation, the measures the financial investor took (regarding growth and profit) quickly turned out to be successful. They also benefited employees, convincing even the skeptical employees to support the financial investor's ambitions and 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 (Paths 1, 2a, and 2b) highlight a solution in which the major focus is on taking governance measures that provide the family firm with required (human) resources and knowledge of how to best allocate and deploy resources across the firm. The solution is remarkable in two ways. First, it emphasizes that financial investors may focus their resources and managerial capacities on a single area of improvement (i.e., governance measures) due to their limited resources (Bernile et al., 2007) and deliberately disregard other areas of improvement (i.e., strategic measures and operational

measures). However, if unforeseen events (e.g., pandemics) require it, they increase their resource investments in the specific firm to master the challenging situation (e.g., by additionally working on strategic improvements). Second, for financial investors lacking an understanding of unique family-firm idiosyncrasies, the sole focus on governance measures is not sufficient. For a successful takeover, favorable market conditions must bolster the acquisition. We summarize the first solution as follows:

Proposition 1: In their role as "incentivizers," financial investors can achieve financially successful family-firm takeovers by focusing solely on governance measures.

Proposition 2a: In times of market turbulence, in their role as "incentivizers," financial investors can achieve financially successful family-firm takeovers by combining governance measures and strategic measures.

Proposition 2b: In times of prospering markets, financial investors, in their role as "incentivizers," can achieve financially successful family-firm takeovers by focusing solely on governance measures even if investor fit is missing, because the market situation compensates for the inferior understanding of the target.

Optimizers (Paths 3a and 3b). Also, in the second identified solution, financial investors focus their attention on one single improvement area. Whereas "incentivizers" tackled governance-related issues, the "optimizers" that comprise the second solution put their resources into improving the operations of the acquired firm.

In addition to *operational measures* (and the absence of *governance measures*), the absence of *investor fit* characterizes Path 3a. Hence, the financial investor is likely unfamiliar with the unique idiosyncrasies of family firms (Anderson & Reeb, 2003; Carney, 2005). This lack of familiarity makes it difficult to focus on governance changes, typically complex in family firms due to the overlap of the family and the business system (Habbershon & Williams, 1999) and requiring intimate knowledge about family-firm idiosyncrasies. Consequently, the focus of "optimizers" is on orchestrating operational changes within the acquired family firms, typically a core strength of financial investors (Loos, 2007; Pindur, 2009). In contrast to governance measures, operational

measures require much less family-firm-specific expertise to turn out successfully. Hence, the financial investor bundles its available resources and focuses solely on operational improvements, to optimize allocation and orchestration of the resources in the acquired family firm.

An example of this path is Case AY, the takeover of a healthcare family firm by a private-equity investor.

> "*The family realized that a holistic cost-cutting project is required to become competitive again. However, the family was afraid of being responsible for this hard step because they also live in the same region as the firm. […] However, we are very experienced with such projects and do not have this personal relationship with the firm.*"

After the takeover, the financial investor supported the development of a value-creation plan and identified several areas for development, thereby supporting orchestrating resources within a production company in an efficient way, with direct knowledge of how to do it:

> "*At the beginning of the investment, we […] 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 had 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, thereby contributing valuable human resources. "*Next to the investment team, we have an operational team, focusing on implementing the measures concepts.*"

The second path, Path 3b, presents a combination of the presence of *operational measures* (and absence of *governance measures*) and (a favorable) *market situation.* Similar to Path 3a, the key focus of the respective "optimizer" financial investor is on orchestrating operational improvements. Here, a favorable market that strengthens the payoff of the implemented improvements further

supported the success of implemented operational measures.

An example of this path is Case F, the takeover of a healthcare firm by a private-equity investor. The financial investor supported only a few changes to the firm's governance to prepare the firm for the following growth strategy. Instead, it focused on boosting the firm's revenues by selling the products to international customers.

> "*The main reason for our investment into the firm was growth financing. […] We supported the expansion into more than eight countries and simultaneously extended business relationships with new customer groups. […] There was no time for other major changes and work because the expansion required all of our attention and resources.*"

The financial investor actively supported the decision-making processes in companies to which the firm expanded, allocating resources by providing human resources and their respective expertise.

