

IT RUNS IN THE FAMILY? THE ACQUIRER'S IMPACT ON THE BUSINESS NETWORK UPON ACQUISITIONS OF FAMILY FIRMS

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ABSTRACT

This paper reviews the literature on acquisitions of family firms and present central topics in that research and presents two cases of acquisition of family business. The review reveals that there is still a quite limited amount of research on acquisitions of family firms, and the business network dimension is basically non-existent. The paper points at that most studies focus on the inertia created as family firms are unwilling to divest, while it tells much less about the process following divestment decisions, the impact of new owners, and the network consequences. Contributions are made to the literature on network effects of mergers and acquisitions and to the broader acquisition literature, where the main focus on large-scale, publicly traded firms' transactions, mean that family firms constructs a specific setting.

Keywords: Acquisition; Business network; Family-firm; Review

INTRODUCTION

The paper proposes both a literature review and a study of two cases of acquisition of family business. The literature review focuses on acquisition process in an IMP perspective and on family business acquisition. Then there is a study of two cases of acquisition of small and medium sized family businesses in industrial clusters by other international actors.

We came to interest ourselves for what is previously known about acquisitions of family firms in the cross-section between the new owner and the business network. This paper therefore presents a literature review to iterate what is previously known about the acquisition of family firms and to see to what extent and how the new owner's (the acquirer's) impact comes forth, and whether and how business relationships are acknowledged in the literature on acquisitions of family firms. The purpose of the paper is to review the literature on acquisitions of family firms and present central topics in that research.

Contributions are made to the literature on network effects of mergers and acquisitions (e.g., Öberg and Holtström 2006, Havila and Salmi 2000, Degbey 2016, Anderson, Havila, and Salmi 2001) in how the paper focuses on a specific type of acquisitions: those of family firms. To the broader acquisition literature, and with its main focus on large-scale, publicly traded firms' transactions, family firms construct a specific setting, and one that has been described to be underpin by different values and the impact of personal preferences of family members (Steen and Welch 2006b, Grundström, Öberg, and Öhrwall-Rönnbäck 2012, Carr and Ring 2017, Nordqvist 2005, Worek 2017). The owner's role in a business network is a quite rare perspective (Axelsson and Håkansson 2016), but which may have consequences that decide severities of strategic effects, and similar.

METHOD

To conduct the literature, the database Web of Science was used, based on how it contains articles in prominent journals. A separate search was also conducted in Business Source Premier, with many overlapping results. In Web of Science, the search "merger OR acquisition" and "family" was used as defined topics, and targeted at journals in business and management, respectively.

This search resulted in 127 articles (the comparative search in Business Source Premier retrieved 45 articles). The abstracts of these 127 journals were read so as to convey whether they dealt with any of the core interests for this paper: the ownership or business relationship/networks in relation to the acquisition or the family firm. This first rough exclusion of articles left a list of 47 articles of potential interest, most of which directly or indirectly concerning the ownership dimension, and very few on the business relationships. Figure 1 outlines the coverage of the search.

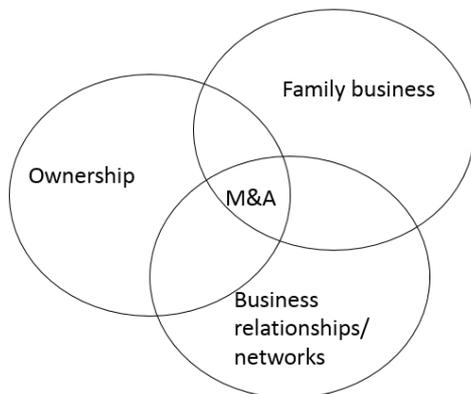


Figure 1: Areas of interest. Literature search focusing on any area covered by at least two of the circles.

The review of the 47 journal articles put focus on what areas they covered (see Figure 1), and what was told about that specific area. Themes in the latter regard were iterated during the review and later condensed into a number of themes. In a last round of analysis, the findings were compared to previous research on ownership in networks and the interplay between acquisitions and business relationships, respectively, to see whether and how family firms were portrayed in a different way than what is known from these broader research areas.

About the two case studies, we worked on two recent cases of acquisition in the same industrial district in Northern Italy. Both the businesses are textile producers in the business to business market. This is a context characterized by a particularly important role of buyer-supplier relations for the generation of competitive advantage (Guercini, 2004) and which can be characterized by important changes in the choices of integration or replacement of suppliers (Guercini and Runfola, 2012). The first one (case Alpha) produces fabrics and was acquired by a Japanese multinational company that acquired the 80% of the shares (the 20% is still owned by the family); the second one (case Beta) produces yarns for knitwear and was bought by an Italian based private equity fund (100% share). In both the cases the family business acquisitions are recent. Alpha was acquired in 2015 and Beta in 2016. In both the cases in the previous owners remained in a first moment in the management, in the case of Alpha keeping a part of the property. In the case of Beta, on the other hand, the property passes entirely to the new buyers, and the owner family also leaves the management completely after less than two years from the passage of control to the new buyers.

The differences between the two cases are interesting because they configure two different paths that can have more general connotations. In the Alpha case the buyer is the parent company of a multinational company which includes subsidiaries that hold clothing brands in various countries and that for years have been turning to Alpha as a supplier of semi-finished textiles. In the case of Beta, on the other hand, the acquisition is carried out by a mainly financial actor (investment fund) looking for a return on investment without there being any particularly important supply links between Beta and other companies in the group. In the case of Alpha the company retains the presence of members of the family that previously owned both in the capital (20% remains with the previous owners after the transfer of control to the buyer) and in management. In the Beta case, instead, the entire property of the acquiree is transferred to the purchaser, while the presence of the family in the management is maintained after the acquisition but only for two years, after which the family also leaves completely from the management of the company, as well as shareholders.

