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Friends or foes: An exploratory study of the relationship between private equity and family business through the paradigm of socioemotional wealth

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Abstract

Family businesses account for the majority of output and employment in economies around the world. Private equity is an increasingly important source of capital and expertise for such companies. This exploratory, qualitative study employs the theoretical lens of socioemotional wealth to discern the major challenges to managing a successful private equity investment in a family business, as well as how best to overcome such challenges. In-depth, semi-structured interviews confirm a number of the challenges and solutions in extant literature, and reveal several new ones.

Keywords

Family business, private equity, socioemotional wealth.

Plagiarism declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Abbreviations:

AUM	Assets under management
BAM	Behavioural agency model
CFO	Chief financial officer
FB	Family business
FD	Financial director
LBO	Leveraged buyout
NFB	Non-family business
NPFB	Non-private family business
PE	Private equity
PEB	Private equity buyout
PFB	Private family business
TMT	Top management team

1. Introduction to the research problem

a. Introduction

This study sits against the backdrop of an economy fundamentally altered by the global financial crisis of 2008, the worst recession since the Great Depression (Claessens & van Horen, 2017). Growth rates in the West have stalled (United Nations, 2016), the developing world offers an asymmetrical landscape of prosperity and poverty (UNCTAD, 2016), and, in many cases, employment levels are only now returning to pre-crisis levels (OECD, 2017). All the while, family business (FB) remains the staple organisational structure of every economy, accounting for the bulk of employment (Fernández-Aráoz, Iqbal, & Ritter, 2015; PWC, 2013).

The upshot of this scenario is that every lever that impacts on the success of FBs demands attention. Private equity (PE) is one such lever, as an important source of both funding and expertise to FBs (Ahlers, Hack, & Kellermanns, 2014; Martí, Menéndez-Requejo, & Rottke, 2013). Improvement to the PE-FB synergy – that is, when private equity firms invest in family businesses – has the potential to foster a variety of benefits, including economic growth and job creation. Or, contrarily, in the eyes of the many detractors from the PE model, limiting the damage PE can have on such important outcomes when investing in FBs.

However, the PE-FB relationship is a complicated one that marries obvious complements with stark contradictions (Achleitner, Herman, Lerner, & Lutz, 2010). The two types of business are drawn together by the matching of the PE firm's capital and expertise with the FB's potential to incorporate these resources into a business and market they understand intimately and have proven success in, for growth and profits (Achleitner, Howarth, Schraml, & Tappeiner, 2012). So, the combining of forces between PE and FB presents obvious potential.

The synergies, however, do not come unencumbered. As this study will demonstrate, PE and FB experience deep-seated conflicts when they combine forces. These manifest in a number of ways, ranging from the common but easily fixed, including simple corporate governance issues, and ranging all the way up to the altogether more intrinsic and vexing strategic mismatches, such as fundamentally different time horizons (Gómez-Mejía, Berrone, Makri, & Martin, 2016).

This study employs the theoretical lens of socioemotional wealth (SEW) to seek an understanding of the basis of these conflicts and thereby explore the major challenges that get

in the way of successful PE investments in FB. Succinctly, SEW describes the non-financial ‘wealth’ that owner-families seek to derive, or avoid losing, in the operation of a business together (Carney, van Essen, Gedajlovic, & Heugens, 2013). For example, families derive SEW from the kinship ties they develop working together (Firfiraya, Cruz, Naescu, & Gomez-Mejia, 2017), from an emotional attachment they form with the business (Berrone et al., 2012) and through creation of a dynasty that later generations will enjoy (Zellweger, Kellermanns, Christman, & Chua, 2012).

The SEW paradigm, therefore, makes the crux of the challenge clear: a FB will make strategic decisions by applying the primary reference point of SEW. This means the owner-family will aim first to preserve their non-financial wealth, or SEW, “even if achieving this objective might come at the expense of other principals, (e.g. institutional investors [such as private equity firms]) who do not share these SEW utilities” (Berrone et al., 2012). Or, as another study put it: “family firms emphasise socioemotional wealth, which exacerbates wealth expropriation from noncontrolling (sic) shareholders” (Fernando, Schneible Jr, & Suh, 2014).

The present study will argue that the heart of the challenge to a successful PE-FB relationship is the various misalignments that emerge from the FB’s framing of decisions around SEW, while the investing PE firm – to some observers the very face of free-market capitalism (Faccio & Hsu, 2017) – has a highly focused and refined strategy of profit maximisation, which fundamentally ignores the SEW of the investee FB.

Upon this foundation, this research aims to answer two questions. First, what are the major challenges to management of a successful private equity investment in a family business? And second, what are the solutions to overcoming these challenges? This is done with an exploratory study, employing in-depth, semi-structured interviews.

b. Background and description of the problem

I. Private equity

Private equity (PE) emerged as an alternative investment class in the 1940s as a reaction to the drawbacks of conventional funding mechanisms (especially bank loans) available to young businesses (Liles, 1983). The Small Business Investment Company (SBIC), an organisational form licensed by America’s Small Business Administration, emerged in the US in the 1950s as a forerunner of the PE firm we know today (US Small Business Administration, 2017). The likes of

Apple, Compaq and Intel all received support funding from SBICs in their early days (Hasan, 2014).

Through the 1980s, PE was strongly associated with multi-billion dollar buyouts – leveraged buyout or LBO is a synonym for private equity – of the likes of the acquisition by Kohlberg Kravis Roberts of RJR Nabisco in 1988 (Hasan, 2014), as popularised in the book *Barbarians at the Gate* (Burrough & Heylar, 1989). That decade also saw PE backing future giants of the technology world such as Microsoft, Cisco Systems and Sun Microsystems (op. cit.)

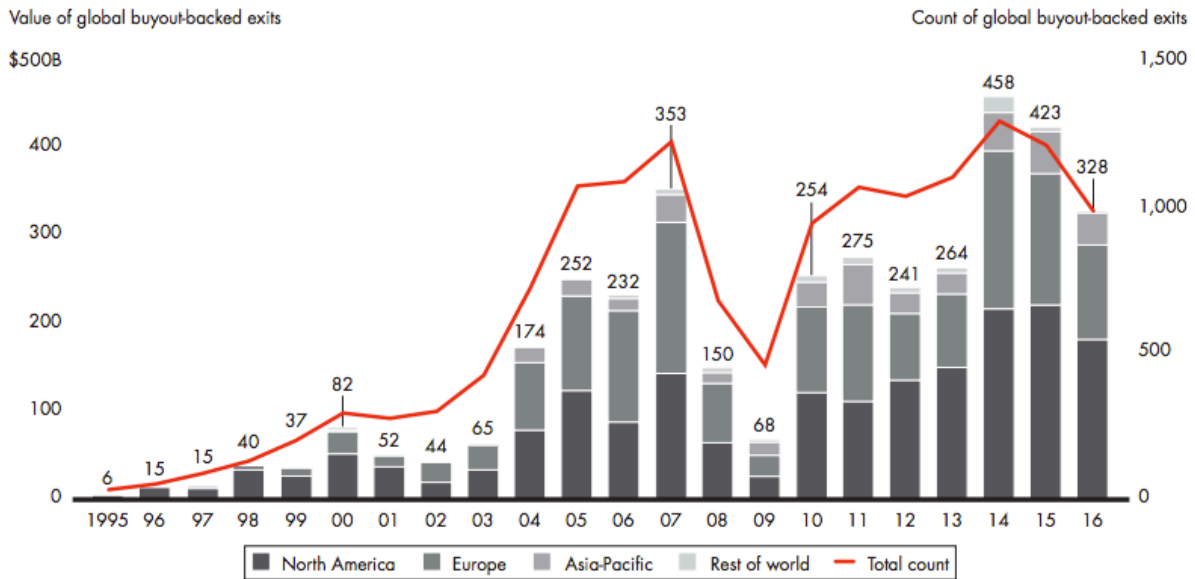
The Financial Times Lexicon offers a basic definition of modern PE: “Injection of funds by specialised investors into private companies with the aim of achieving high rates of return” (FT.com, 2017). These investments are typically made in privately negotiated transactions (Demaria, 2013) with a time horizon of five to seven years (Lerner, Leamon, & Hardyman, 2012). During this time the PE firm deploys funding and expertise to grow the value of the investee company with a view to selling (via one of several ‘exit’ methods) for a profit (Achleitner et al., 2012).

PE has been shown to bring a variety of benefits in certain contexts. These range from effective innovation (Lerner, Sorensen, & Strömberg, 2011) and stimulation of small and medium enterprises (Babarinde, 2012) to faster growth (Scellato & Ughetto, 2013) and efficiency gains with limited or no job losses (Amess & Wright, 2012).

However, the PE model has many critics on a variety of fronts. One of its most vociferous critics sums up the problem thus: “The financial structure and light regulation of private equity firms allow them to much more aggressively pursue shareholder value at the expense of others with a stake in the company – its suppliers, employees, customers, and creditors” (Appelbaum & Batt, 2014).

Despite strong growth in the early 2000s, the PE market suffered a dramatic dip in the wake of the Global Financial Crisis. As per Figure 1 below, global fundraising was slashed by more than half between a peak in 2007 and a low in 2009 (Allen, Lerner, Leamon, & Speen, 2017). Also noticeable is the marked growth in proportion of global fundraising from GGM markets (Global Growth Markets) compared to developed markets in the post-crisis period. That is against the backdrop of a relatively small (but growing) absolute proportion of PE fundraising.