> "*We supported a dozen internationalization procedures; hence, we have the right knowledge and experience. Therefore, we were able to steer the company and support the decision toward what countries to go to.*"

A favorable market environment supported the fast revenue increase that allowed growth.

> "*The market for the firm's products is very strongly growing with double-digit CAGR, which pushes international expansion. […] As a result of the internationalization push and the strongly growing market, we were able to double annual sales within a few years.*"

Once again, the financial investor in this case explicitly focuses on one improvement area (i.e., operational measures) and consciously ignores other potential improvement areas, to concentrate its efforts and resources.

Proposition 3a: In their role as "optimizers," financial investors can achieve financially successful family-firm takeovers by focusing solely on operational measures, even in cases lacking investor fit.

Proposition 3b: Favorable market situations support financial investors in their roles of "optimizers" to achieve financially successful family-firm takeovers by focusing solely on operational measures.

Adjacent investors (Path 4). A combination of the presence of (a favorable) *market situation* and *investor fit* as well as the absence of *strategic measures* characterize the third identified solution for successful family-firm takeovers ("adjacent investors," Path 4). As the solution does not require

any improvement measures—governance-related, strategic, or operational—we can assume that financial investors following this path take on a less active investor role. One could assume that the financial investor's limited resources lead to shying away from investing resources in the company or trying to substantially rearrange the target's resource orchestration. Rather, it takes a "hands-off" approach. Its unique understanding of the target (investor fit) provides the knowledge for meeting situations in which it must take action. Moreover, the overall positive market situation makes it possible to provide much (governance-related, strategic, and operational) freedom to the acquired family firm and to refrain from implementing further improvements.

An example of this path is Case P, the takeover of a software firm by a financial investor that focuses on family-owned or founder-led software firms. The financial investor has a deep understanding of the unique family-firm idiosyncrasies and extensive market and industry expertise. Compared to cases of other paths, the financial investor has limited capital inflow and, hence, fewer available financial resources and less managerial capacity to actively steer the portfolio firms after takeover.

> "*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 before making a takeover decision and has regular exchanges with the owning family. Furthermore, before a potential investment, the investor offers advice to the family firm and supports the potential investment targets, to achieve the best possible investor fit.

> "*We were in contact for around three years before we finally invested in the company. […] During this time, we had several management touchpoints in which we discussed potential […] ways of collaboration. Thereby, we built a remarkably 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 focused on the software market and, therefore, might have been 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 generally prospering software market in Germany that has not experienced any major disruptions or setbacks in recent years makes this focus and approach possible.

Proposition 4: In their role as "adjacent investors," financial investors can achieve financially successful family-firm takeovers by taking a "hands-off" approach and profiting from investor fit and favorable market situations.

A model of configurations of successful family-firm takeovers

Our research aim was to identify the configurations that allow financial investors to be financially successful in family-firm takeovers. Figure 2 summarizes the model that emerged from our fsQCA analysis. It outlines three solutions (incentivizers, optimizers, adjacent investors) associated with financially successful family-firm takeovers by financial investors. As our model outlines, two solutions (incentivizers, optimizers) strongly depend on firm-level measures, i.e., operative and governance-related improvements, and one path strongly depends on investor fit.

In solution 1 (i.e., incentivizers), the financial investor focuses its resources on improving family-firm governance, particularly management capabilities, incentive schemes, firm culture, and family-firm risk-taking. The financial investors provide the family firm with additional resources (e.g., external managerial talent) and help improve resource orchestration (e.g., through improved compensation schemes that increase mobilization). In solution 2 (i.e., optimizers), the financial investors focus their resources on improving family-firm operations, particularly revenue growth and operational efficiency (e.g., through bundling and structuring the available resources in different ways). Again, the financial investor provides the family firm with important resources in the form of expertise on how to change processes, to become more successful. Unlike solution 1, where the financial investor's involvement is more "indirect" (e.g., investor affects structure, which influences

resource allocation), the involvement of financial investors as optimizers is often rather direct, e.g., appointing operational teams that directly influence resource orchestration. In solution 3 (i.e., adjacent investors), the financial investor's takeover benefits from their deep industry expertise and thorough understanding of unique family-firm idiosyncrasies. Due to resource constraints, such financial investors' role is rather "hands off." Yet, deep knowledge allows them to affect resource orchestration in the family firm in a selective, targeted way, e.g., providing valuable managerial advice. The focus on family firms in favorable markets supports this acquisition approach.