In these characteristics of the two acquisitions they propose different themes that have been the object of deepening through the analysis of the literature, of which some results are reported in the following sections.

FINDINGS

The role of ownership

Most studies connecting acquisitions of family firms with ownership does so from the divesting party's perspective; that is, it is the former owner that is the family. The influence on when and how to divest the firm, let alone who is a proper acquirer of the firm is blurred by family values, intentions to keep a legacy rather than preparedness to change the family-business in the future (Salvato, Chirico, and Sharma 2010, Chung and Luo 2008, Feldman, Amit, and Villalonga 2016, Steen and Welch 2006a). Sharma and Manikutty (2005) point at how families may resist divesting their firms, while it would had been for the best of the company. Emotional attachment, path dependencies, and the leaning on past successes suggest being variables impacting decisions to remain with the firm. Along this reasoning, Wennberg et al. (2011) show how firms acquired by external parties perform

better, while those kept in the family have higher survival rates, while Grundström, Öberg, and Öhrwall-Rönnbäck (2012) show how firms divested to others than family members are more likely to renew their businesses and be innovative.

The focus on tradition and low levels of risk taking also influences the likelihood to acquire, as pointed out by Gomez-Mejia, Patel, and Zellweger (2018), showing how family firms less often make acquisitions, and when they do so, they go for related businesses. All in all, the research on family firms and acquisitions thus points at it being different to other acquisitions in terms of likelihood to happen, the process, and also the performance. Values, and specifically values related to continuity and carrying legacies forward are central, while they also create a persistence when family firms do not perform well.

The role of business networks

Chung and Luo (2013), as one of very few articles considering the network related to family firms, point at how external acquirers (external to the family) would be better equipped to raise profitability, while inside successors and family firms would be better at reaching network resources from the past. Again, this means that the resources of the family firm would extend beyond the firm. The traditions and values could well mean that the family firm is good at keeping connections with others, and also surround itself with quite a limited, tight business network of direct exchange partners. Again, this would require that the business network is quite stable, and the literature related to performance of family firms and their acquisitions seem not to create entirely coherent findings when comparing mature and emerging markets, the latter ones expected to be influenced by change rather than stability to larger extent.

The review points at how the business network is a very rare theme in research on acquisitions of family firms. The strong links between families and business partners could suggest to negatively influence any outcome of the acquisition, if taken over by a non-family member. What is more, those values of the family firm not necessarily focusing on creating the highest profit or renewal would mean that business connections may well be selected on other bases than what would be best for the business, also leading to them being all the more difficult to transfer to a new owner.

DISCUSSION

Acquisitions have traditionally been studied with a focus on strategic intentions, integration issues, and financial outcomes, mostly capturing large-scale, publicly traded firms' transactions. Family firms, have only been researched to a limited extent in relation to acquisitions. Still, their ways of operating is expected to be different from the dominating large-scale companies and values may be much influenced by personal preferences of the owners. The family business would also have influences on the business relationships of the firm, which may well be pertained by the family-based values (Granata and Chirico 2010).

As the review in this paper reveals, very little is known about the acquisition of family firms and how the new owner influences business relationships. Perspectives are different and often end with the divestiture of the family, leaving very little room in the literature for understanding differences among various external owners. And, as with the general merger and acquisition literature, the business network remains downplayed (Anderson, Havila, and Salmi 2001, Öberg 2013, Degbey and Pelto 2015).

Why is it then important to study the role of new owners and relating this to the business network? The number of family firms is high, and their succession is frequent in practice. New generations are not as certain to continue in their father's or mother's footsteps as would generations from the past.

The business network expects to not be as highly valued as by the family firm, in how it may pertain values of business mixed with status and social values, while the social dimension would also make it more difficult to transfer the business network into new ownerships.

The different new owners is a perspective that requires much attention in acquisition studies as from a societal point of view, it would be important to keep firms in sound ownerships. The literature review only indicates the difference between a family and non-family succession, while it does not make differences between, say business partners or non-business partners as acquirers, or between institutional and corporate owners.

Based on two case studies of acquisitions of family firms in the Italian textile industry, we found that the resulting effects for the business network were wastefully different. One of the firms was acquired by an equity fund, the other one by a multinational manufacturing company that was a customer of the acquired company and that had been in contact with it for a long time, as part of the business network. The former acquisition had much less business network effects despite how the latter acquisition was actually better integrated in the business network in the latter case. How come?

CONCLUSION

This paper reviews the literature on acquisitions of family firms and present central topics in that research. The most prevalent topic is how the values of the family firm, sourced in tradition backwards and carrying such tradition forwards, influence the tendency to divest. This suppresses other themes, while it, with the high frequency of family firms in business life and their succession being a mechanism of change in the business landscape, would be important to know more about such acquisitions. This paper points at how the role of the new owner and the connection to the business network would be of great interest to study in depth. Proposed ideas for further research, and relating to the intersection of circles in Figure 1, would be:

- How is a business network different for a family firm compared to general ideas on business networks? What influences these differences and how do they transfer into business exchanges and responses to a new owner?
- What roles do various owners have in the take-over of a family firm? In addition to the family/non-family succession, there are thus other dimensions of owners to consider, where those being part of the business network beforehand and those not being so would be of interest to compare.
- How is the outcome of an acquisition affected by the acquirer being part of, or not being part of, the business network of the acquired party? Why and how do these influences come across?

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