Figure 1 Number and value of buyouts by region (Bain Consulting, 2016)



II. Family business

Important targets for PE funds are family businesses (FBs). In turn, some FBs view PE as a vital source of both funding and expertise (Ahlers et al., 2014). Despite only recently emerging as a distinct organisational structure worthy of its own field of study (traceable back to 1964 as an autonomous academic topic (Donnelley, 1964)) FBs are uncontestedly the most ubiquitous company type in the world (EY, 2017). While statistics vary with the way FB is defined, analytical tools used, geography etc., FBs “account for an estimated 80% of companies worldwide and are the largest source of long-term employment in most countries” (Fernández-Aráoz et al., 2015). FBs produce as much as 80% of gross national product (GNP) for some regions (PWC, 2007) and contribute a sizeable proportion of tax revenues for almost every country (Astrachan & Shankar, 2003). FBs account for 64% of GDP in the US, where they provide 62% of the country’s jobs (Astrachan & Shankar, 2003). The understandable result of this is that FBs have, to say the least, “a high impact on economic stability and growth” around the world (Hiebl, 2015).

Regardless of conventional wisdom, recent evidence suggests that FBs are superior to non-FBs in terms of their chances of long-term survival (Wilson, Wright, & Scholes, 2013). Still, the Family Business Institute has found that, despite 88% of FBs believing that in five years the

same family will be running the business, by the second generation the family and business survive together just 30% of the time. By the fourth generation this is down to 3% (Family Business Institute, 2016).

Today's landscape is one of “evolving consensus that family firm actors are characterised by distinctive intentions, motivations and discretion” and that “their actions are a consequence of distinctive goals, governance structures and resources. (Chrisman, Chua, De Massis, Minola, & Vismara, 2016)”.

A precise definition for FB is a matter of some debate (Hiebl, 2015). For introductory purposes, the following uncontroversial take is sufficient: “enterprises in which members of the controlling family significantly influence the business” (Gagné, Sharma, & De Massis, 2014).

One commonality across all definitions is an attempt to crystallise the “reciprocal influence of family and business” (Sharma & Zahra, 2004). It is this mutual interdependence that is inherent in the concept of socioemotional wealth (SEW): owner-families use SEW as their primary reference point when making decisions, but weight this up against more typical business objectives.

III. Socioemotional wealth

The early research into FB made use of major theoretical paradigms developed in other spheres of management science. However, these paradigms were originally built up to study business without particular attention to family involvement (Eisenhardt, 1989; Wernerfelt, 1984; Davis & Donaldson, 1991). In other words, they were “borrowed from other domains, primarily financial economics and strategic management, where the primary focus of attention was large publicly owned corporations with highly dispersed ownership” (Berrone et al., 2012).

As noted above, it is the combined influence of purely financial goals (of the sort on which all for-profit entities place decisive emphasis) with those associated with family involvement that makes FB a distinct area of study (Berrone et al., 2012). This suggests the need for a theoretical lens that appropriately accounts for the impact of family ownership and/or management.

During the 2000s, a number of papers built up the socioemotional wealth (SEW) approach to studying FB, driven partly by several seminal papers by the celebrated American academic Prof. Luis Gomez-Mejia (Gomez-Mejia, Makri, & Larraza-Kintana, 2010). A strong call was made by leading FB scholars in 2011 for the development of new theory that gives due regard to the unique nature of FB research in order for the field to gain greater academic legitimacy (Gomez-Mejia, Cruz, Berrone, & de Castro, 2011).

For the purposes of this study, SEW is defined as “the sum of non-financial benefits an owning family can derive from the business” (Börje, Ljungkvist, Brunninge, & Nordqvist, 2017). These SEW benefits include, for example, familial authority, the sense of belonging and preservation of family dynasty (Gomez-Mejia et al., 2010). “As a consequence,” say Börje et al. (2017), “decisions that might seem irrational from a financial perspective can make perfect sense if SEW is taken into account”. Put differently, “Decisions that seem unprofessional to outside observers, such as appointing an unexperienced family member as the CEO of the firm, might be logical to the family-owners because they provide nonfinancial benefits” (Gómez-Mejia & Kalm, 2016).

Today, SEW is viewed by many experts as an “overarching theoretical umbrella to research family firms” because it enables researchers to “deeply grasp the distinctive functioning of family firms and their inherent heterogeneity” (Kellermanns, Mazzola, & Sciascia, 2014).

This study is one of a growing number to consider the importance of SEW not only for the owner-family and the FB, but to external stakeholders as well. “Theory development and empirical investigation of SEW has focused, so far, on internal stakeholders (family members, managers of family firms, etc.) and the consequent effects on firm behaviour and performance” (Fernando et al., 2014).

c. Research motivation: Areas of conflict between PE and FB

As noted above, the most important and overarching divergence (from which several others are derived) is between the PE firm’s purely (or at least ‘primarily’) financial goals, and the FB’s combination of financial goals with the decisive goal of enhancing SEW (Miller & Le Breton-Miller, 2014).

Recent studies back this up. In one, covering only publicly traded FBs, the authors found that minority investors “tend to be sceptical of the economic rationality underlying major managerial decisions only when there are cues leading them to suspect that the family’s pursuit of ‘socioemotional wealth’ takes place at the expense of economic returns” (Gomez et al., 2016). They concluded that “If minority shareholders in these organisations receive sufficient economic returns and believe that the CEO is committed to the firm’s economic success... they are less prone to be concerned with specific managerial practices or strategic decisions”.

Some literature is far less positive about the PE-FB relationship. One study looking at the issue argued that “external investors will act proactively and strategically in response to potential deviation from financial profit maximisation in family firms which are likely to emphasise SEW,” concluding that “sophisticated investors are more likely to identify these problems in family firms and avoid investment in such firms” (Fernando et al., 2014).

This foundational conflict manifests itself in several important ways. Three of the more prominent ones are:

- i. Contrasting timelines. PE firms typically aim to realise their investment in five years (Gompers, Kaplan, & Mukharlyamov, 2016), with very few lasting near a decade (Hasan, 2014), while FBs generally want to conserve wealth for future generations (Koropp, Grichnik, & Gygax, 2013).
- ii. Conflicting risk appetites. “The risk aversion attitude predicted by agency theory in family firms may create a barrier for growth-oriented strategies that VCs [venture capital firms] aim to develop” (Martí et al., 2013).
- iii. Incompatible approaches to governance. FBs are associated with a number of governance weaknesses (Lien, Teng, & Li, 2016), none less important than nepotism (Combs, Jaskiewicz, Shanine, & Balkin, 2017).

d. Research motivation: Gaps in the literature

I. Gaps in the PE literature

There remain important questions in the field of PE where the literature is either lacking or where findings are contradictory. As one major review of research methodologies in PE found in 2012, “Like in any other new discipline, research processes [in PE] are chaotic, having high levels of disagreement regarding both theory and practice, and the quality of research output is usually weak” (Smit, Suvansh, & Sachan, 2012).

Also telling for this study is a recent criticism by Gompers et al.: “academic research has increasingly focused on the effects of private equity. What have been less explored are the specific analyses and actions taken by PE fund managers” (2016). This suggests a ‘black box’ around the value-creating (or value-destroying) activities of PE fund managers.

PE also demands constant academic attention in order to keep up with its notoriously rapid rate of innovation and change. This may explain “the persisting gaps between the academic literature and the daily activities of practitioners, as the scientific body struggles to catch up with the pace of innovation” (Demaria, 2013). For example, “Despite the prominent role that discounted cash flow valuation methods play in academic finance courses, few PE investors use discounted cash flow or net present value techniques to evaluate investments. Rather, they rely on internal rates of return and multiples of invested capital. (Gompers et al., 2016).

Data is significant limiting factor when doing research on both PE and FB. Data is hard to come by, given that both PE and FBs are rarely required to publish information and often have strong motivation not to (Smit et al., 2012). “The majority of research has relied upon secondary data. And even when a study collects and uses first-hand data, the sample size remains small” (2012). The present study aims to gain deep insights by securing in-person interviews with experienced PE professionals.

II. Gaps in the FB literature

There remain other large gaps and asymmetries in the FB literature. This was thoroughly displayed by a review of academic papers between 1988 and 2013 by Benavides-Velasco *et al.* They found dominance of output from the developed West (the US accounting for more than half of all articles on the topic) and even from a select few universities; over-emphasis of analytical tools that offer “mechanical quality that does not help us understand the forces that drive the empirical observations”; and a limited scope of topics covered (succession and governance standing out as most prevalent) (2013).

Further, the overwhelming majority of studies on FB look only at publicly listed firms, where data is far more readily accessible (Carney et al., 2013).

FB research has also thus far been dominated by two distinct areas: (i) comparing “family and non-family firms in terms of performance implications”; [as per (Martí et al., 2013)] and (ii) how the “specific characteristics of family business affect firm performance” (Camisón, Forés, & Puig-Denia, 2016).

Finally, “the vast majority of research examines the intra-firm performance drivers” but is now “beginning to examine inter-firm relationships as a source of competitive advantage” (McDowell & Stanley, 2014).