DISCUSSION

Financial investors can have a significant positive effect on firm performance (Bloom et al., 2015), but not always. Based on an analysis of 35 cases of German family-firm takeovers by financial investors and embedding our study in resource-related theorizing, we reveal six solution paths leading to financially successful family-firm takeovers, which we group into three roles that investors can take: *incentivizers*, *optimizers*, and *adjacent investors.* Hence, we show that the interplay of financial investors and family firms depends on certain configurations, allowing for more or less resource orchestration and, hence, value creation. Thus, we discuss how our study contributes to both management theory and practice.

Theoretical contributions

Our study aims to make three contributions to research. First, prior research has started to scrutinize whether financial investors create value in family firms (Bloom et al., 2015; Bollazzi et al., 2004; Martí et al., 2013). We propose that only specific configurations that combine financial investors' activities with ownership type and market situation create financial value. Integrating research on resource orchestration (Chirico et al., 2011; Hitt et al., 2011) with research on financial investors taking over family businesses (Achleitner et al., 2010a), we argue that embodying specific configurations particularly enables financial investors to effectively orchestrate the family firm's

resources. For instance, in a prosperous market, the available knowledge of investors with a good fit might be sufficient to effectively orchestrate the resources in the family firm and create financial value (adjacent investor, Path 4). However, when the investor lacks fit and, hence, idiosyncratic knowledge about family firms, effective resource orchestration can only be achieved by introducing improvements in governance or operations (Paths 2b and 3a). Interestingly, our research results also show that favorable market conditions in themselves are not a sufficient driver of family-firm takeover success. Instead, all identified paths including favorable market conditions combine this condition with either firm-level improvement measures or an investor fit, indicating the need to actively manage resources in the acquired firms. As such, our research also informs ongoing discussions on resource orchestration, by highlighting how effective resource orchestration will depend on the overall setup. Thus, we challenge extant research on value creation in (former) family firms (Bloom et al., 2015) by indicating that the effectiveness of resource orchestration might not follow linear relationships; rather, it depends on the presence of certain patterns.

Moreover, extant research often assumes that financial investors “entirely overhaul” the acquired family firm and, hence, simultaneously introduce a broad set of changes to governance, strategy, and operations (Achleitner et al., 2010a; Achleitner & Figge, 2014; Bergström et al., 2007). Our research shows the opposite. In most successful cases, the financial investors engaged in only one set of measures. Only in case of unfavorable market environments do financial investors seem to have the urge to engage in two sets of measures, i.e., those related to strategy and governance (Path 2b). We argue that each of these three sets of measures requires unique resource-management skills and certain managerial effort dedicated to overseeing the changes. We propose that engaging in more and different measures would likely overstrain the resources of both the acquired family firm and the financial investor. Hence, the limited (financial and human) resources of financial investors (Bernile et al., 2007) as well as the family-firm idiosyncrasies that increase complexity (Chua et al., 1999)

might jointly favor a clear focus on one set of measures. Interestingly, we could not identify any cases in which investors solely focused on strategic improvements. Instead, they treated strategic improvements as necessary “add-ons” to governance measures, should market turbulence affect the acquired family firms (Path 2a). While we leave an elaborate investigation for further research, one might speculate that resource-orchestration adaptations might be easier and more effective (in the short- and mid-term) when focusing on governance and/or operations.

Last, we contribute to research on family-firm succession (Wiklund et al., 2013). Research highlights that family-firm-owner-managers prefer family-internal successors (Dehlen et al., 2014). Yet, research has increasingly started to investigate various external research routes, such as toward financial investors (Neckebrouck et al., 2019; Niedermeyer et al., 2010). The results of our research show that financial investors might be well equipped for adding and orchestrating resources, hence, increasing the value of the firm and leading to a financially advantageous succession. As such, our study informs research on external succession by showing that despite the often-mentioned tensions (Schickinger et al., 2018), financial investors can indeed create value in family firms.

