PRIVATE EQUITY INVESTORS AND FAMILY FIRMS: THE ROLE OF EXIT INTENTIONS AND CONFLICTS

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Abstract

This study examines private equity minority investors' exit from family firms and its consequences for owner families. The authors theoretically discuss potential conflicts that might influence the exit decision, alternative exit routes, and the intentions of the family owners to exit the business along with the private equity investors. Subsequently, the theoretical insights were tested empirically using a case-based research approach. Four private equity firms provided data on 14 cases of completed minority private equity investments from Germany. Semi-structured interviews with investment managers offered further information regarding the analysed cases. Empirical findings reveal that conflicts of interest over the exit of private equity minority investors only rarely arise. Moreover, differences between planned and applied exit routes are mainly caused by changes in the economic situation of the company and/or in the conditions of financial markets and are related to changes in family owners' exit intentions.

Keywords: Family-Owned Businesses, Private Equity Investors, Minority Investments, Exit Routes, Owner-Owner Conflicts

1. INTRODUCTION

Private equity investments represent a viable funding alternative for family-owned firms. This is particularly applicable to family businesses that face significant problems or corporate changes, such as buyouts of co-owners, succession, or turnaround issues (Achleitner, Schraml & Tappeiner, 2011). Family firms in situations of financial distress are especially likely to want to access external equity to safeguard their firms' existence (Croce & Martí, 2016). However, other studies indicate that family firm owners are sceptical of private equity investors and are reluctant to get involved with them (Poutziouris, 2001; Seet, Graves, Hadji, Schnackenberg & Gustafson, 2010). According to Poech, Achleitner and Burger-Calderon (2005), such psychological barriers often result from prejudices and conflicting mentalities. For instance, the fear of losing control over the company often affects the intention to use private equity.

Against this backdrop, scholars have suggested minority investment as a reasonable compromise (Achleitner et al., 2011; Tappeiner, Howorth, Achleitner & Schraml, 2012). Such investment balances the benefits of needed financial resources and the desired maintenance of control. Moreover, investors might also provide required non-financial resources, such as advice in decision making or management support (Achleitner et al., 2011; Tappeiner et al., 2012). A recent study conducted by the German Private Equity Association (BVK, 2015) reveals that 24% of all private equity investments in Germany between 2006 and 2011 were either minority investment or expansion financing. This highlights the relevance of minority investment in practice, although it represents a small number of cases.

Academic research regarding the interaction of private equity investors and family firms is still in its early stage, and only fragments of this complex phenomenon have been investigated so far, such as the decision-making criteria used by investors (Upton & Petty, 2000; Dawson, 2011) and the role of trust (Poech & Peisl, 2012). Furthermore, some scholars have dealt with buyouts as an alternative

way of exit or succession (Howorth, Westhead & Wright, 2004; Scholes, Wright, Westhead, Burrows & Bruininget, 2007; Scholes, Westhead & Burrows, 2008; Di Toma & Montanari, 2012). The influence of private equity investors on the performance of the (former) family firms, e.g. in terms of growth rates or value creation, is another example of the aspects examined in the existing literature (Wennberg, Wiklund, Hellerstedt & Nordqvist, 2011; Martí, Menéndez-Requejo & Rottke, 2013; Ahlers Hack & Kellermanns, 2014; Croce & Martí, 2016). The mentioned examples hint at the necessity for further research. For instance, almost all existing studies focus on majority investments, such as management buyouts or buyins.

The extant literature contains only four studies that focus on minority investments. The first one is an explorative study analysing the suitability of minority investments by private equity companies in the context of family firms (Achleitner et al., 2011). Using a qualitative approach, the authors carried out 47 semi-structured interviews with family firm owners, non-family managers of family firms, managers of private equity firms, and related advisors. The interviews focused on four areas – the motivation for minority investments, the initiation as well as the contractual design of such an investment, and the impact on the family firm. The overall results show a good suitability of minority investments as a funding alternative for family-owned businesses. Those authors saw growth challenges and changes in the group of shareholders as appropriate financing occasions.

The second study investigated the legal aspects of minority investments in privately held family firms in order to explore the possibilities and limitations of legal tools that help minority investors to secure their interests and influence and to prevent opportunistic behaviour of controlling family owners (Söding, 2012). This legal analysis concentrated on voice-related rights and access to information. Finally, the findings of the theoretical analysis were reflected in an in-depth single-case study.

The third study employed the approach of a qualitative case study to identify the effects on family firm owners' decision-making to seek private equity financing (Tappeiner et al., 2012). As many as 21 cases where German family firms have taken on external minority investors were examined. Furthermore, the case study data for each case was backed by semi-structured interviews and a search for public secondary data. The analysis was guided by the pecking-order hypothesis, which states that external equity is the least preferred source of funding (Myers & Majluf, 1984), while empirical findings also reveal that family firms tend to behave as predicted by this theory (Romano, Tanewski & Smyrnios, 2001; Lappalainen & Niskanen, 2013). However, as Tappeiner et al. (2012) showed, private equity minority investments were not seen as a funding source of last resort, and the additional non-financial benefits of external investors were especially valued by owners of family firms.

The fourth, a quantitative study by Martí et al. (2013), analysed 644 Spanish family and non-family firms that received equity from external investors in order to compare the growth rates after the initial investment. The analysis further distinguished between the minority and majority stakes of the investors. The results showed lower growth rates of family firms only when the investor was a minority shareholder. According to those authors, this can be explained by "the inability of venture capital managers to change the management culture when the majority shareholders belong to a family group" (Martí et al., 2013, p. 429).

Overall, the studies presented indicate a lack of sufficient research concerning minority investments. The existing studies focus either on the pre-investment or on the investment phase. To date, no study has comprehensively investigated the post-investment phase (Thiele, 2017). Moreover, there are various exit routes, which have different consequences for the owner families. The implications range from returning to be the sole owners again to selling the firm together with the investor and thus exiting the firm as well. On the whole, this study aims to examine the private equity investor's exit from the portfolio firm and the exit-related consequences for family firm owners. Therefore, the study answers the following research questions:

1) Does the private equity investor's exit lead to conflicts with the majority family shareholder(s)?

2) What influence does the investor's exit have on the ownership decisions of owner families?

This article will advance the understanding of the interaction between private equity investors and family firms, as it contributes to the development of this field of research by taking up two aspects underrepresented by the current body of knowledge. First, we focus on minority investments of private equity firms and pay special attention to the role of conflicts between investors and family owners. A minority investment requires the investor to understand the goals, risk attitudes, and other characteristics of the controlling family. This might lead to conflicts between both parties. Second, we take the unexplored topic of investor exit into account. From an investor's perspective, a significant part of their return is realized through exits. Thus, this part of the investment process is particularly important both to them and to their portfolio firms, as there are several exit routes.

Our contribution lies in providing a theoretical discussion of both aspects in a first step and an empirical testing in a second step. The empirical findings are drawn from a case-based research approach with 14 analysed cases and six additional interviews that provide further insights into all cases. In particular, the present data on completed minority investments add value to this article and are of high relevance for scholars and practitioners.