III. Limited literature on the special case of private equity in family businesses

As noted, this intersection is sparsely covered in academia. As several of the leading thinkers on the topic put it just last year: “Little attention has been paid to how minority owners respond to the pursuit of noneconomic goals by family principals” (Gómez-Mejía et al., 2016)

It follows that studies on the combined case of PE investments in FB are even more rare and have at least as much potential for improvement. It would not be a stretch to argue that “academic research into private equity in family firms is still in its infancy” (Tappeneier, Howarth, Achleitner, & Schraml, 2014). Put differently, “Although there is significant research on family firms as well as on institutional investors, there has been little research on the nexus of these two” (Fernando et al., 2014).

e. Research motivation: A guide for business

The practical business need follows from the above. It is intended that the findings and insights from this study will serve as a useful resource for PE professionals as well as owner-families and other managers within a FB.

On the side of the PE firm, there will no doubt be value in understanding the theory behind SEW and how it can influence the decisions a FB makes. This study also provides insights from family members with experience as senior decision-makers in a FB that has gone through or is currently going through a PE investment. Even for the PE professional accustomed to transacting with FBs, this study ought to be instructive for its in-depth inquiries, the diverse array of opinions garnered and the robust analysis thereof.

For the FB, there is equally value in understanding the paradigm of SEW. It is intended that this be an opportunity for self-reflection and a chance to understand one's own business and competitors better. That intention applies to FBs equally, whether they have experienced a PE transaction, might do so in the future, or will never be the sort of business that is targeted by PE.

For FBs currently involved with a PE firm or those who face a PE approach in the future, the insights from twelve highly experienced PE professionals, coupled with the analysis thereof, ought to provide a diversity and depth of opinion that will be of great use in negotiating and managing this complex relationship in as fruitful a manner as possible.

In light of the pervasiveness and growth of this industry, as outlined above, the practical need is a substantial one that is expected to grow for the foreseeable future.

f. Research motivation: Economic importance

Of course, the importance of FB as an area of study is enhanced further by the sheer pervasiveness of this type of entity. Indeed, “the main reason provided by scholars for directing scholarly research toward family firms has largely been the observed dominance of these firms on the economic landscape of most nations” (Sharma, 2004). This volume must be considered in light of the estimates that only around 12% of these firms survive into the third generation (PWC, 2016). This implies a strong marginal benefit from small improvements in management of FBs.

This topic has heightened relevance in places like South Africa, where great emphasis is placed on the role of small-and-medium-sized enterprises (SMEs) by government (South African Department of Trade and Industry, 2017) and the private sector (Amra, Hlatswayo, & McMillan, 2013) as a source of GDP growth and job opportunities. We also know that “family involvement in SMEs is prevalent” and the mix of family and non-family SMEs has a pronounced impact on growth and employment (Chrisman, Fang, De Massis, & Memili, 2015).

Whatever the reason for the gaps, interest is building, especially in the immature FB field, where “there is a growing interest in the field as demonstrated by an increased number of studies in family business within entrepreneurial research and mainstream journals” (Benavides-Velasco, Quintana-García, & Guzmán-Parra, 2013). The topic for the present study was selected to help

fill out some of the gaps and address questions with academic and practical business gravity in a field with tremendous scope.

g. Contribution of this study

This study contributes to the literature in two ways. First, as argued above, the theoretical paradigm of SEW is young and in need of extension to new areas of study within the field of FB.

The second is a more targeted contribution. As an exploratory study of the complicated relationship of PE investments in FB, this study, through its identification of the major challenges and solutions thereto, signals to other researchers which particular questions need further study.

As will be shown throughout the chapters to follow, this study does, indeed, confirm substantial portions of the literature. For example, the theoretical prediction that the sample of FBs would have a longer timeline than the PE interviewees was highlighted as a challenge. In other areas, such as risk preference, the findings contradicted some of the theory. Likewise, the solutions garnered ranged from tried-and-tested contractual terms that one would expect in any deal of this nature, all the way to novel approaches that the literature had not contemplated.

h. Conclusion and structure of this report

In sum, this is an exploratory study into the challenges and related solutions that emerge from the difficult but potentially highly fruitful relationship of PE investment into FB. Through the paradigm of SEW, in addition to its own findings, this research sheds light on more specific problems that are worthy of further investigation by later research.

Looking ahead, in chapter two this study reviews the literature on PE, FB and SEW with a view to placing the current investigation in context and further justifying the need for such a study. Chapter three stipulates the detailed questions to be addressed in this study, before chapter four outlines the methodology followed. Next, the results of the study are presented in chapter five before a discussion thereof in chapter six. Finally, conclusions of the study are stated in chapter seven, before suggestions for further research are made.

2. Literature review

a. Introduction

This chapter provides an overview of the relevant literature in order to position the present study as an important addition to extant theory and an insight into current practice. It begins with a definition of PE and an outline of how it operates as an alternative investment ecosystem. FB is then introduced and its defining characteristics elucidated. Finally, the concept of SEW is explained and its appropriateness as a theoretical lens for this study backed up. The primary objective of the literature review is to argue the need for the present study, both for academia and business.

b. Private equity: An introduction

Private equity (PE) is an alternative investment (Sokolowska, 2016). To use a definition by exclusion, an alternative investment is simply an investment class that falls outside of the traditional asset classes of stocks, bonds and cash (FT.com, 2017). The American Institute of CPAs defines alternative investments as “assets that are not listed on any national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or the NASDAQ” (American Institute of CPAs, 2017).

IV. Defining private equity

Before building an argument justifying the need for the present study, a clear understanding of PE is necessary. A sound definition is integral to understanding how the nature of a PE firm differs in several foundational ways from a FB. Therefore, this sub-section provides a consolidated definition of PE.

Picking up from the introductory chapter, PE is defined broadly as an “injection of funds by specialised investors into private companies with the aim of achieving high rates of return” (FT.com, 2017). Money is raised from select private and institutional investors to buy stock directly in businesses not quoted on any public exchange or in a listed entity in order to take it private (i.e. delist from the exchange) (Hasan, 2014). Gultekin summarises the essence of the PE investment strategy: “Private equity is an investment vehicle investing anywhere from early-stage to late-stage companies, with the hope that they can run these companies better” (Gultekin, 2010). That is, investors buy all or part of a business with a view to improving its value before selling all or part of its stake for a profit at some later stage. This makes PE firms

‘control investors’: they “strive to create increases in value through active management of the asset. This is worth doing, but time-consuming and uncertain and requires considerable expertise. And it can be hard to bring about improvement, for example, in an already good company” (Marks, 2011).

This broad definition can be refined thus:

- i. Investments are made through “privately negotiated transactions” (Demaria, 2013);
- ii. The equity is not quoted on any public exchange (Hasan, 2014);
- iii. Capital is invested directly into private companies or as a buyout of a public company in order to delist (Hasan, 2014);
- iv. PE investments can be made at any stage of a company’s lifecycle, ranging from seed capital for a start-up business to buyouts of large, mature firms (Yeboah, Tomenendal, & Dörrenbächer, 2014);
- v. The private equity firm brings not just financing but managerial expertise with a strategy to improve the competitive position, and thus value, of the investee (Tappeiner et al., 2012).
- vi. PE firms typically adopt some combination of proven tactics to grow the value of their investee businesses. These tactics fall into three broad categories: financial engineering, governance engineering and operational engineering (Gompers et al., 2016).
- vii. PE is relatively illiquid, typically with an investment horizon of approximately five years, after which returns are extracted via one of several ‘exit’ or divestment options (Lerner et al., 2012).
- viii. The PE firm will exit (i.e. divest in order to realise the profit from the investment with a lump sum) via one of several typical methods. These include IPO, management buyout, trade sale and liquidation of some variety. (Gompers et al., 2016)
- ix. High risk, high return. “Due to its long-term investment horizon, its illiquidity and its unique structural characteristics, private equity has its own set of specific risks” (British Private Equity and Venture Capital Association, 2015). Theoretically at least, PE is riskier than listed securities, and so demands a higher expected return.
- x. Exclusive access. Unlike public securities and bonds, PE is inaccessible to the ordinary saver/investor. PE firms receive their capital from the likes of large institutional investors (insurance companies, banks, pension funds etc.), corporate investors, sovereign wealth funds, family offices and (particularly in the US) university endowments (Sensoy, Wang, & Weisbach, 2014).

- xi. Different degrees of specialisation. In practice, PE firms vary in their level of specialisation, not only in terms of sector, but also based on the maturity of the investee firms they back (Demaria, 2013).

As will be demonstrated later in this chapter, a number of these definitional elements of PE stand in stark contrast – even opposition – to FB. What ought to be striking already is the very nature of the PE firm’s strategy to buy into companies, boost their value for a targeted market and sell within a few years. This is fundamentally contradictory to the FB model that will be outlined later.

V. The private equity business model

The PE business model is also critical to understand if one is to grasp the nature and challenges of a PE investment in FB. For example, consider ‘the exit’, a staple of the PE model. This describes how the PE firm divests itself from the investment (see Figure 2 below) The PE firm times this carefully, and achieves the highest price per share when selling one of their portfolio companies in its entirety, rather than selling just their shareholding. In the latter case, the owner-family retains their shares in the business, which reduces the number of potential buyers. A trade buyer, for example (that is, a business already in the same industry, who buys a firm in order to operate it), will desire 100% of the business (Demaria, 2013). This has obvious relevance long before the exit is reached. From the earliest negotiations, both PE firm and FB must be clear on the other party’s respective intentions with respect to keystone issues such as exit strategy.