Practical contributions

Our study has practical implications for both owner-managers of family firms and financial investors. Financial investors may be willing to pay higher prices for a family firm than for other established firms (Tao-Schuchardt et al., 2022), an attractive offer for family owner-managers. At the same time, however, financial investors’ offers present a dilemma to family-firm owner-managers, putting at risk the SEW the owner family has built up over many years. Our findings show financial investors’ dedication to substantially changing the resource orchestration of the family business, focusing particularly on its governance. That intention might be at odds with the business family having made all important (e.g., strategic, cultural) decisions for an extended period. Hence, the selling family must seriously consider what is important to its members, which might affect the choice of investor.

For instance, our results show that investors who are family offices might take a "softer" approach that preserves some family values and influences decisions regarding their post-takeover involvement (e.g., advisory-board functions).

Financial investors might learn from our study that it is indeed beneficial to focus on one specific improvement area instead of aiming to "pull too many levers" at the same time. Hence, financial investors should critically assess the availability of (financial and human) resources, to determine where to best allocate them in the acquired family firm and which improvement areas to tackle at a given point in time. Moreover, regarding governance implications, the findings of our study indicate the importance of ensuring that the owning family does not get in its own way after takeover. In particular, financial investors must be aware of potential conflicts (e.g., the family's SEW concerns), even if both financial investor and family align on the objective to pursue growth. Specifically, financial investors will be more willing to take risks and have shorter time horizons than the owning family. Hence, financial investors would do well to set up contracts in a way that allows them to quickly professionalize the family firm. Moreover, they should carefully investigate the market situation and investor fit before deciding to invest.

Policymakers should understand that preserving SEW might hinder family firms' opening up to external financing through bank loans or external equity. Our findings show that such investment can turn out positively. Hence, policymakers might consider ways to address family-business owners' concerns by enhancing their financial knowledge, including knowledge about the goals and working routines of financial investors. Additionally, political and societal discussions have largely neglected the significant role of alternative investors, such as family offices in private family-ownership transitions. Family offices often pursue goals that go beyond short-term financial optimization; these might be attractive buyers of family firms.

Limitations and directions for future research

This study has several limitations that open up interesting avenues for further research. First, our research used a small sample, based on qualitative interview data. Therefore, we recommend further large-scale analyses of the fsQCA membership calibrations. In particular, we cannot claim statistical generalizability, and scrutinizing our results requires further quantitative analysis. Second, we mainly interviewed investment professionals. However, we acknowledge that by doing so, we neglected the view of other parties with potentially diverging opinions (e.g., family members, employees). Therefore, further studies should investigate the perspectives of different stakeholder groups. Third, we focused on a German-speaking area. However, we acknowledge that diverse cultural backgrounds might lead to different views. Furthermore, the private-equity market in the United States is more mature than that of the analyzed market, thus, potentially incorporating a distinct perspective. We encourage fellow researchers to build on our insights and extend them by adding additional conditions (e.g., funding cycle, vintage of the fund). Fourth, our research focuses on financial investors; yet, in reality, the various types of investors include strategic ones that focus on control (e.g., over brand or technology) rather than aiming for financial-value maximization. Further research should include these investors in their analyses. Fifth, we do not differentiate between the different forms of takeovers (e.g., family involvement after sales; minority vs. majority investments of financial investors) and reasons for undertaking them (e.g., succession issues vs. turnaround need). However, we acknowledge that different forms and reasons for takeovers may lead to different outcomes. Therefore, we encourage fellow researchers to analyze these differences in more detail. Last, another limitation concerns our focus on financial success improvement rather than a broader definition of success, including non-financial considerations. Hence, future research should broaden the definition of takeover success, considering also different stakeholder groups (e.g., family, employees, community). In-depth case studies that involve the perspectives of multiple and different stakeholder groups might be most appropriate for such research endeavors.