The remainder of the article is structured as follows. The conceptual framework is presented next, as minority investments and exits are discussed theoretically. This is followed by a discussion of the applied methodology and an overview of the case studies. The data analysis follows afterwards. Subsequently, the findings are discussed, and key propositions derived. The article concludes with the implications of this study for theory and practice.

2. THEORETICAL FOUNDATIONS

2.1. Minority investments and potential conflicts

Existing empirical evidence suggests that private equity-backed companies generally show positive performance in terms of sales, profitability, and productivity (cf. BVK, 2015; for a comprehensive overview, see also Wright, Gilligan & Amess, 2009). In order to achieve such effects, private equity firms need to exert influence, for instance, to facilitate organizational or managerial changes in their portfolio companies. However, in case of minority investments, this can be questioned, as the majority shareholder might be reluctant to accept changes (Martí et al., 2013). Moreover, Stubner, Wulf, Landau and Gietl (2013) indicate that, when applied to family businesses as target companies, the above-mentioned approaches of private equity investors might have negative effects. This is because management teams of family firms often possess firm-specific resources and capabilities, and thus managerial changes are likely to cause an adverse impact (Chrisman, Chua & Sharma, 2005). Against this backdrop, the involvement of private equity minority investors in family-owned businesses might lead to conflicts between the two ownership parties, as the investor could not behave as in any other investee firm.

We argue that there are multiple reasons for conflicts. To begin with, private equity firms act on a different timetable compared to family-owned businesses. They collect their capital resources from outside investors (e.g., institutional investors such as insurance companies or pension funds) by using fund structures with fixed maturities (Achleitner, Betzer & Gider, 2010; Mietzner, Schweizer & Tyrell, 2011). The ability to raise future funds, and thus the long-term survival of the private equity firm, depends on the track record (Metrick & Yasuda, 2010). Therefore, private equity investors are interested in maximizing the value of their portfolio firms within a few years so as to provide a high rate of return to their own investors (Metrick & Yasuda, 2010; Braun, Zacharias & Latham, 2011; Mietzner & Schweizer, 2014). In contrast, the corporate culture of family firms is characterized by dynastic thinking across generations and a long-term perspective on decision making (Chua, Chrisman & Sharma, 1999; James, 1999; Chrisman, Chua, Pearson & Barnett, 2012). Keeping this in mind, it can be assumed that a private equity minority investor will prefer other strategic choices than dealing with controlling family owners (Prym, 2011).

Differences in risk attitudes can be another reason for conflicts (Braun et al., 2011). Most often, the business is the main source of income for the owner family. Thus, their wealth is largely tied to one asset (Bianco, Bontempi, Golinelli & Parigi, 2013). Consequently, family-owned businesses tend to be more risk-averse. In contrast, private equity firms often pursue portfolio diversification and invest in different target companies. Moreover, institutional investors, as the private equity firms' capital providers, also follow a diversification strategy and invest in multiple funds. Therefore, private equity firms are capable of taking higher risks regarding each investee firm, for example in terms of higher leverage (Braun et al., 2011). It can be anticipated that the attitude of risk aversion of family firms might hinder riskier strategies, which private equity investors normally use to enhance the portfolio companies' business and to create value within a predetermined timeframe (Martí et al., 2013). For this reason, the risk attitude of the two parties involved can lead to conflicts about the strategic orientation of the family firm.

Another reason for conflicts is related to differences regarding goals. As stated above, private equity investors aim at high returns in a short period of time in order to improve their ability to raise future funds on more favourable terms (Metrick & Yasuda, 2010). Thus, we anticipate that financial performance indicators and economic goals mainly drive their actions (Braun et al., 2011). This is also underscored by the fact that the remuneration of investment managers is also performance-oriented (Achleitner et al., 2010; Metrick & Yasuda, 2010). In contrast, family-owned businesses pursue not only economic but also non-economic goals (Braun et al., 2011; Chrisman et al., 2012). Among other things, this can be explained by the socioemotional wealth approach (Gómez-Mejia, Takács Haynes, Núnez-Nickel, Jacobson & Moyano-Fuentes, 2007). This approach "suggests that family firms are typically motivated by, and committed to, the preservation of their socioemotional wealth, referring to non-financial aspects…of family owners" (Berrone, Cruz & Gómez-Mejia, 2012, p. 259). In this regard, family members strongly identify with and experience an emotional attachment to the firm. As a result, family firm owners place greater emphasis on non-financial aspects, such as reputation or good relationships with customers, suppliers, employees, and their local community, and are willing to accept performance losses in return for those aspects (Gómez-Mejía et al., 2007; Berrone et al., 2012).

The reasons described for potential conflicts are especially prevalent when the private equity investor owns only a minority stake. This can be underlined by insights from agency theory. The second type of agency problem sheds light on owner–owner relationships. There may be conflicts between majority and minority shareholders if their interests are not aligned (Villalonga & Amit, 2006; Söding, 2012; Villalonga, Amit, Trujillo & Guzman, 2015). According to the theory, control is "vested to the majority shareholder, who controls decision making either directly by holding executive management positions or indirectly by appointing the…executive management" (Söding, 2012, p. 49). Thus, controlling shareholders can enforce their interests or risk preferences, and private equity minority owners may have difficulty implementing their intended measures.

Moreover, the controlling shareholder may use its position to extract benefits at the expense of the non-controlling one (Villalonga & Amit, 2006; Villalonga et al., 2015). Such an expropriation of wealth to the detriment of minority owners can take various forms – nepotism (e.g. excessive compensation of family members or high-remunerated loans provided by family members), beneficial transfer prices, and the transfer of assets or profits to other self-owned companies (Johnson,

La Porta, Lopez-de-Silanes & Shleifer, 2000; Goergen, 2012; Martí et al., 2013; Villalonga et al., 2015). Infighting, which is represented by conflicts between fractions of the majority owner, can also harm the minority stake owner (Goergen, 2012). Besides, information asymmetries can occur, as the majority owner is either directly involved in the management team or has a long-lasting and loyal relationship with the top management. Considering this, agency costs increase, as the minority owner has to allocate more resources to monitor and evaluate the management and firm performance in order to compensate for the lack of information. This, in turn, has a negative impact on the value of the investment and makes an exit even more difficult (Söding, 2012).

In principle, the reasons presented and theoretical assumptions can lead to conflicts between family owners and private equity investors throughout their collaboration. In the end, however, all of these conflicts are related to the intended exit of an investor, as they have a strong impact on the selling price. Choosing a strategy that will pay off in a few years or one that will maximize value in the short term has a direct impact on the sale price. The same applies to the above-mentioned risk preferences or to pursuing non-financial goals that diminish the realized profit. The extraction of assets at the expense of minority owners, conflicts between fractions of the owner family, and increased agency costs also reduce the achievable selling price. Thus, we hypothesize that conflicts of interest will arise over the intended exit of the private equity minority investor.