Figure 2 Diagrammatic representation of a typical private equity business model (adapted from Hasan, 2014)

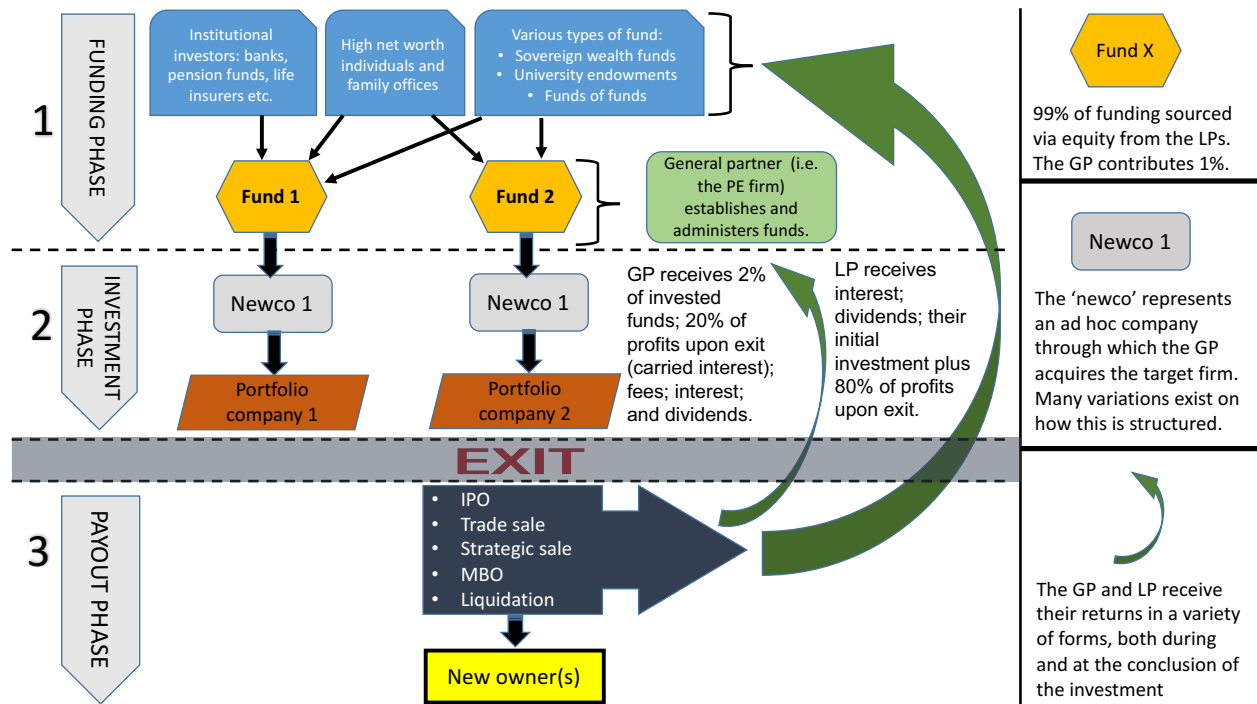


Figure 2 above depicts the typical PE business model, as outlined in Hasan (2014):

The majority of the equity funding originates from what is known as a limited partner (LP). Conventionally LPs provide 99% of all capital. These may be institutional investors (banks, pension funds, insurance companies etc.), funds of funds, corporates, sovereign wealth funds, endowments or investment funds of wealthy families or individuals.

The PE firm, also known as the general partner (GP), typically constituted as a partnership, pitches for these monies to be invested in one or more of their distinct funds, each of which is mandated with a particular investment strategy. This strategy and the LP-GP relationship in general are governed by the limited partnership agreement (LPA). The GP takes the form of a partnership and typically supplies 1% of the capital for each of its funds.

The GP supplements this equity financing with substantial debt. While the degree of gearing varies widely (impacted by everything from the availability and cost of debt to the regulatory environment and individual risk appetite of the PE fund), GPs typically rely heavily on the fact that higher debt levers up profits and thus boosts returns from successful investments. In the

advanced US PE market, for instance, the average debt-to-equity ratio targeted in portfolio companies is 182% (Achleitner, Braun & Puche, 2014).

The GP deploys this capital from each fund in order to acquire all or part of the chosen investee firms (these are referred to as 'portfolio companies'), as per the mandate from LPs. The exact means of acquisition is a complex financial model on its own, where taxation in particular must be carefully structured. Typically the GP will create a new company, known as a "newco", to function as a holding company which buys the target firm's shares (the KKR method) or its assets (the Oppenheimer method) (Iannotta, 2010). At this stage the investing firm has already "formed predictions about the likely type of exit and the time-to-exit" (Arthurs & Gerasymenko, 2014) for the investment.

The GP provides investees with not just capital, but expertise. The level of involvement the GP takes in portfolio companies depends upon its proportion of ownership and varies according to the individual GP's strategy and the individual deal. Some firms bring operational expertise in the particular industry at hand and play an active role in the running of the business. At the other end of the spectrum, PE firms may buy into a business due in large part to their faith in the management team already in place. In such a case, they are passive with respect to daily operations, preferring to limit involvement to financial engineering, governance and other high-level activities. Either way, "PE firms use their superior access to finance and management know-how to unlock the untapped potential in good companies or to turn around poorly performing or failing ones" (Appelbaum & Batt, 2014).

PE firms typically rely on being able to keep their funds and portfolio companies as separate legal persons. This has the powerful (and controversial) effect of limiting the liability of the GPs and LPs for the debts of portfolio companies (Appelbaum & Batt, 2014).

In addition to debt leverage, PE firms are able to enhance their returns through economies of scale that individual portfolio companies might struggle to achieve. Managing and purchasing through what acts much like a centralised holding company spreads overhead costs across the wider entity.

Financial incentives are often used by the PE firm to align interests of portfolio firm managers with their own. This is usually by performance-based pay.

PE firms have available to them four primary routes through which to acquire new portfolio companies: (1) Purchasing publicly traded companies in order to delist from the stock exchange and run as private businesses; (2) Buying divisions of larger companies who seek to divest the given operations; (3) Acquiring companies from other PE firms via secondary buyouts; and (4) Buying family-owned businesses from their founders and/or heirs (Appelbaum & Batt, 2014).

A 2014 study of the types of companies involved as targets in LBOs found privately owned companies to be most prevalent, with 36% of the total by volume. A very near second was subsidiaries of other corporations (34%). Public companies were taken private 19% of the time, purchases from other PE firms was just under 10% (Harford & Kolasinski 2014).

At the end of the investment horizon of approximately five to seven years, the GP realises the investment with some form of exit. This may take the form of an initial public offering (IPO), trade sale, management buyout or leveraged recapitalisation. Historically, half of all PE exits will be via sale to a strategic buyer (i.e. a business operating in a similar industry with a view to keeping the portfolio company as a going concern), some 30% sell to another financial buyer (e.g. another PE firm) and another 20% via initial IPO (Gompers et al., 2016; Strömberg, 2008).

Naturally, the prevalence of the various exit strategies varies substantially across different regulatory and economic environments. For example, heavy regulation of trade sales in China have made IPO the dominant exit route there (Johan & Zhanga, 2016).

The GP customarily earns a management fee of 2% of committed capital during the life of the investment from the LP, plus a profit share (carried interest) of 20% of the fund's profits after reaching some hurdle rate of return – i.e. the “2 and 20 model”. The LP receives its initial investment back plus 80% of profits upon exit. The GP may also charge the portfolio companies for certain types of fee, including ‘transaction fees’ based on work surrounding acquisitions, divestitures, refinancing debt etc., as well as ‘monitoring fees’ (Morris, 2011).

VI. PE operations and value creation

Since PE firms gain a great deal of their return via increasing the value of the portfolio company between the time of their purchase and the time they exit, their methods of achieving this are

integral to understanding operational challenges that emerge between the PE firm and the portfolio FB.

While studies have tended to focus on the outcomes of PE investments (typically their performance), far less is known about the specific actions PE fund managers employ to maximise portfolio company value for exit (Gompers et al., 2016). This was made clear in one of the few comprehensive studies on the South African academic landscape. Krige and van Niekerk performed a multiple regression on 46 completed buyout investments to investigate the relationship between identified sources of return and the realised IRR (Krige & van Niekerk, 2009). They found that earnings growth and earnings multiple increase were the only variables that had a significant impact on returns. They explain this impact by the fact that parties who buy companies from PE firms rely heavily on discounting expected future cashflows to value the investment. This means earnings growth in particular would increase the selling price. However, even with these two variables, the model explained only 49% of the variability in IRR.

Krige and van Niekerk make a remarkable statement. “Is the source of superior Private Equity returns like a type of Holy Grail which is ever-elusive? It is the view of the authors that the sources of superior Private Equity returns cannot be distilled in an empirical way. Private Equity investing is above all a highly specialised arena with a myriad of interdependent methods”. They conclude, “Herein lies the value-adding function of the Private Equity managers. They have the ability to assess each investment and each problem on its own merits in the ex-post management process, and then they use their superior knowledge, relationships, experience and exceptional management in an interrelated artful way” (Krige & van Niekerk, 2009).

Gompers et al. argue that “No paper examines detailed levers of value creation across financial, governance and operational engineering” in this arena (2016). Their survey of 79 PE investors with combined AuM of \$750bn elucidated three types of levers or activities PE firms use to build value in portfolio companies:

1. Financial engineering: (a) Capital restructuring. As the term ‘leveraged buyout’ suggests, PE firms employ debt to leverage their investment; (2) Equity incentives to current management is another example. “On average, PE investors allocate 17% of company equity to management and employees.”