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FIGURES AND TABLES

Figure 1: Theoretical framework

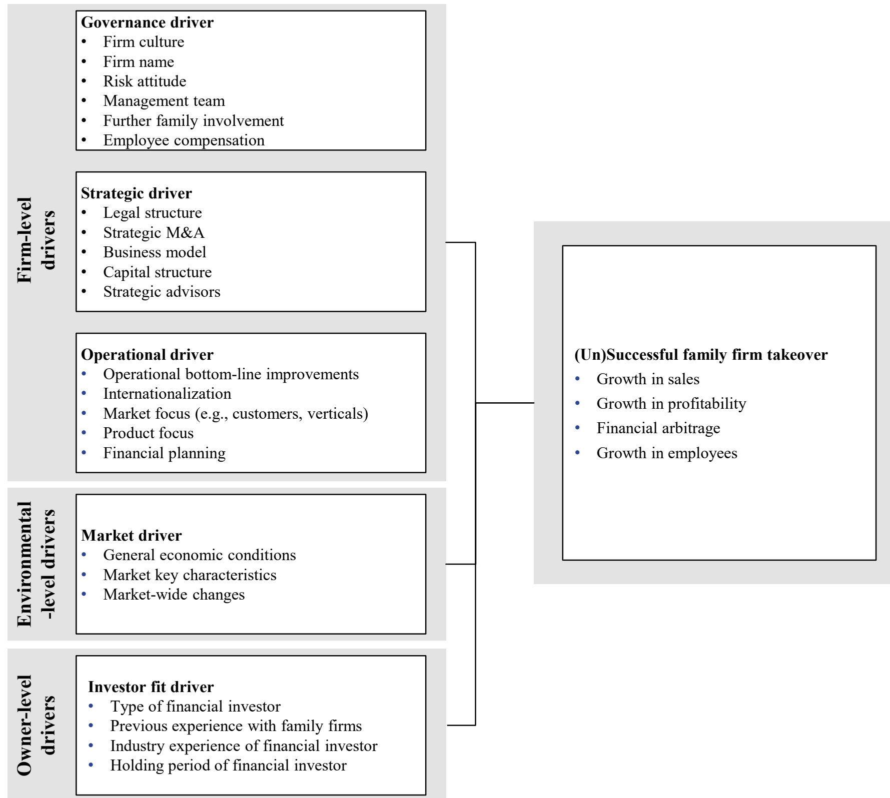

Figure 2: Model of how financial investors foster successful family firm takeovers

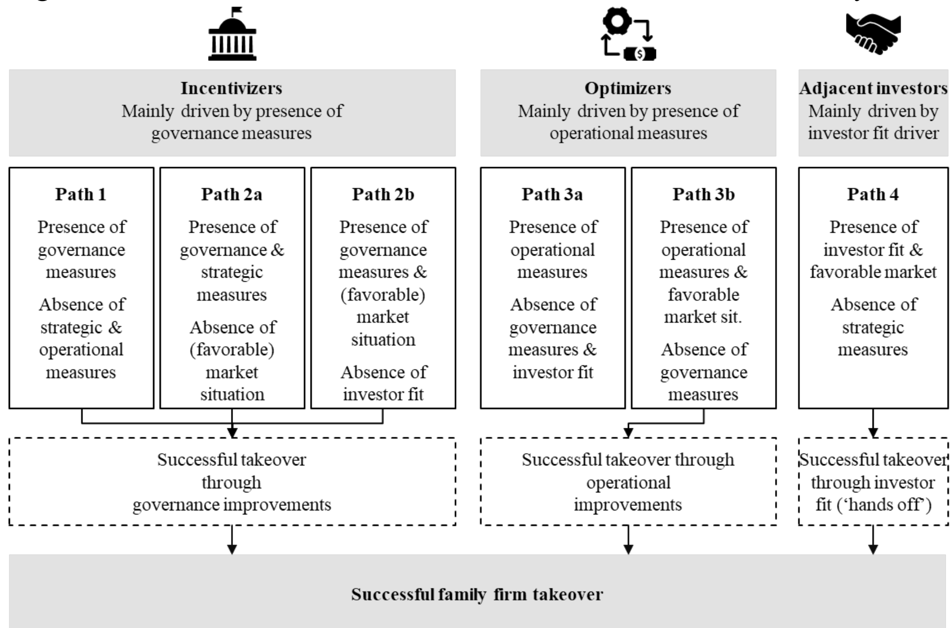

Table 1: Overview of participating interviewees (case interviews)

#	Interview type	Interviewee position	Type of firm	Target size	Degree of outcome[1]
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).

Table 2: Coding procedure and set membership calibrations.