2.2. Exit routes

The intended exit of a private equity investor can take place in different ways. The present article discusses five common exit routes that private equity investors may consider (Prym, 2011). The first one is a *buyback* exit, in which the investor sells the shares to fellow shareholders (family members) or to the family firm (Cumming & MacIntosh, 2003). Such a transfer of shares is based on a contractual agreement that provides put (exercised by the investor) or call options (exercised by family owners) (Söding, 2012). The objective of a buyback is to continue without the involvement of an external investor.

The second exit route, an *initial public offering* (IPO), also enables the family owners to remain in control of the firm. The company will be listed on stock exchanges and the investor will typically sell shares into the market during the following months. Thus, this route is characterized by a stepwise exit (Cumming & MacIntosh, 2003). The family owners can decide to sell (parts of) their shares to the public as well, to keep their shares, or even to acquire additional shares through the market. Generally, private equity investors prefer IPOs, as they offer a high valuation. Nevertheless, such an exit is also complex, expensive, and riskier due to exposure to economic downturns and other changes in the financial markets (DeTienne and Cardon, 2012; Söding, 2012).

A sale to a third party is often related to larger changes for the owner family. Selling a minority stake is typically more difficult and valued at a lower price level than offering a majority stake or the whole business, which includes a price premium for acquiring control. Therefore, private equity investors often want to negotiate tag-along (right to join a sale opportunity presented to the majority shareholder) or drag-along rights (right to initiate a sale of one's own shares and those of fellow shareholders) (Söding, 2012).

Existing studies differentiate among three exit routes in the context of a sale to a third party. On the one hand, a *trade sale* involves selling the entire company to a strategic buyer. The acquirer is often interested in buying competitors or suppliers in order to merge them with its own corporations (Cumming & MacIntosh, 2003). To conduct such a trade sale, tag-along or drag-along rights will be employed. From the sellers' perspective, this exit route is also desirable because a strategic acquirer will normally be willing to pay a price premium. On the other hand, a sale to a third party can take place in the form of a *secondary buyout*. According to Cumming and MacIntosh (2003), this exit route differs from a trade sale because only the shares of the investor will be sold to another financial investor. The fellow shareholders will retain their investment. However, practice suggests that buyouts can also be related to selling the entire business, for instance, if no strategic buyer is available and both the investor and the owner family are willing to exit the firm. In such a context, *management buyouts* (MBO) can be an alternative route of exit. The incumbent (non-family) management of the portfolio firm buys the shares either on its own or with the help of a financial investor.

We assume that both parties, upon investment, have a mutual and contractual agreement about important aspects, such as the companies' development and the preferred route of exit (Prym, 2011). This assumption can be defended by the argument that, had there been no agreement, the two parties would not have entered the partnership due to the high level of uncertainty. However, during the investment, the above-mentioned differences might cause conflicts between majority family owners and minority private equity investors. For instance, conflicts of interest hinder the application of a riskier growth strategy or prevent family members from extracting private benefits at the expense of the investor. This might leave the minority investor unsatisfied with the level of value maximization. Considering this, we argue that the investor will prefer a different exit route from the planned one whenever the new route enables a higher exit return.

Furthermore, other conflicts can occur, leading to a change in the intended exit route. For example, family firm owners tend to add an emotional value to the actual financial value of the firm (Zellweger & Astrachan, 2008). Thus, an agreement on the sale price between both the owners and a strategic buyer, for instance, gets more complicated and chances of a successful exit diminish. Against this backdrop, a change in the exit route might be necessary, as a buyback, for example, might be more promising. All in all, based on the examples shown, we hypothesize that changes in the exit route are a consequence of conflicts between family owners and private equity investors.

2.3. Family exits

The exit routes presented partly include the exit of the family owners. Typically, the owner family members will decide, at the start of the partnership, whether or not to exit the firm along with the minority investor. Nevertheless, as the time of exit moves closer, they might reconsider or modify their prior commitment (cf. DeTienne, 2010). Studies dealing with exit intentions of investors and owner families and how these intentions are influenced by the interaction of both are scarce. The study of Collewaert (2012) is a first attempt at investigating this topic by examining the exit intentions of angel investors and entrepreneurs in young ventures. The residual literature largely discusses the topic of exits in an isolated manner. Cumming and MacIntosh (2003) and Cumming (2008), for instance, examine exits in the private equity industry. Other scholars focus exclusively on entrepreneurial exits (e.g., DeTienne, 2010; Wennberg, Wiklund, DeTienne & Cardon, 2010; Dehlen, Zellweger, Kammerlander & Halter, 2014; Wennberg & DeTienne, 2014). According to Dyer and Handler (1994), entrepreneurial firms and family businesses share some similarities. Therefore, a few scholars also applied insights from entrepreneurial exits to the context of family firms (e.g., DeTienne & Chirico, 2013; Kreer, Mauer, Limbach & Brettel, 2015).

In general, this article focuses on voluntary exit decisions at the ownership level, thus excluding exits at the firm level which are derived, for example, from bankruptcy. Such an intentional exit is defined as a process whereby founders (or owners) remove themselves from the ownership and decision-making structures of their businesses (DeTienne, 2010; DeTienne & Chirico, 2013). This can take place in various forms. So far, family business scholars have mainly investigated family succession as a form of the voluntary exit of current owners (DeTienne & Chirico, 2013). This can be underlined by the results of Dehlen et al. (2014), who reveal that intra-family transfers of ownership are the preferred strategy. However, family succession is only one of many exit strategies, and the involvement of private equity minority investors, in particular, increases the relevance of other external exit routes. Additionally, family owners might also choose an external transfer of ownership when they aim for a harvest sale (e.g. trade sale or IPO) or feel that someone else is better equipped to steer business growth (DeTienne, 2010; Wennberg et al., 2010; Wennberg et al., 2011).

Furthermore, empirical evidence suggests additional factors that affect the willingness of family owners to follow an external exit route. Dehlen et al. (2014) show an increased probability for an external transfer when the level of education or work experience of a potential successor is low. Wennberg et al. (2010) observe that two factors – the entrepreneurs' experience and age – enhance the likelihood of a harvest sale. This is also confirmed by DeTienne and Cardon (2012). Kreer et al. (2015) reveal that personal and professional networks have a considerable influence on the decision to sell the firm externally. The authors argue that the sale of a business is a once-in-a-lifetime event and thus decision makers will appreciate advice or feedback from their networks and especially from involved family members.

DeTienne and Chirico (2013) anticipate two more factors as having an influence on the sale of a business. First, socioemotional wealth plays a key role in this context. The authors argue that a high level of socioemotional wealth, such as a high identification with the family business, will have a negative impact on the willingness to sell the business externally. Second, the generation of ownership has an influence on the decision. Gómez-Mejía et al. (2007) state that the socioemotional wealth effect will decrease in family businesses owned by later generations. Therefore, DeTienne and Chirico (2013) claim that later generations in control will prefer an external exit route. According to Wennberg and DeTienne (2014), the feasibility of an exit by selling the firm also depends on macroeconomic conditions and the availability of a good acquirer. Thus, economic downturns or other changes in environmental circumstances may also influence the exit decision and thus need to be considered.