2. Governance engineering: “Creating a better alignment of incentives between managers and shareholders or providing better oversight that can limit empire building and opportunistic behaviour”.
3. Operational engineering: Essentially some combination of cutting costs and boosting sales. Gompers et al. found that PE firms changed the portfolio company’s strategy or business model in one third of cases. Part of this category is strategic acquisitions and disposals. It also demands investment in incumbent advisors, management and staff and, where necessary, replacement of managers and staff. The study found that the PE firm replaced the portfolio firm CEO after investing in one third of cases.

At least one recent paper suggests that PE firms have shifted focus from being primarily financial engineers in the 1980s to being operational engineers during the PE boom of the pre-crisis 2000s (Hoskisson, Shi, Yi, & Jin, 2013).

VII. Performance and private equity

While one might assume due diligence is a task primarily of the PE firm in assessing the value of the target company, it is just as important to any FB to understand the performance credentials of a PE suitor (Gompers et al., 2016). As outlined below, financial performance of PE firms is a matter of some controversy.

Financial performance in this arena is notoriously difficult to decipher for a number of reasons. The asset class is illiquid and reporting requirements limited. “Since no data set exists on the entire universe of private equity funds, researchers and practitioners are forced to rely on samples, some of which might differ depending upon fund characteristics and collection methods employed by the data provider” (Brown, Harris, Jenkinson, Kaplan, & Robinson, 2016). Even among the most respected commercial sources of data, each has its own mix of funds it monitors and only a relatively small proportion of funds are covered (Harris, Jenkinson, & Kaplan, 2014). This helps to explain divergent performance findings, which must be evaluated for an appropriate overall understanding of PE performance.

In the South African space, where peer-reviewed studies in this arena are few (Krige & van Niekerk, 2009), the most comprehensive study of this nature on the performance of PE was published in 2008. Analysing 11 South African PE firms over a 13-year period, they found that local PE firms had outperformed the JSE All Share Index by 18% per year before fees and that

this figure decreased to some 12% when adjusted for fees (Missankov, van Dyk, van Biljon, Hayes, & van der Veen, 2008). Other benefits they found regarding the asset class included diversification for investment portfolios, low correlation with conventional asset classes and good risk-adjusted performance compared to other asset classes as measured by Sharpe ratios.

In what is described as the “first large-scale academic study on investor returns” in PE by (Hung & Tsai, 2017), Kaplan & Schoar found in 2005 that LBO investor returns for the preceding 20 years had been slightly below those of the S&P 500 (Kaplan & Schoar, 2005). However, serious doubt has been cast over the quality of their chosen data set from Venture Economics. Stucke & Higson in particular argued that the data was flawed by a strong downward bias. (2012)

Lopez-de-Silanes, Phalippou & Gottschalg strongly countered the Kaplan & Schoar findings when they studied a new data set covering over 80 countries for more than three decades preceding 2005. Based on 7500 investments by more than 250 PE firms, they found that the median investment (gross of fees) had an internal rate of return (IRR) of 21% (2015).

Another approach is to ignore the PE firms themselves, and rather analyse the cash flows of the LPs. Harris, Jenkinson & Kaplan did just this with a data set comprising more than 300 institutional investors over the three decades immediately preceding 2014. They concluded that buyout funds in the US had exceeded returns of the S&P 500 by an average of 20% over the life of the fund, or just over 3% per year (2014).

Brown et al. (2016) temper this positivity. The authors had previously (in a 2015 working paper titled ‘What do different commercial data sets tell us about private equity performance’) subjected four data sets from leading commercial sources and covering a long time span, to identical scrutiny in order to test the reliability of the data. Having secured similar results across the data sets, they proceeded with one source (cash flow data from the holdings of almost 300 institutional investors, relating to some 1,800 North American private equity funds). They found that buyout funds (here all PE funds investing later than true venture capital) outperformed public stocks for long periods prior to 2006, but that since then the performance gap has narrowed notably. It has been argued that this is the predictable result of a lucrative industry attracting new entrants as it matures (Braun, Jenkinson, & Stoff, 2017). As for the inherently

riskier VC firms, results were highly erratic. They boomed in the 1990s, then underperformed public exchanges during the early 2000s, and have rebounded somewhat since.

One indicator that markets are beginning to lose optimism for the performance potential of PE firms is that “In recent years, institutional investors have increasingly invested directly in private equity, bypassing the traditional intermediated fund structure” (Fang, Ivashina, & Lerner, 2014). This refers to cases where a co-investment is made alongside a PE fund as well as solo investments, where the institutional investor initiates and executes the entire transaction alone, bypassing a PE firm. A Preqin survey found that in 2014, 52% of investors in PE funds intended to increase their direct investment activity (Preqin, 2014). Fang et al. (2014) argue that “low fees – and consequently, the promise of higher returns – appear to be the primary reason behind this trend. Yet... running a successful direct investing program can be challenging”. The authors go on to decipher cases where the benefits of investing through a PE firm (chiefly lower transaction costs and the ability to deal with information asymmetries) might be overcome, to make it worthwhile for investors to save on PE firm fees and go solo.

VIII. Private equity, jobs and wages

Perhaps even more contentious than PE performance is the impact PE has on jobs (Appelbaum & Batt, 2014). Given that American PE firms alone purchased into some 11,500 firms employing nearly 8 million people during the 25 years to 2014 (Appelbaum & Batt, 2014), the gravity of this matter is unmistakable.

However, between the stances that PE firms are pure rent-seeking killers of jobs and proponents of the model who hail it as a lifeline for ailing firms and a uniquely effective step-up for those ready to scale up, the evidence suggests a more complex answer. A major global study using 3,200 American companies between 1980 and 2005 found that “Target firms destroy more jobs post buyout, and they create more new jobs... at a higher rate than controls. Overall net employment effects are modest” (Davis, et al., 2014). Another 2014 study on the impact buyouts have on both employment and wages concluded, likewise, that there is no evidence that PE firms are deleterious. They found that “LBOs with PE backing have no significant impact on wage levels” and that there is “weak evidence of higher employment after a PE-backed LBO” (Amess, Girma, & Wright, 2014). One year later an Indian study found that in “the five years following initial investment, companies backed by private-equity firms grew direct employment 6% faster than those not backed by the sector. Private-equity-backed companies

also grew faster than the non-private-equity backed ones, both in revenue and profits” (Kapur, Pandit, & Tamhane, 2015). Davis, et al. explain contradictory earlier studies on PE and employment (Kaplan, 1989; Muscarella & Vetsuypens, 1990) by the fact that there were very few of them and those that were done “typically rely on small samples dictated by data availability” (2014).

There is no shortage of literature denouncing the impact PE has on jobs and wages. Again, Appelbaum & Batt are prominent critics. The two keystones of their thesis are that “PE-owned companies destroy more jobs than they create relative to comparable publicly traded companies” and that “private equity firms tend to acquire healthy, better-performing companies rather than those suffering financial distress. That is, job losses in PE-owned companies are not due to the fact that these companies were distressed to begin with” (Appelbaum & Batt, 2014). Even CEOs of portfolio companies are not exempt. One study found that 51% of CEOs were replaced by the new PE owners within two years of the transaction’s completion (Jianxin Gong & Yuching Wu, 2011).

IX. PE and risk

GPs take on risk far in excess of what portfolio companies (and perhaps their LPs) would choose to. Given their multiple funds and portfolio companies (partly to diversify away non-systematic risk), as well as the relatively insignificant equity ownership in portfolio companies (given their favour for debt), PE firms hold a disproportionately small portion of the risk of a portfolio company failing, but are richly rewarded by its success (Kalleberg, 2015). This may be the source of great differentials between the risk appetite of a PE firm and its investee FB. While the FB may represent 100% of the owner-family’s wealth, that may be a small investment for the GP, from which it can offset losses by other investments.

X. PE and gearing

Synonymous with the term ‘leveraged buyout’ (LBO), PE firms rely on a high level of debt to gear up their returns. Critics argue that they boost borrowing too much for many of their target firms and exit the investment before this impacts negatively on the business. Appelbaum & Batt (2014) argue that the typical debt-to-equity ratio of 70-30 for a PE portfolio company, versus 30-70 for a publicly traded company, helps account for their finding that “private equity-owned companies historically have had twice the bankruptcy rates of publicly traded companies, and

these rates were particularly high after the economic recession of 2007 hit” (Axelson, Jenkinson, Strömberg, & Weisbach, 2013).

