

MERGERS AND ACQUISITIONS — THE SPECIAL CASE OF GERMAN FAMILY FIRMS: RESEARCH NEEDS

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Abstract

Family firms represent the predominant business organization in Germany, accounting for 90% of all active companies. Despite the growing significance of family business research, mergers and acquisitions (M&A) involving these firms remain underexplored. This study addresses the unique characteristics and success factors pertinent to M&A transactions involving German family firms. By systematically reviewing the existing literature and conducting primary empirical research, this study aims to uncover specific success factors for these transactions. The findings will aid family businesses in navigating M&A activities to ensure long-term sustainability, especially in light of challenges such as business succession. Initial results suggest that family firms prioritize different values, such as socio-emotional wealth and sustainability, over purely financial indicators during M&A decisions. The study concludes with recommendations for future research to further elucidate these dynamics.

1. INTRODUCTION

The most prevalent business organization in the contemporary global economy is the family firm (De Massis & Rondi, 2020, p. 1727). Over the last decade, the significance of family business research has grown considerably (Rovelli et al., 2022, p. 1). Notably, family businesses are

particularly important in Germany. Indeed, 90% of all active companies in Germany are family businesses, as reported by the Foundation for Family Businesses in Germany and Europe (Gottschalk et al., 2019, p. 2). It can be seen that the overriding goal of family firms is to secure their existence. This encompasses both the need to maintain liquidity in the short term as well as achieving an appropriate and sustained level of profitability over the long term. To achieve this, management must add value and act with a view to targeting (effectiveness) and resource savings (efficiency) (Becker & Ulrich, 2019, p. 20).

In light of the rapidly evolving business environment, companies are compelled to undergo constant evolution to maintain their value-creating capacity. In particular, over the past 50 years, the corporate environment has become significantly more complex, volatile, and unpredictable. This differs both gradually and structurally from the environment of the 1970s, for example, due to factors such as globalization and digitalization (Koch, 2017, p. 7; Prodoehl, 2019, p. 15). As a consequence of the enhanced access to information regarding consumer demand, it has become increasingly important to identify and satisfy specific customer requirements to generate value (Becker et al., 2016, p. 98). This can be achieved in two ways: organically through novel business models (Schumpeter, 1987, p. 100) and inorganically through mergers and acquisitions (Henke, 2015, p. 48). Mergers and acquisitions (M&A) describe transactions in which companies or parts thereof are sold or acquired, and are characterized by a change in the ownership of equity (Lucks & Meckl, 2015, p. 5).

2. THEORETICAL BACKGROUND

The year 2021 saw a remarkable surge in M&A activities, with a total of 57,94 transactions recorded globally, representing an investment of approximately USD 5.218 trillion (Institute for Mergers, Acquisitions & Alliances, 2023b). Additionally, a substantial number of transactions were conducted in Germany during this same period, though the nation ranked second in absolute transactions, after 2018 (Institute for Mergers, Acquisitions & Alliances, 2023a). These transactions encompassed 3,267 transactions with a total volume of EUR 221.943 billion (Institute for Mergers, Acquisitions & Alliances, 2023b). Notwithstanding the substantial number of family businesses, transactions involving medium-sized family businesses receive minimal attention in the media and research. Thus far, no specific success factors for M&A transactions involving medium-sized family businesses have been researched (Becker et al., 2016, p. 17). As family businesses possess a fundamentally distinct set of values compared to non-family businesses (Becker & Ulrich, 2008, p. 265), it is plausible that additional success factors are more pertinent for M&A transactions than for large, capital market-focused enterprises.

Moreover, there is no discernible distinction between family and non-family businesses. Furthermore, there is a dearth of empirical evidence investigating how the aforementioned distinctive values of family businesses affect the success factors in M&A transactions in comparison to non-family businesses. It is, for example, conceivable that family businesses may attach relatively low importance to financial indicators in acquisition decisions due to socio-emotional wealth. This may, in turn, result in a prioritization of other aspects, such as sustainability, over these indicators. This leads us to the following research questions:

RQ1: What are the special characteristics of M&A transactions involving family businesses as opposed to non-family businesses?

RQ2: What are the specific success factors for M&A transactions involving German family businesses?

3. FURTHER RESEARCH METHODOLOGY

Firstly, it is necessary to conduct a systematic literature review. A multi-step process was chosen for the systematic literature review. Beginning, the framework was defined from the databases (WISO, JSTOR, EBSCO, EconBiz, Scopus) used, the filter (Academic Journals, Peer reviewed), and the keyword search. To reflect the state of the very specific literature, a systematic literature review (SLR) was selected as the method. This is following the guidance set forth by Tranfield et al. (2003, p. 207) and Wohlin (2014, p. 3). The planned filtering process is described below:

Figure 1. The planned filtering process



- 1) Initial research in selected databases using search term permutations;
- 2) Filtering for duplicates;
- 3) Filtering by language (German & English);
- 4) Filtering according to VHB-JOURQUAL;
- 5) Check the title for thematic relevance;
- 6) Check the abstract for thematic relevance;
- 7) Analysis of the full paper;
- 8) Snowballing.

Following the completion of the systematic literature analysis, a number of hypotheses will be derived, which will then be subjected to testing using primary empirical data. The research will adopt a quantitative approach, with qualitative aspects incorporated through a triangulation process (Döring & Bortz, 2016, p. 348).

The study is still at an early stage, although an initial unstructured literature review has demonstrated the high relevance of the subject matter (see introduction and theoretical background). As part of

the ongoing systematic literature analysis, the most suitable databases have already been identified, and search terms have been defined, including permutations of the terms “mergers”, “acquisitions” (German/English), and “family” (German/English) and the initial search has been conducted within the databases (step 1).

Table 1. Systematic literature review

Database	Permutation 1	Results	Permutation 2	Results	Permutation 3	Results	Permutation 4	Results
WISO	Merger* Family*	1	Acquis.*Family*	10	Merger* Familie*	18311	Acquis.* Familie*	18
JSTOR	Merger* Family*	15	Acquis.*Family*	143	Merger* Familie*	4	Acquis.* Familie*	0
EBSCO	Merger* Family*	17005	Acquis.*Family*	69664	Merger* Familie*	1935	Acquis.* Familie*	17
EconBiz	Merger* Family*	1870	Acquis.*Family*	3347	Merger* Familie*	977	Acquis.* Familie*	254
Scopus	Merger* Family*	908	Acquis.*Family*	14218	Merger* Familie*	256	Acquis.* Familie*	0

Note: * Placeholder.

4. DISCUSSION

It appears that family businesses are frequently reluctant to pursue inorganic growth through the acquisition of other companies. This may be due to a lack of expertise and a reluctance to pay for expensive external advice. This research aims to identify practical success factors for company acquisitions that can be applied by family businesses in a low-threshold manner to secure their long-term existence by supporting inorganic growth. The research examines the success factors on the buyer’s side when family businesses realize an acquisition to ensure the continued existence of the family business. It should be noted, however, that business succession is an urgent issue for 190,000 German family businesses (a rising trend) in the period 2022–2026 (Institut für Mittelstandsforschung Bonn, 2021). In particular, this is because only 0.8% of the children of entrepreneurs in Germany can envisage taking over the family business directly after graduation (4.2% would take it over 5 years after graduation) (Ernst & Young, 2015, p. 7). In light of the aforementioned circumstances, it is imperative to consider the possibility of selling the family business to safeguard the company’s continued existence, if no successor is available.

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