We assume that the factors presented that affect the exit decision will also hold true for family firm owners in the context of private equity investor involvement. We argue that these aspects influence the evaluation of possible exit routes on which the family owners reach an agreement with the investors at the outset. However, as the investor exit moves closer and becomes more predictable, the planned exit route may not be feasible, and an alternative route may become necessary. In this case, the family will revise their decision and might change their previous opinion. We expect the above-mentioned factors to be applied in the revised evaluation of alternative exit strategies and predict two possible outcomes: Scenario 1) The family owners, at first, have agreed to exit the company along with the private equity investor and withdraw their commitment during the process of evaluating alternative exit routes. Scenario 2) The owner family has initially decided to retain the controlling stake of the company, but finally amends this decision and joins the exiting investor. As a result, we hypothesize that changes in the exit route are related to changes in the family exit intentions, as predicted by Scenarios 1 and 2.

3. METHODOLOGY AND DATA

The empirical part is based on an analysis of interviews with, and additional information provided by, private equity firms that both entered and exited minority investments in family firms. Market research yielded 24 private equity companies with such a profile in northern Germany. Although all of these companies were contacted, only four (17%) were willing to participate in the study. Interviews were conducted with six high-ranking investment managers who were responsible for minority investments in family firms to be the analysed. Thus, at two private equity firms, two different managers provided cases and additional information. The interview partners provided in-depth knowledge on 14 cases of already disinvested

minority investments in family-owned businesses. The cases were distributed across the four private equity firms in the following manner: five, four, four, and one case(s).

Interviews were done preferably face to face (four interviews) or by telephone (two interviews). They lasted between 30 and 45 minutes and were recorded. The interviews were conducted as semi-structured interviews. The interview guidelines were sent to the interviewees in advance. They covered questions regarding the initial exit channel chosen when the private equity firm entered the family business, questions related to the exit channel actually applied, and questions regarding potential divergence of views and conflicts of interest between both parties. In addition, the interviewees were asked to fill out a spreadsheet with corporate and investment data about the portfolio companies. This adds another kind of primary data to the research, supplementing the interviews. Moreover, filling out the spreadsheets beforehand refreshed the memories of the interview partners, thus enhancing the quality of the interviews. An unstructured part complemented the structured part of the interviews to profit from the interviewees' experience as much as possible.

Following proven standards, the interview transcripts and additional case information were explored by all three authors, first separately and independently, and then jointly (cf. Tappeiner et al., 2012). Coding groups of words into categories reduced the primary data from the spreadsheets and the interviews. Such categories included, among other things, the private situation of the family owner, the situation of the company, and conditions of capital markets.

Table 1 provides some orientation with regard to the characteristics of the portfolio companies. The European Commission defines a business as family-owned if a founder or acquirer, and/or his/her family or successor, respectively, owns at least 25% of the share capital (in case of a listed firm), whereas for a non-listed company the threshold 50 + x % is set (European Commission, 2009, pp. 8–10). According to this definition, most of the analysed companies (10) were fully family-owned before the investor entered. Moreover, in ten cases, there were family shareholders who were not part of the family firm's management, including the single case with no family involvement in management at all. Apart from those mostly uniform features, family business characteristics were quite diverse in terms of company age, ranging from 15 to 95 years, and size, i.e. with a minimum and maximum headcount of 40 and 650 employees, respectively. Thus, although far from being representative, the pool of cases is quite rich and varied. This also applies to the size of the private equity company's stake that varies from 6% to 49%, and the length of the investment period, with 2 and 14 years being the extreme.

Table 1. Basic case description

Company	*Company Characteristics*			*Family*		*PE Company*			
	Age (Years)	*Revenue (Mill. €)*	*Employees*	*Family Equity Stake*	*of which Owned by Managing Family Members*	*Equity Stake*	*Entry*	*Exit*	*Duration of Investment (Years)*
A	65	28	135	94%	84%	6%	2011	2013	2
B	47	25	80	51%	33%	49%	1998	2012	14
C	24	15	200	85%	85%	15%	2002	2010	8
D	67	14	65	60%	60%	40%	2005	2009	4
E	62	100	500	75%	0%	25%	2002	2013	11
F	43	-	270	51%	14%	35%	2004	2007	3
G	32	190	650	60%	20%	10%	2010	2013	3
H	16	15	40	94%	94%	6%	2004	2009	5
I	95	210	400	75%	10%	9%	2004	2013	9
J	20	30	100	74%	60%	26%	2007	2013	6
K	15	14	60	52%	18%	32%	2007	2014	7
L	15	100	130	74%	65%	26%	2007	2013	6
M	15	50	100	72%	60%	28%	2008	2014	6
N	54	320	500	80%	80%	20%	2007	2009	2
Mean	41	85	231	71%	49%	23%	-	-	6
Median	38	30	133	74%	60%	26%	-	-	6
Maximum	95	320	650	94%	94%	49%	-	-	14
Minimum	15	14	40	51%	0%	6%	-	-	2

Notes: The abbreviation PE in this and all subsequent tables refers to the term private equity. The abbreviation FOB refers to the term family-owned business.

4. ANALYSIS

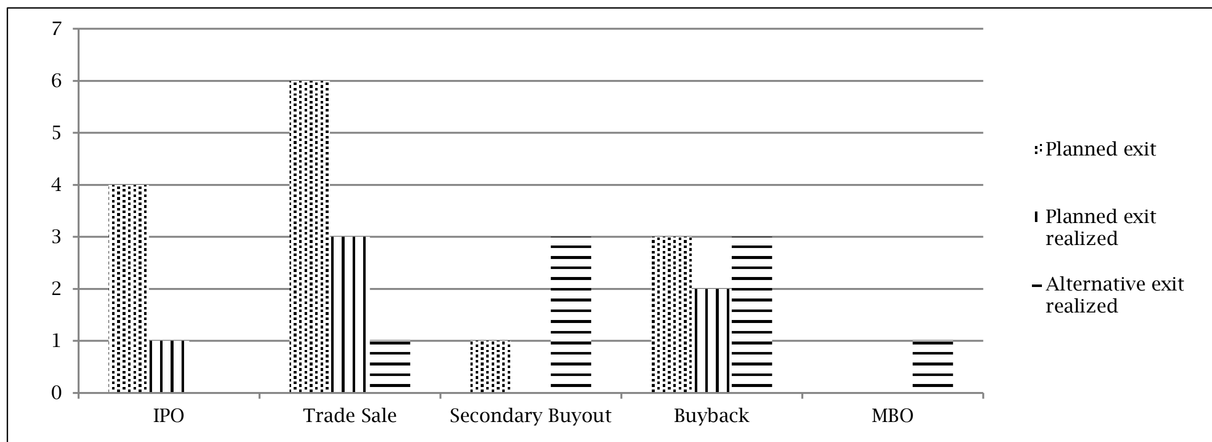
As shown in Table 2, there is a variety of reasons why the owning families made a private equity investor a shareholder in the business. In five cases, the private equity firms' involvement was intended to finance the family firm's growth opportunities, whereas two times intra-family share transactions were the trigger. Besides, several family owners also selected an external investor as a partner for a family exit. That means that owner families who intended a complete or at least substantial sale of their ownership shares, due to intra-family quarrels or lack of a family successor, searched for a partner who would support and prepare the exit process. In some cases, this was also associated with a prior and joint investment in growth opportunities.