XI. Other criticisms of private equity

Despite the evidence of positives that accrue to a variety of stakeholders in the PE universe, there are several strong criticisms levelled against the industry from a number of sources. Every one of these has potentially great gravity for an investee FB. While most are business ills, it is not hard to imagine several having benefits to a FB investee. This list does represent issues that every FB should be fully aware of when considering investment from PE:

- i. Excessive fees, often poorly disclosed to limited partners (David & Sensoy, 2013).
- ii. A large proportion of GP earnings are based on fixed fees, unrelated to performance, creating an incentive to maximise fund size, regardless of attractiveness of target firms and performance of current investments (Phalippou, And, Goetzmann, & Chen, 2017).
- iii. Reneging on implicit contracts and institutional norms of reciprocity and trust. Appelbaum, Batt & Clark (2012) present cases where PE firms have acted entirely lawfully, applying sound commercial logic, yet found that breaking the trust of a stakeholder group to be disastrous.
- iv. Standardising away the customisation. PE firms save money by applying pressure to suppliers when buying in bulk (for example, ordering computers for all of its portfolio companies at once). They also achieve efficiencies with exploitative (repetitive) strategies rather than exploratory, or tailored, solutions. This can result in a one-size-fits-all approach that negates the individual competitive advantages held respectively by portfolio companies. One line of research refers to this peculiar distinguishing factor that sets each individual FB aside and makes it successful as “family gravity”. The main proponents of this term argue that family gravity is “a critical success factor in achieving long-term success” and that while FBs “should match nonfamily ones in their governance structures and opportunities for professional growth, they must be careful not to lose what makes them special” (Fernández-Aráoz et al., 2015).
- v. Cutting important ties. FBs in particular rely on close “relationships of trust and collaboration with the contractors in their supply chains, and those relationships contribute to the revenue generation and benefits far beyond the realised cost savings from centralisation strategies” (Appelbaum & Batt, 2014).
- vi. Short-term, single-minded focus on shareholder value. Given the traditional time horizon of approximately five years, there is no scope to pursue goals such as innovation or

market share, let alone to satisfy other stakeholders with green policies or employee wellness. PE firms are beholden to the financial multiples achieved between investment and exit (Harford & Kolasinski, 2013).

c. Family business: An introduction

Like the introduction to PE above, it is necessary to understand the FB in order to properly answer the research questions posed. Here we review the literature of the FB with a view to discerning what it is that makes a FB different to a non-FB.

The introductory chapter detailed the ubiquity of FB across the globe and the resultant impact on employment, tax revenues, economic growth and the like. Suffice it restate here that FBs constitute between 65% and 96% of businesses by number, depending on the region and how this is analysed (Hiebl, 2015). That said, FBs around the world are heterogeneous (Chrisman, Chua, Rau, & Steier, 2012). While the sources of distinctiveness are myriad, one distinction of particular interest is that between public FBs and private FBs. There is increasing evidence that private FBs are a distinctive form of business worthy of study as a category of their own (Combs J. G., 2008; Carney et al., 2013).

This study focuses on private FBs. However, much like in Carney et al. “we necessarily draw upon literature that does not explicitly distinguish between the public and private types of family firm. However, we reason that the arguments found in the generic family firm literature will be accentuated in PFFs [private family firms], as the absence of stringent external capital market constraints reduces isomorphic pressure and highlights identity characteristics that are congruent with family businesses in their pure form” (2013).

I. Defining family business

As per the sub-section defining PE, a clear definition of FB is a starting point to understanding the challenges that emerge when PE invests in FB. As will be demonstrated, despite the fact that the literature has some way to go before establishing a robust definition of FB, the researcher asserts that the FBs that are the subject of this empirical study fall well within the major definitions.

The lack of consensus on a precise definition of a family business is an indication that this is an emerging field of inquiry, where academic literature is “not as voluminous as in other

management areas” (Benavides-Velasco et al., 2013). Indeed, “family business studies have [only] emerged as a distinctive field of scholarship over the last two decades” (Chrisman et al., 2016). Hence results such as a 2012 study that surveyed academics and discovered that more than half believe there is little or no consensus on the exact definition of FBs in the literature (Litz & Pearson, 2012). This helps to explain the great variation in estimates of the pervasiveness of FBs – these have ranged from 15% of all firms, all the way up to 80% (Harms, 2014).

That said, “there appears to be at least some agreement that two broad approaches to FB definitions may be distinguished in the current literature” (Hiebl, 2015). First, there is the very practical components-of-involvement approach, or COI, also known as the demographic approach (Basco, 2013). On this view, the FB is set apart from other businesses by the level of involvement the relevant family has in the business, as measured by proxies such as ownership, management and governance (Zellweger, Eddleston, & Kellermanns, 2010), all of which might be measured further by the extent to which they span more than one generation (Chrisman, Chua, & Sharma, 1999).

One obvious benefit of this approach is the ease with which one can measure these simple proxies. The primary criticism argues that family involvement might well be necessary for a firm to be considered a FB, but it is not sufficient as it says nothing about the way the firm actually behaves or whether the family consider the firm a FB (Chrisman et al., 2012). Another flaw is that there is no obvious threshold for the components of family involvement above which a firm can universally be deemed a FB (Siebels, 2012). Studies using different floors for inclusion as a FB cannot be meaningfully compared and contrasted.

Because of these flaws, some treat the COI approach as an easy-to-use first step in the task of defining a FB, using to eliminate a number of candidates for FB status and shortlist those with the potential to be rightly called FBs (Zellweger et al. 2012).

The second of the two common ways to define a FB is the more theoretical essence approach. This says that the key distinguishing factors of a FB are the way it behaves and what it aspires to be. So the test is “whether an FB exhibits typical FB behaviours and/or whether the family members involved consider the company to be an FB and wish to retain this status” (Hiebl, 2015). Hence the preference of some to call this the intention-based approach (Mazzi, 2011).

The striking flaw in the essence approach is circular reasoning: a firm is a FB if it behaves as such. How does a FB behave? A second problem is the use of self-evaluation (Hiebl, 2015). It would seem feasible that a family considers the firm it is involved in to be a FB but still run it otherwise. Vice versa, it is no certainty that a family that believes and says it is not a FB, nevertheless runs it like a FB.

Chua et al. provide an example of an essence-based approach, arguing that a FB is defined with respect to the behaviour of the people who own and/or govern and/or manage the firm. “They must behave as they do to serve a purpose,” they argue, “We believe that this purpose is to shape and pursue the vision of one or a few families that control the dominant coalition in the firm. By vision, we simply mean a notion of a better future for the family, with the business operated as a vehicle to help achieve that desired future state” (Chrisman et al., 1999).

A school of thought more directly related to this study is that outlined by Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007. For them, FBs are distinct because of their socioemotional wealth.

An attempt to overcome the flaws in both of the above methods for defining a FB has resulted in the F-PEC scale. Built in 2002, this is a tool to measure a family’s influence on a company based on three dimensions: power, experience and culture (Astrachan, Klein, & Smyrniotis, 2002). The power element very much resembles the COI approach: “involvement of the family in the ownership, management and/or governance of a company” (Hiebl, 2015). The second dimension, experience, measures the totality of the experience the family has within the company, as measured by the number of family members involved presently and across the generations. “It is assumed that every handover across the generations leads to an increase in knowledge and experience within a company” (Hiebl, 2015). The third and final component of the F-PEC, culture, is an evaluation of the degree to which the family’s goals and values align with those of the company (Mazzi 2011).

Critics such as Rutherford et al. acknowledge that the F-PEC scale has the benefit over the COI and essence approaches in that it removes the dichotomy between FB and non-FB by making use of a scale (Rutherford, Holt, & Kuratko, 2010). However, they dislike the P-PEC for the

same reasons they dislike COI – it captures the involvement of the family in the business, but not the essence (ibid).

Hiebl et al. (2015) studied definitions of FB by analysing 238 academic articles from leading international journals in the field of FB published between 2002 and 2011 to establish which definitions are used in empirical FB research and which contextual factors affect the use of various definitions. Table 1 below is adapted from this work.

Table 1 Approaches to defining family business

Approach/Measure	Definition	Usage (% of evaluated articles)	Benefits	Criticism
Components of involvement (COI) approach	FB meets some minimum degree of family involvement measured by ownership, management and/or governance.	44%	<ul style="list-style-type: none"> ▪ Simple to calculate ▪ Works on large datasets where essence approach is not feasible. 	<ul style="list-style-type: none"> ▪ Involvement doesn't guarantee firm behaves like a FB. ▪ No obvious threshold to qualify as FB.
Essence approach	FB exhibits certain typical behaviours and is considered to be a FB by the relevant family who wants it to stay that way.	21%	<ul style="list-style-type: none"> ▪ More depth than COI approach. ▪ Stronger demand for actual behaviour than COI. 	<ul style="list-style-type: none"> ▪ More complex than COI. ▪ Degree of circular reasoning. ▪ Self-assessment may not be reliable.
F-PEC	Measures a family's influence on a company based on three dimensions: power, experience and culture.	5%	<ul style="list-style-type: none"> ▪ Measured on a continuous scale, avoiding binary distinction. 	<ul style="list-style-type: none"> ▪ Like COI, doesn't measure intention or actual behaviour.

Hiebl et al. also found that the definition used varied with the type of analysis being done and by the journal in which the study was published. For example, studies of large, publicly listed FBs tend to use the COI-based approach. Practically, this makes sense. Given the size of the dataset, the more in-depth essence approach is not feasible. They conclude, “for future FB research, it might be of interest to not aim for a unique FB definition but to work towards creating standard FB definitions for certain types of studies... Creating such standard definitions for methodological subfields of FB research may help to at least make FB studies within such subfields more comparable than today” (2015). They suggest, for example, that studies of large public datasets using quantitative methods may choose COI as a standard tool; while smaller datasets using qualitative data have the capacity to make more thorough approaches, such as the essence approach, the standard.

While it is not uncommon for PE to purchase a listed company and take it private, this study examines only the less well-studied private FBs. “Because of the difficulties in gaining access to privately held family firms’ data, most of the existing evidence on the impact of SEW on family firms’ decision making have been conducted on publicly traded firms” (Berrone et al., 2012).