Condition/ Outcome	Super-conditions/ Conditions	Definition and question	Coding scheme & set membership calibration	Key sources
Outcome	**Successful takeover**			
	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") to1.00 ("Strong increase in employees")	(Achleitner et al., 2010a; Bergström et al., 2007; Loos, 2007; Pindur, 2009)
Firm-level conditions	**Governance measures**			
	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, Howorth, Achleitner, & Schraml, 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)
	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 et al., 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)
Firm-level conditions	**Strategic measures**			
	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)
	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)

	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)
	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)
	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)
Firm-level conditions	**Operational measures**			
	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)
	International expansion	Is there any expansion of international sales pursued after the takeover?	0.00 ("No internationalization") to 1.00 ("Full-fledged internationalization")	(Loos, 2007; Pindur, 2009)
	Expansion of market	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 et al., 2011)
Environment-level conditions	**Market situation**			
	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)
Owner-level conditions	**Investor fit**			
	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)

Table 3: Truth table: Outcome “successful family firm takeover;” analysis of sufficient conditions at consistency >0.90 and frequency=1 (intermediate solution), PRI >0.6

	Incentivizers			**Optimizers**		**Adjacent investors**
	Path 1	Path 2a	Path 2b	Path 3a	Path 3b	Path 4
Governance measures	●	●	●	⊗	⊗	
Strategic measures	⊗	●				⊗
Operational measures	⊗			●	●	
Market situation		⊗	●		●	●
Investor fit			⊗	⊗		●
Number of cases[1]	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.

Table 4: 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: ✓ is placed in cases with identical solution paths. (✓) is set in patients with similar solution paths, i.e., one condition is included or excluded compared to the initial analysis.

Table 5: Robustness check (individual components)

	Incentivizers			Optimizers		Adjacent investors
	Path 1	Path 2a	Path 2b	Path 3a	Path 3b	Path 4
Growth in sales	✓	✓	✓	✓	✓	✓
Growth in profitability	(✓)	(✓)	(✓)	(✓)	(✓)	(✓)
Financial arbitrage		✓	✓	✓	✓	✓
Growth in employees	✓	(✓)	✓	✓	✓	✓

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

Appendix: Example of GMET sheet (one out of a total of 175)

Generic Membership Evaluation Template (GMET) for:	Family firm's success
Generic Membership Evaluation Template (GMET) Case number:	L
Membership in the set of:	Outcome

Dimensions	Context-specific description of dimension	Fuzzy-set value definition	Fuzzy-set Value	Direction on members
Outcome				
Growth in sales	Sales increased by 4x from initially EUR 20 M to currently EUR 80 M.	1.00 = Strong increase in sales 0.67 = Slight increase in sales 0.33 = Flat sales 0.00 = Decline in sales	1.0	Positive
Growth in profitability	Initial EBITDA margin of ~20%, dropped to ~15% due to a different product mix (e-bikes with significantly higher cost basis and hence lower margins).	1.00 = Strong increase in profitability 0.67 = Slight increase in profitability 0.33 = Flat profitability 0.00 = Decline in profitability	0.00	Negative
Financial arbitrage	Higher valuation possible, mainly due to more diversified sales and higher share of online sales.	1.00 = Strong increase in valuation 0.67 = Slight increase in valutaion 0.33 = Flat valuation 0.00 = Decline in valuation	0.67	Positive
Growth in employees	The number of employees increased slightly, however, slower than sales.	1.00 = Strong increase in employees 0.67 = Slight increase in employees 0.33 = Flat employees 0.00 = Decline in employees	0.67	Positive

Supporting qualitative data	
Set membership (negative / positive)	
Set membership (fuzzy values)	0,59
Consolidated set memberships	0,59
Reason for fuzzy-set attribution score	Mostly positive dimensions.

6-value fuzzy set	*Qualitative anchors: Meanings attached to fuzzy values* *1.0 = Overall intense and various positive dimensions with no or negligible negative dimensions* *0.8 = Intense or various positive dimensions with very few negative dimensions* *0.6 = Mostly positive dimensions with some (intense) negative dimensions* *0.4 = Mostly negative dimensions with some (intense) positive dimensions* *0.2 = Intense or various negative dimensions with very few positive dimensions* *0.0 = Overall intense and various negative dimensions with no or negligible positive dimensions*
4-value fuzzy set	*Qualitative anchors: Meanings attached to fuzzy values* *1.0 = Overall intense and various positive dimensions with no or negligible negative dimensions* *0.66 = Mostly positive dimensions with some (intense) negative dimensions* *0.33 = Mostly negative dimensions with some (intense) positive dimensions* *0.0 = Overall intense and various negative dimensions with no or negligible positive dimensions*