Table 2. Entry and exit of the private equity company

Company	*Equity Stake PE Company*	*Family's Initial Intention on the PE Company's Entry*	*Planned Exit Channel*	*Applied Exit Channel*
A	6%	Interim financing of a family member's exit; no exit intention of the buying family member.	Buyback	Buyback
B	49%	PE company as a partner for an IPO; complete family exit intended.	IPO	Buyback
C	15%	PE company supports growth financing; no permanent non-family shareholder intended.	Buyback	Buyback
D	40%	PE company supports growth financing to prepare FOB for complete sale (no successor in the family).	Trade Sale	Trade Sale
E	25%	Interim financing of all other family members' exit; no exit intention of the buying family member.	Buyback	Trade Sale
F	35%	PE company supports growth financing to prepare FOB for complete sale. The family intends to exit due to intra-family quarrels.	Secondary Buyout	Buyback
G	10%	PE company as a partner for an IPO to implement a growth strategy; complete family exit intended.	IPO	Secondary Buyout
H	6%	PE company as a partner for an IPO as the best option to finance the FOB's very favourable growth opportunities; unknown, whether family intended complete exit.	IPO	IPO
I	9%	PE company as a partner to prepare the company for a trade sale and to find a good new owner for the company; complete family exit intended.	Trade Sale	Trade Sale
J	26%	PE company as a partner to prepare the company for a trade sale; complete family exit intended.	Trade Sale	Secondary Buyout
K	32%	PE company as a partner to sell the company as the family left management, thus having changed from family-managed to merely family-owned; complete family exit intended.	Trade Sale	MBO
L	26%	PE company as a partner to prepare the company for a sale and to find a good new owner for the company (no successor in the family); complete family exit intended.	Trade Sale	Secondary Buyout
M	28%	PE company as a partner to prepare the company for a sale; complete family exit intended.	Trade Sale	Trade Sale
N	20%	PE company as a partner for an IPO; no family exit intended.	IPO	Buyback

As exit is this article's key issue, Figure 1 displays planned and actually applied exit channels in a clearer manner. There are five different exit channels: IPO, trade sale, secondary buyout, buyback, and MBO. In fewer than half the cases (42.8%), the originally intended exit route became a reality. The most popular intended exit route was trade sales with six cases. Fifty percent of them were realized as planned. Moreover, one intended buyback turned into a trade sale. The second-most-desired channel was an IPO, but this could be realized in only one of four cases. There were three realized secondary buyouts, but none of them was planned as such. There was only a single planned secondary buyout, but it was substituted by a buyback. Buybacks were in total the most popular realized exit route with five cases, but including only two intended buybacks. The other three actual buybacks were initially intended to be IPOs (two cases) or a secondary buyout. Finally, an MBO was not intended in any case, but a trade sale finally turned into an MBO. The realized exit routes also differ with respect to the investment periods (Table 3).

Figure 1. Exit channels of private equity firms



Note: The bar chart displays the planned exit channels of all 14 cases as dotted bars. In 6 out of these 14 cases, the planned exit route became realized (bars filled with vertical lines), while in 8 cases the exit channel has been applied as an alternative exit route (bars filled with horizontal lines).

Table 3. Investment periods of different exit channels

	Average Investment Period (Years)				
	IPO	*Trade Sale*	*Secondary Buyout*	*Buyback*	*MBO*
Mean	5	8	5	6	7
Median	5	8	6	3	7
Maximum	5	11	6	14	7
Minimum	5	4	3	2	7
No. of cases	1	4	3	5	1

Starting with those cases in Table 4 where there was no change in the exit channel, it comes as no surprise that conflicts occurred only very rarely. Usually, plans could be implemented as intended and met expectations: for example, removing the reasons for intra-family quarrels in Company A or the growth strategy in Company C showed the positive effect on business as expected. Conflicts occurred in only two cases. In Company A, the remaining sole family owner had some difficulty accepting the contractual terms in case the shareholder loan, provided by the private equity investor, was redeemed early. Whereas this incidence seems not to be limited to family firms, the case of Company I can be interpreted as resulting from the family's emotional attachment to the company, which causes the nature of the buyer to be an important feature of the sales transaction and makes it difficult to let go.

Table 4. Exit analysis of cases with no change in the exit channel

Company	*Equity Stake PE Company*	*Planned Exit Channel*	*Applied Exit Channel*	*Short Description of Exit and Post-Exit Situation*	*Conflicts Between Family and PE Company*
A	6%	Buyback	Buyback	FOB developed well due to the business climate and because intra-family conflicts no longer impeded business; remaining owner could buy back shares earlier than expected.	Remaining family shareholder had to pay penalty interest on early redemption of shareholder loan provided by PE company.
C	15%	Buyback	Buyback	Growth strategy successful as planned; completely family-owned after PE exit.	No conflicts.
D	40%	Trade Sale	Trade Sale	Preparation of family firm for a sale worked as planned; complete sale to a Swedish company group with the perfect match of the product portfolio.	No conflicts.
H	6%	IPO	IPO	Preparation of family firm for IPO worked as planned; successful IPO; unknown whether family sold part of its shares.	No conflicts.
I	9%	Trade Sale	Trade Sale	Trade sale to a Chinese strategic investor; complete exit of family owners and PE.	Some reservations against foreign (non-European) buyer; on an emotional basis doubts whether the new owner will be a careful proprietor for the business.
M	28%	Trade Sale	Trade Sale	No problem to find a suitable buyer for the company; complete exit of family owners and PE.	No conflicts.

Table 5 presents those eight cases in which the actually applied exit channel differed from that originally intended at the start. The evidence gives the interesting insight that conflicts between investor and family were the clear exception, as only two cases were conflictual. In particular, in one of these cases (Company K), the conflict mainly involved the private equity firm and the two non-family owner-managers, each of whom owned a stake of 8%. The family members only played a side role as they supported the managers at one stage, but were probably unknowing tools in the managers' game. For this reason, Case K does not seem to be a family firm issue, but a demonstration of the damage that can occur when opportunistic managers operate in an environment with strong information asymmetry. In contrast, the other conflictual case (Company B) resembles much more typical problems in a family firm when the dominating patriarch displays highly problematic traits.