Thus, studying private FBs has several benefits. First, as per the quotation above, there is less known about FBs that do not trade publicly. Most put this down largely to the lack of readily available data on privately held FBs (Carney et al., 2013). Second, private FBs tend to have a far greater degree of family ownership and influence. While studies of publicly held FBs typically demand just 5% family ownership (Miller, Le Breton-Miller, Lester, & Cannella Jr., 2007), it is not uncommon to find privately held firms with family ownership between 50% and 100% (Cruz, Gomez-Mejia, & Becerra, 2010). “Under these circumstances, it is expected that personal attachment to the firm, as well as discretionary power, will be extremely high, so SEW concerns will be more evident than in publicly listed companies” (Berrone et al., 2012).

II. Family business and performance

Since their returns depend largely on the multiplier they achieve upon their exit from an investment (the price they sell their share of the business for relative to the price they pay), one of the essential abilities a PE firm needs is to reliably value a target business (Harris et al., 2014). In the case where the target is a private FB – as in this study – that is especially difficult,

because of the limited reporting requirements on private businesses. The information asymmetry between the PE firm and the investee FB, therefore, can cause conflict. Once invested in the FB, it becomes essential for the PE firm to improve performance. Thus an understanding of the theory of performance of FBs is important foundational knowledge.

By far the most frequently studied theme in the field of FB is the impact family involvement has on performance of the business, primarily in the space of publicly listed firms (Miller & Le Breton-Miller, 2015). In fact, “Assessing the impact of family ownership and management on firm financial performance has been characterized as resembling a search for the Holy Grail” (Carney et al., 2013). Understandably, “there is no doubt that it would be useful to identify a distinct group of firms with family involvement as a key feature in all firms to determine which type of organisation is more efficient: FBs or NFBs [non-family businesses] ... If firms can identify the factors that determine improved performance, they can take advantage of their unique attributes” (Diéguez Soto, López-Delgado, & Rojo Ramírez, 2015).

Unfortunately, the evidence is mixed as to whether FBs or non-FBs generally perform better (Chang & Shim, 2015). Studies that do show one to be a superior performer, the reasoning remains unclear (Miller et al., 2007). As one major meta-analysis put it, “We find that family firms show an economically weak, albeit statistically significant superior performance compared to non-family firms” (Wagner, Block, Miller, Schwens, & Xi, 2015). That shortly after a meta-analysis that found a positive but statistically insignificant superiority for FBs – effect size of 0.006 (O’Boyle Jr., M., & W. Rutherford, 2012). There appears to be a preponderance of evidence that FBs do outperform non-FBs (Amit & Villalonga, 2014; Gómez-Mejía et al., 2016; Wagner et al., 2015). But there are those that find in favour of non-FBs (Bloom & Van Reenen, 2007; Villalonga & Amit, 2006). Findings also vary depending on intergenerational involvement (Badrul, Khan, & Subraniam, 2014). Further, as has been noted, there is no single, generic FB type that is representative of all others (Chua et al., 2012).

A thorough review published in 2013 highlighted the great lack of clarity on the issue of the impact of family ownership/control on performance (Carney et al.). Their “meta-analysis of 48 primary studies of the family control-firm performance relationship robustly [found] no significant direct performance differences” between private FBs and private non-FBs. The authors noted that this finding was made without accounting for “strategic choice factors”. They continue, “Our MASEM results indeed show that the focal relationship is mediated by strategic choices” (ibid).

Having found that private FBs spend less on research and development and are less likely to diversify internationally, both of which they find are negatively related to private FB performance, they surmise that the nonsignificant performance difference must be explained by some compensatory factor.

Wagner et al. settle on the reasonable conclusion that “the question of whether family firms differ from other firms in performance has not yet been answered conclusively” (2015).

III. The complexity and complications of family involvement in business

The specialised dynamic of family ownership adds layers of complexity to vast areas of management, including those with already-high failure rates. Some primary challenges unique to FB, highly typical of FB or accentuated when found in FBs, and therefore of critical importance to any investor PE firm, include:

- a) Those FBs that grow beyond some level must deal with the need to gain outside capital and expertise (such as through PE) and the necessary ceding of levels of family control that brings (Henn & Lutz, 2017).
- b) FBs typically depend largely on a single, dominant decision maker (Feltham & Barnett, 2005). While this is a source of risk to an outside investor, there is evidence that it is a powerful tool if harnessed. FBs usually have “one key family member (but up to three) standing at the centre of the organisation, like the sun in our solar system. These people personify the corporate identity and align different interest around clearly defined values and a common vision. They focus on the next generation, not the next quarter. They tend to embrace strategies that put customers and employees first” (Fernández-Aráoz et al., 2015). They conclude that when this person (or small group of family members) “maintains the right presence in the family business, recruitment, retention and results clearly benefit”.
- c) Owner-families tend to have their wealth highly concentrated in their business, unlike nonfamily shareholders who are far more likely to diversify their portfolios (Gómez-Mejía, Neascu, & Martin, 2017) This has obvious implications for risk.
- d) Top management of FBs typically prefer internal financing to external financing (Modigliani & Miller, 1958). “Advocates of the behavioural agency model [such as Gomez-Mejia et al., 2011] suggest that sustaining family harmony and preserving socioemotional wealth influence capital structure choices, since debt acquisition may exacerbate the possibility of family conflict” (Carney et al., 2013). There is also strong

evidence that FBs, while generally averse to any financing options, will take on debt before taking on equity (Andres, 2011).

- e) The lack of public, audited information about FBs makes investment in them riskier (Cole, Goldberg, & White, 2004).
- f) Simple family conflict is commonplace in FBs and has a significant impact on the business (although effective governance can succeed at managing this) (Alderson, 2015).
- g) Family dynamics also make succession planning more convoluted than usual. It demands, for example, decisions on financial matters such as taxation and inheritance laws. This is only made more difficult and sensitive in the case, as with PE, of entry of new owners and the exit of old ones (Nordqvist, Wannenberg, Bau, & Hellerstedt, 2013). Added to this is evidence from India that when descendants of the founder take over as CEO or chairman, performance of the firm tends to suffer (Muttakin, Khan, & Subramaniam, 2014).
- h) Owner-families tend to operate with a longer time horizon than do decision makers in non-FBs, often weighing up decisions for their potential impact on later generations (Achleitner et al., 2010).
- i) Owner-families entrench relatives in roles they might not otherwise be chosen for (Gomez-Mejia et al., 2010).

d. Socioemotional wealth: An introduction

This study approaches the research questions through the theoretical lens of socioemotional wealth (SEW). The following sections present the foundations of this theory necessary to investigate the PE-FB relationship. Here we define SEW and review the literature on how it impacts the way FBs operate.

Empirical evidence that supports the SEW perspective can be traced back to before the term was coined. Several studies in the 1990s found that family-owners form a strong emotional bond with the firm (Kets de Vries, 1996; Tagiuri & Davis, 1996). A 2006 paper found that family-owners identify with their firms personally and therefore (especially if the business bears the family name) act to preserve the family's good name through the public image of the business (Gibb & Whetten, 2006).

I. Defining socioemotional wealth

Unlike older and more general theories of the firm, the SEW perspective applies particularly to FBs, with its recognition of the relevance of blending family dynamics with the control and management of a company, and the unique management challenges and benefits this scenario presents (Henn & Lutz, 2017). The original paper elucidating the SEW perspective was published in 2007. Here Gomez et al. define SEW as “the utilities family-owners derive from the noneconomic aspects of the business” (2007). They go on to propose a list of benefits that might make up the SEW a family derives from owning and running a FB:

“[The] ability to exercise authority..., the satisfaction of needs for belonging, affect, and intimacy..., the perpetuation of family values through the business..., the preservation of the family dynasty..., the conservation of the family firm’s social capital ..., the fulfilment of family obligations based on blood ties rather than on strict criteria of competence..., and the opportunity to be altruistic to family members.” (Gomez et al., 2007)

Another suggested encapsulation that has gained traction emerged five years later, in what is referred to as the FIBER model, (Berrone et al., 2012). Describing these non-financial benefits as the “affective endowments” of the family, they go on to specify five dimensions that make up SEW:

1. Family control and influence: This may be exerted “directly, such as being CEO or chairman of the board, or more subtly by, for instance, appointing the TMT [top management team] members,” by “the original founder or a dominant family coalition” (Berrone et al. 2012). The ability to do so may emanate from “a strong ownership position, from an ascribed status, or from personal charisma” (2012).
2. Family members’ identification with the firm: “The identity of the family firm’s owner is inextricably tied to the organisation that usually carries the family’s name. This causes the firm to be seen both by internal and external stakeholders as an extension of the family itself” (Berrone et al. 2012).
3. Binding social ties: SEW provides kinship ties with some of the same collective benefits that closed networks bring (Cruz, Justo, & De Castro, 2012). Importantly, these social ties are not limited to biological or immediate family members. (Miller, Lee, Chang, & Le Breton-Miller, 2009). The FB sense of belonging can extend to long-time suppliers and vendors, as well as non-family employees (Miller & Le Breton-Miller, 2005) and in many ways FBs tend to care more about their stakeholders (Cennamo, Berrone, Cruz, & Gomez-Mejia, 2012).