Case B is also linked to those six cases without conflicts. The problematic personality of the patriarch might have been the central reason for the change in the exit channel, but other causes need to be considered as well. The common foundation of these other reasons is that they were caused by changes in the relationship between the family firm and the private equity company that had taken place since the investor's entry. Accordingly, both parties had to accommodate the basis of their cooperation. In Case B, one could mention the downturn in the IPO market, making it impossible to realize the dream of going public. (However, the patriarch's behaviour, including refusal to delegate power to other managers or allow for corporate transparency, deems it highly unlikely that an IPO really could have been successfully implemented.) Changing circumstances caused the modification of the exit channel in the non-conflictual cases. Relevant markets changed in four cases: the capital market situation made an IPO impossible with Companies G and N; similarly, the disadvantageous situation in

the trade sale market made a switch to the secondary buyout market necessary for Company L; and, finally, a surprisingly positive development in the product market made the family in Case F change their minds. Cases E and J were of a more idiosyncratic nature.

Table 6 presents and summarizes the evidence in a succinct manner. Conflicts are the exception with only four occurrences in 14 cases, of which two incidents (shown in the table as "(X)"), Cases A and J, could be considered to have their foundation not in specifically family firm causes. Instead, it is usually the changing circumstances that require an adjustment of the exit channel, which is typically agreed upon in a consensual manner. Turning to the family owners' exit intentions (defined here as also including the intention to keep the stakes in the family firm), their original exit intentions were realized in six cases, whereas Scenario 1 (exit intended, but not [fully] realized) occurred in five cases. Scenario 2 (no exit intended, but [partly] realized) could be found in only a single case.

Table 5. Exit analysis of cases with changes in the exit channel

Company	*Equity Stake PE Company*	*Planned Exit Channel*	*Applied Exit Channel*	*Short Description of Exit and Post-Exit Situation*	*Reasons for Change in Exit Channel/Conflicts Between Family and PE Company*
B	49%	IPO	Buyback	PE company threatened to use its drag-along right to sell the company completely. Incumbent owner bought back shares from PE company and became a sole owner again.	Conflict. IPO became unrealistic a few years after PE company's entry because companies of that kind were no longer deemed to be appropriate to be listed; moreover, the company lacked the necessary transparency for an IPO. Therefore, the exit strategy was changed to a trade sale, but no potential buyer proposed by the incumbent owner was interested. In addition, the incumbent owner was described as possessing a problematic personality unable to cooperate with potential management successors; the relation between incumbent owner and PE company was conflictual for many years. Moreover, he became aged and ill.
E	25%	Buyback	Trade Sale	FOB developed well, but somehow buyback never took place. Due to age and for strategic reasons main part of the FOB was sold consensually; owner kept only part of the company.	No conflict; change because of entrepreneur's age.
F	35%	Secondary Buyout	Buyback	The family bought back shares from PE company and became a sole owner again.	No conflict. The family changed their mind because FOB performed extremely well due to industry boom.
G	10%	IPO	Secondary Buyout	PE company sold its stake to a large family office, the family kept its shares. Family office increased capital and implemented a growth strategy.	No conflict; capital market did not allow for an IPO.
J	26%	Trade Sale	Secondary Buyout	PE company sold its stake completely to a financial investor. Since financial investor insisted on becoming the majority shareholder, the family sold part of its shares as well.	PE company wanted to exit after six unprofitable years, but family shareholders were not ready to sell although this was implied by the originally intended trade sale. Secondary buyout was compromise acceptable to all parties.
K	32%	Trade Sale	MBO	Two non-family managers, who owned 8% each at the beginning, bought the PE company's stake in an MBO; unknown whether family also sold its stake.	Conflict. When PE company wanted to begin to initiate the originally planned trade sale, the family agreed, but the two managers opposed. Managers succeeded in persuading the family to postpone the PE company's exit for one year. During that year the managers deterred all potential buyers proposed by the PE company and let the FOB appear to perform badly and thus reduced the price they had to pay.
L	26%	Trade Sale	Secondary Buyout	PE company sold its stake completely, family partly to the financial investor; financial investor became the new majority shareholder.	No conflict; switch to sale to the financial investor as no attractive offers from strategic investors could be generated.
N	20%	IPO	Buyback	The family bought back shares from PE company and became the sole owner again.	No conflict. The financial crisis made the outlook for an IPO very negative. Buyback allowed PE company to exit and kept complete control over the FOB with the family.

Table 6. Summarizing table

Company	*Equity Stake PE Company*	*Reason for PE Involvement*	*Planned Exit Channel*	*Applied Exit Channel*	*Exit Channel Changed*	*Family Exit Planned*	*Family Exit Realized*	*Change in Family Exit*	*Conflicts*	*Reasons for Change in Exit Channel / Conflicts -- Codes --*
A	6%	Pay-out of family co-owner(s)	Buyback	Buyback		No	No		(X)	Private situation of owner
B	49%	Partner for family exit	IPO	Buyback	X	Partial	No	Scenario 1	X	Private situation of owner Capital market Situation of company
C	15%	Growth opportunities	Buyback	Buyback		No	No			-
D	40%	Growth opportunities Partner for family exit	Trade Sale	Trade Sale		Yes	Yes			-
E	25%	Pay-out of family co-owner(s)	Buyback	Trade Sale	X	No	Partial	Scenario 2*		Private situation of owner
F	35%	Growth opportunities Partner for family exit	Secondary Buyout	Buyback	X	Yes	No	Scenario 1		Situation of company
G	10%	Growth opportunities Partner for family exit	IPO	Secondary Buyout	X	Yes	No	Scenario 1		Capital market
H	6%	Growth opportunities	IPO	IPO		-	-	-		-
I	9%	Partner for family exit	Trade Sale	Trade Sale		Yes	Yes		X	Private situation of owners
J	26%	Partner for family exit	Trade Sale	Secondary Buyout	X	Yes	Partial	Scenario 1*		Situation of company
K	32%	Partner for family exit	Trade Sale	MBO	X	Yes	-	-	(X)	Situation of company
L	26%	Partner for family exit	Trade Sale	Secondary Buyout	X	Yes	Partial	Scenario 1*		Capital market
M	28%	Partner for family exit	Trade Sale	Trade Sale		Yes	Yes			-
N	20%	Partner for an IPO	IPO	Buyback	X	No	No			Capital market

Notes: 1) Column Change in Family Exit: The scenarios refer to the hypotheses developed in the "Theoretical Framework," subsection "Family exits": Scenario 1 describes the case where the family owners initially intend to exit, but decide to keep their shares when the private equity company exits (scenario 1 refers to a partial exit of the family). Scenario 2 is defined as the setting where the family does not intend to exit at the outset but actually sells its stake when the private equity company sells its stake (scenario 2* refers to the case where the family owners partially exit the family firm). 2) Column Conflict: "(X)" denotes a case where a conflict occurred, but that this conflict is not considered to be a family firm-specific conflict.*

5. FINDINGS

Based on the theoretical framework, we expect that the private equity investor's intention to exit the investee firm will cause conflicts with family owners (hypothesis 1). Reasons for such conflicts can be rooted in diverging time horizons, risk preferences, or goals of investors and families. Besides, agency theory indicates potential conflicts between minority and majority owners. Our empirical results, however, reveal that exit-related conflicts are rather the exception than the norm. Conflicts arose only in four out of 14 cases. As analysed above, in Case A an aspect of their contractual agreement caused the divergences. Different time horizons, as a reason, could be identified in Case B. As the intended exit route (an IPO) was impossible and the investor forced its exit, there emerged divergences regarding alternative exit routes. Thus, the willingness of the private equity firm to sell its ownership stake led to conflicts about strategic choices.

The theoretical framework also argues that differences in goals have an impact on conflicts. Collewaert (2012) showed that this is true for the exit of business angels from entrepreneurial firms. Nevertheless, in our empirical data, only one case can be related to goal conflicts. In Company I, a trade sale was intended and in the end also executed, as the company was sold to an overseas buyer. The family owners preferred a strategic buyer from Europe, but no adequate one was available. Thus, the family first had reservations about the sale to a foreign acquirer, resulting in disagreements. This can be linked to a strong emotional attachment and to non-financial goals that are pursued in family firms, such as concerns about stakeholders and the local community (Gómez-Mejía et al., 2007; Berrone et al., 2012).

Agency conflicts were also identified in one example case (Company K), but not between the minority and the majority owner. Instead, the conflicts occurred between two groups of minority shareholders, because the non-family management was involved in the ownership of the portfolio firm and aimed for an MBO. Thus, the owner-managers used their superior information access to the detriment of the private equity investor. Such information asymmetries led to agency problems

and related conflicts. Moreover, diverging risk preferences did not cause any trouble in this context.

Therefore, the reasons for conflicts suggested by the literature could only be confirmed in single cases with specific circumstances and thus represent rather an exception. This is also in line with our empirical evidence that conflicts between family firms and private equity minority investors are rare. Thus, the discussion of the findings suggests the following propositions related to conflicts of interest:

P1: The exit of private equity minority investors will not lead to conflicts with family owners, as in most cases there is a mutual understanding concerning time horizons, risk preferences, goals, and agency problems.

P2: In case of conflicts, they are caused by specific changes in the situation of the portfolio company or in the general economic circumstances, which are not foreseeable at the outset.

In our theoretical framework, we further expect that changes in the exit route are a consequence of conflicts between family owners and private equity investors (hypothesis 2). We assume that private equity investors and owner families will agree on an exit route at the beginning, which suits the purposes of both parties. The present empirical data confirm this because all 14 cases showed a planned exit scenario at the beginning. Additionally, we state that the actual exit route, in the end, might deviate from the planned one. If this is the case, we argue that those changes are a consequence of the conflicts that have arisen.

Following the findings concerning conflicts, the present cases do not confirm this expectation. The four conflictual cases show that two times (Cases A and I) the planned exit route was the one actually applied, although disagreements between both parties occurred. In the other two portfolio firms, the circumstances on the capital market (Case B) and the situation of the company (Case K) made it necessary to follow a different exit route. Thus, these two examples indicate that the need for a change in the exit route leads to conflicts rather than the other way round.

The additional six cases, in which the exit route changed but no conflict was observed, underline the importance of the changing circumstances in realizing the intended exit route. In four out of eight cases, the conditions of the capital markets made a change in the exit route necessary in that an IPO (Cases B, G, and N) or a trade sale (Case L) was not feasible. This is in line with the literature on exit routes referred to above, suggesting that these routes offer the possibility for a higher valuation in exchange for increased risk exposure from economic downturns.

Furthermore, variations in the situation of the portfolio company, e.g., in terms of profitability, might force the owners to reconsider the intended exit route. In Case F, an unexpected positive development of the portfolio company during the involvement of the private equity investor resulted in a buyback of shares by the owner family rather than a secondary buyout. The opposite holds true for Case J, in which the trade sale was changed to a secondary buyout because the portfolio firm had a low profitability and the investor wanted to exit the investment. In this case, the secondary buyout was most suitable due to the family's refusal to join an exit. Therefore, the private situation of the family owners is also relevant in order to explain changes in the exit route. This is emphasized by Case E, in which the intended buyback was replaced by a trade sale. The family owner initiated the change based on his age and the absence of a family succession. To sum up, the empirical evidence on exit route changes leads to the following propositions:

P3: Divergence between the planned and the applied route of exit is usually not a consequence of conflicts between family owners and private equity minority investors.

P4: The necessity to choose an alternative exit route mainly results from variations of relevant circumstances. This includes the condition of capital markets, the situation of the company, and the private situation of family owners.

P5: In case the need for an alternative exit route arises, the evaluation of potential routes can lead to conflicts between the family owner and the private equity investor.

The third part of the theoretical framework discusses the intentions of family owners on whether or not to exit the business along with private equity investors. The available literature suggests that multiple factors can influence family owners' willingness to follow an external exit route (e.g. an IPO or a trade sale). These include, for example, social networks, the level of socioemotional wealth, and the owners' experience and age. We assume that family owners decide on their exit intention when they reach an agreement with a private equity investor at the beginning. However, if the planned exit route is no longer feasible, both owners need to evaluate alternative routes. In light of this, we expect exit route changes to be related to changes in the exit intentions of family owners (hypothesis 3).

As stated above, in eight cases the planned exit route was not feasible and alternative routes were evaluated. Unfortunately, complete data on families' exit intentions were only available in six out of eight cases. The empirical data on these six cases reveal that in each case the willingness of the family to exit had changed. Five times (B, F, G, J, and L) the change was as predicted in Scenario 1, and only once (Case E) as predicted in Scenario 2. When the need for a new exit route became clear, the family owners in Cases B and J were not ready to sell the firm. Thus, the emotional attachment of the family owners limited the number of possible alternative exit routes, which is in line with the influencing factors presented in the theoretical framework. Since the investor still wanted to exit, a buyback (Case B) and a secondary buyout (Case J) offered suitable compromises.

In Case F, the positive development of the company led to an improved outlook. Therefore, the owner family changed their minds, having decided to buy back the shares from the investor in order to profit from full ownership. The planned IPO in Case G was not possible. Nevertheless, another investor was interested in investing in the portfolio firm and also offered a raise in the capital in order to facilitate future growth. Thus, the owner family decided to retain the business and the private equity investor sold its shares in a secondary buyout to the

new investor. In Case L, the new exit route was also a secondary buyout, as the new investor offered a higher price than potential strategic buyers. The family's willingness to exit the firm fully changed into remaining involved as a co-owner.

Case E represents the second predicted scenario. The family owner never undertook the planned buyback, but the private equity investor still wanted to exit. While evaluating viable alternative exit routes, the family owner changed his mind and decided, due to his advanced age and the unavailability of family succession, to join the investor in exiting. This is again in line with the literature presented on entrepreneurial exit decisions. All in all, the empirical evidence on changes in family owners' exit intention suggests the following proposition:

P6: When forced to evaluate alternative exit routes, family firm owners are likely to change their intentions to exit the family firm along with the private equity minority investor.

P7: The probability of a change in the family owner's intention, as predicted by Scenario 1 (exit intended, but not [fully] realized), is higher than the change represented by Scenario 2 (exit not intended, but [partly] realized).

6. CONCLUSION

This article aims to investigate the private equity investor's exit from its minority ownership stake and the exit-related implications for family owners. To reach this goal, we theoretically discuss potential conflicts that might influence the exit decision, alternative exit routes that can be applied, and the intentions of family owners to exit their business along with the private equity firm. Subsequently, the theoretical insights are examined by an empirical study using a case-based research approach. Fourteen cases of completed minority investments, mainly based on six semi-structured interviews with investment managers responsible for the investments, are analysed.

We derive three hypotheses, or expectations, from the literature. Hypothesis 1 and 2 are linked with each other as both rest on the assumption that there is an inherent conflict between private equity funds and family firms. Hypothesis 1 states that conflicts of interest will arise over the intended exit of the private equity minority investor. Complementary hypothesis 2 expects that changes in the exit route are a consequence of conflicts between family owners and private equity investors. Our empirical findings reveal that conflicts of interest over the intended exit of the private equity minority investor only barely arise. Thus, our first theoretical expectation is largely not reflected by the data. The same holds for our second hypothesis. Based on the literature, we argue that a change in the intended exit route is a consequence of conflicts. However, the present cases demonstrate that changing circumstances mainly cause deviations between the exit route agreed upon at the beginning and the route actually applied. These influencing factors include changes in the economic situation of the company or in the capital markets. Moreover, in some cases changes in the exit route are related to changes in the private situation of the family owners. This partly reflects our expectation in the third part of our previous theoretical discussion. Hypothesis 3 states that changes in the exit route are related to changes in the family exit intentions, as predicted by Scenario 1 (exit intended, but not [fully] realized) and Scenario 2 (no exit intended, but [partly] realized). Interestingly, Scenario 1 clearly outnumbers Scenario 2, supporting arguments like socioemotional wealth, pointing at the family's strong attachment to the family firm.

But why is there so little support for the first two hypotheses? As demonstrated in the section where the hypotheses were developed, they represent the clearly dominant view in the literature which specifically focuses on the assumed differences between family firms and private equity funds as important causes for conflicts of interest (cf. Rottke & Thiele, 2017, for a recent discussion of the cultural match of private equity funds and family firms). The following explanation might reconcile prevailing theory and our findings: The assumed cultural mismatch between private equity funds and family firms might indeed be severe and, thus, prevent most members of both groups from transactions with each other. Therefore, only a subset of private equity funds and family firms actually consider a minority private equity stake in a family firm. And only some of these private equity funds and family firms sign contracts in the end. Those who sign a contract were generally optimistic that the deal between private equity and family firms could be successful (otherwise they would not have started negotiations), and, during the negotiation process, became convinced that the transaction with this specific private equity fund and family firm, respectively, would become a success. Following this train of thought, the relative absence of conflicts indicates a good fit between the persons involved, the existence of a mutual understanding concerning goals or risk preferences, and, as a result, the will on both sides to make the joint business a success. The prevailing theory that emphasizes cultural mismatch between private equity funds and family firms might still be representative for the major part of private equity funds and family firms. However, it might be that our sample assembles those entities interested in overcoming these problems for mutual benefit.

The present article focuses on two aspects which have not received much research attention yet. On the one hand, it contributes to the field of research on *private equity minority investments* in family firms. This form of involvement enables families to balance their need for financial and non-financial resources with their desire to remain in control of the business (Tappeiner et al., 2012). Thus, the insights derived from our theoretical and empirical examination of minority investments, with particular regard to conflicts between investors and family owners, can help to improve the understanding of this phenomenon. On the other hand, this study contributes to the theory by taking the topic of *investor exits* into account. So far, the scarce literature on minority investments in family firms has focused on the entry of private equity firms and on the collaboration of both parties. However, as a large part of the investor's return is tied to a successful exit, it is important to add to the knowledge about the end of the investment process in the context of family-owned businesses.

Therefore, the present study undertakes a first attempt at closing this research gap. The contribution includes a theoretical discussion of exit routes and factors that might influence the exit intentions of the owning family. Additionally, empirical data, providing insights into completed exits, add value to the understanding of family and investor exits in family-owned businesses.

Nevertheless, the present empirical study has certain limitations. First, it was not possible to randomize the sampling of cases in order to increase variation. The private equity industry is known for its discretion, and thus the response rate was not high enough to draw a random sample of cases. However, the analysed cases still offer a variety across size and age of the family firms involved, which is not negligible. Second, there is a limitation regarding the interview partners, as they were limited to the private equity firms' perspective. Additionally, only one investment manager was responsible for each single case and thus able to provide information. Consequently, enhancing validity through multiple statements was restricted. This can be explained by the fact that non-disclosure agreements prohibited the provision of detailed information concerning the owner families. Furthermore, minority investments in family firms are often conducted by small and medium-sized private equity firms, and in such firms, each portfolio company is frequently served by only one manager. Third, the number of cases limits the possibility to draw generalizable conclusions. Nevertheless, the chosen qualitative and explorative research approach yielded 14 cases, which is about similar to other qualitative studies in this field of research, such as Tappeiner et al. (2012) with 21 cases.

Implications for future research can also be derived from this article. The present research design was selected to generate first theoretical and empirical insights into the topic. In addition, the section on findings presents research propositions that future studies could test (on a larger scale) to enhance the knowledge about private equity minority investments in family-owned businesses further. For instance, subsequent studies could investigate whether the rare presence of conflicts still holds true on a larger sample. This would contribute to the on-going discourse on the relevance of the second type of agency problems (between majority family shareholders and minority non-family owners) in the context of family firms (Villalonga et al., 2015). Related to that, future research could also explore whether the relative absence of conflicts is caused by a selection process, meaning that those private equity funds and family firms entering minority stake transactions are not representative for the typical private equity fund and family firm, respectively. Besides, future studies could pay more attention to the impact of changes in environmental circumstances, as the present empirical evidence hints at their relevance. They could also more comprehensively include the family's perspective, such as through an in-depth analysis of the motives for changes in the family owners' exit intentions. Additionally, the findings and propositions of this study can be tested in different cultural settings or can be compared with the exits of private equity minority investments in non-family-owned businesses.

Our study also has certain implications for practitioners. The findings may help to reduce prejudices of family firm owners against private equity investors. Many family owners might be afraid to enter a partnership with an equity investor due to the fear that the private equity firm will insist on a family exit in order to realize a higher sales price in the end. However, our findings suggest that this is not the case, as various possible exit routes are available. Furthermore, our empirical evidence hints at multiple influencing factors that make it difficult to predict the exit route upon the beginning. Another important conclusion that can be drawn from the present study is related to potential conflicts between investors and family owners. The results indicate that conflicts of interest are rather the exception than the norm. This may also help family firm owners to evaluate whether private equity minority investments are a suitable source of funding or not. Moreover, the findings hint at the existence of private equity firms that can deal with the characteristics of family businesses. Therefore, successful exits from minority investments can also be seen as a quality statement for private equity firms that send a positive signal to potential family firm targets. Our results can also have relevance for practitioners from the private equity industry who want to know which factors influence the intentions of owner families to join the exit. Keeping this knowledge in mind can lead to an improved selection and evaluation process of potential family business targets because a joint exit often results in a price premium.

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