4. Emotional attachment: While it is trite that emotions are part of any business, “in organisations where family relationships dominate, there is a longer history and knowledge of shared experiences and past events that converge to influence and shape current activities, events and relationships” (Berrone et al. 2012). The framers go on to define emotional attachment as “psychological appropriation of the firm by the family in order to maintain a positive self-concept” (2012).
5. Renewal of family bonds to the firm through dynastic succession: Several studies have found FBs to place great value on knowing the business will be handed down to future generations (Zellweger et al., 2012). As a result, FBs tend to exhibit longer term strategic horizons. Socioemotional wealth offers a neat explanation for this: members of the family who are currently running the business obtain SEW from knowledge that the firm will stay in family hands in later years (Naldi, Cennamo, Corbetta, & Gomez-Mejia, 2013).

Being anchored in the behavioural tradition within management studies (Cruz & Arrendondo, 2016) key to the SEW paradigm is “the notion that firms make choices depending on the reference point of the firm’s dominant principals. These principals will make decisions in such a way that they preserve the accumulated endowment of the firm. In the case of family principals, the emphasis is on preserving SEW becomes critical” (Berrone et al., 2012). However, this is not a pure gamble where there is only either an upside or a downside to consider, as is the case with agency theory and the original formulation of the behavioural agency model (BAM). The modified BAM upon which the SEW perspective is built is a mixed gamble (Gómez-Mejía, Martin, & Wiseman, 2013). That is, unlike the case of a pure gamble where only an upside or downside is considered when making a decision, the decision-maker must frame a choice by comparing his or her current position with a later position that may be better or worse (2013).

In the study of FBs, BAM has been used as a way to address the risk preferences of family principals, where the “endowment of family owners includes a combination of financial and socioemotional wealth (SEW)” (Gómez-Mejía et al., 2017). The original formulation of BAM was most prominently used to understand the decision-making of CEOs in light of their stock options. This approach said that CEOs, when making decisions, would weigh up the “fact that pursuit of additional wealth (prospective wealth) by taking greater strategic risks could also lead to loss of the current value of their options (current wealth)” (Gómez-Mejía et al., 2013). Adapting this to the study of FBs, family principals frame their decisions by considering the often antagonistic relationship between financial wealth and socioemotional wealth. “According to this

literature, the dual set of utilities of family principals... as opposed to the singular focus on financial risk bearing by nonfamily principals... serves to explain the differences in risk bearing and risk preferences of family firms relative to nonfamily firms” (op cit).

It ought to be emphasised that the SEW paradigm does not assume that FBs lack the profit motive or that owner-families are altruistic. Rather, “the main point of SEW is that when there is high family involvement, firms are more likely to bear the cost and uncertainty involved in pursuing certain actions, driven by a belief that the risks that such actions entail are counterbalanced by noneconomic benefits rather than financial gains” (Berrone et al., 2012).

SEW is a particularly useful paradigm through which to investigate the relationship between FBs and external shareholders, as it accounts for the likelihood that “family shareholders do not share the same goals as other investors. Thus, strategic choices that will benefit the family’s SEW endowment might come at the expense of other stakeholders (e.g. institutional investors) who do not share these SEW utilities” (Fernando et al., 2014).

II. The levers SEW pulls

The field has become more organised in the decade-plus since the term SEW was coined. One useful framework with which to study managerial decision-making in FBs was devised in 2011. Here Gomez-Mejia et al. posit five dimensions of managerial choices that FBs make and which might be driven by the desire to obtain and/or preserve SEW:

- 1) Management processes
- 2) Strategic choices
- 3) Organisational governance
- 4) Stakeholder relationships
- 5) Business venturing

III. SEW as primary reference point

As has been shown, SEW employs behavioural agency theory. As such, the preservation of SEW is treated as the reference point in the decision-making process of FBs. However, as Berrone et al., 2012) point out, many of the studies in this area acknowledge that, while SEW may be the “higher order” reference point, others may become relevant, depending on the external threats facing a firm. “Poor performance acts as an informational cue that alters the

family owners' loss framing," they argue. "Poor performance raises the spectre of a dual threat: the prospect of severe financial hardship to the family's standard of living... and the possibility of SEW extinction [if the entire business is lost]." They conclude that "empirical results are consistent with a shifting reference point in family-controlled firms but only when the family is forced to reconsider SEW as the primary reference point".

IV. SEW and risk appetite

There remain a number of questions around FBs where the impact of the owner-family's motivation by SEW is debated. Chief among these is risk appetite. For a time, the prevailing thinking said that "family firms are more risk averse – and therefore, generally more stable – because the family's wealth might be tied to their firm, making family-owners more wary of high-risk strategies" (Gómez-Mejía & Kalm, 2016). This would gel with agency theory, which says that managers are more prudent when it is their own money on the line when making business decisions (Pepper & Gore, 2015).

However, it is not a universal phenomenon that FBs are more risk averse. And this may very well also be explained through the SEW perspective. Indeed, this was the assertion of the 2007 paper that established SEW as an academic term. Here Gómez-Mejía et al. analysed a sample of over 1,200 family-owned olive mills, each of which had considered the option of joining a cooperative. This would have lowered business risk, but only via the family forgoing significant level of control. The authors identified control as a source of SEW in their quantitative study. That is, they treated SEW as the reference point family-owners use to compare the potential outcomes they might achieve from the available decision options (Robertson, Bettinelli, Dossena, & Fayolle, 2015) – they frame their decision based on the potential impact the outcome will have on this reference point. In this sense, the SEW paradigm is in line with the original behavioural agency model (BAM): decision makers are loss averse; they frame decisions to gauge losses and gains in a subjective way, depending on what utilities are most important to them (Gómez-Mejía & Kalm, 2016).

They concluded that "family firms frame the relinquishing of socioemotional wealth as a major loss and, consistent with a behavioural perspective, are willing to accept a greater performance hazard to mitigate that loss. This is in contrast to much of the prior literature, which has proposed that as a result of highly concentrated undiversified assets, family firms are more risk averse" (Gomez-Mejia et al., 2016). In other words, FBs have a stronger tendency than non-FBs

to retain control and pass up on an opportunity to lower the possibility of below-target performance (relative to peer firms or their own past performance) or even organisational failure, i.e. 'performance hazard' (Gomez-Mejia et al., 2007). Here the financially risky behaviour is, counter-intuitively, conservative of SEW, at least in the minds of the families. Or as the authors put it pithily, "family firms may be risk willing and risk averse at the same time" (2007).

That same study by Gómez-Mejía et al. also employs the SEW perspective in order to explain prior findings on FB appetite for a second type of risk, separate from performance hazard. Venturing risk is a "proxy for an organisation's desire to pursue promising projects with uncertain returns but with an upside potential to improve the firm's financial situation" (Gómez-Mejía, 2007). So this is the risk created by adoption of some new approach, such as a product or technology, when the firm is unhappy with the status quo, thus introducing variance in performance. Empirical results from tests using R&D spending as a proxy for investments that create venturing risk have found that FBs avoid venturing risks (Block, Sandner, & Spiegel, 2013). "Family firms, protecting the SEW of its owners, strive to avoid uncertain and risky projects that threaten the firm's independence and further increase the probability of firm failure" (Robertson et al, 2015). The upshot is that FBs are more averse than non-FBs when it comes to expansive decisions.

Most recently, in a study to appear in the *International Review of Financial Analysis* in 2017, the SEW paradigm was employed to conclude that "Mexico's family firms willingly assume higher risk [as compared to non-family firms] but the objectives for risk-taking differ from those of non-family firms" (Poletti-Hughes & Williams, 2017).

This conundrum may be best understood by stepping back from the term 'risk' and relying on the broader theory: "Family firms are more likely to consider their socioemotional wealth as a key asset to protect and will therefore tend to accept strategies that imply below-target performance to prevent its loss" (Martí et al., 2013). In other words, the FB's appetite for financial risk cannot be understood without consideration for the SEW perspective. The calculus of what may appear to be a large risk (perhaps the introduction of a brand new technology or undertaking an expensive legal action that may clear the family name in open court) is very different in light of SEW.

V. SEW and tax

Another topic of debate surrounds accounting practices and tax avoidance. Agency theory – much like popular opinion – suggests that family-owners ought to aggressively target ways to avoid (perhaps evade) taxation as this has a relatively greater impact on their wealth than it would for other types of owners (Chen, Chen, Cheng, & Shevlin, 2010). But again, there is a counter-intuitive finding: FBs are less aggressive in their tax strategies than are non-FBs (Steijvers & Niskanen, 2014). As Chen et al. put it, “Although the benefits of tax aggressiveness are expected to be higher for family owners than for managers in non-family firms, the costs are likely higher too” (2010). Applying SEO thinking, “Their findings follow the logic of socioemotional wealth because family-owners fear negative outcomes associated with aggressive tax avoidance that may diminish the family’s socioemotional wealth” (Gómez-Mejia & Kalm, 2016). Indeed, the SEW perspective predicts that family-owners place greater importance on their good name and the reputation of the firm than they do on the short-term gains that might be achieved by pushing the limits of probity and the law with respect to accounting practices (Gomez-Mejia et al., 2011). A 2016 study did “confirm Chen et al.’s (2010) and Steijvers and Niskanen’s (2014) conclusion that family firms are less tax aggressive than nonfamily firms,” with the caveat that “when the family is excessively involved (i.e., entrenched), family-based firms avoid taxation as much as (or more than) nonfamily firms generally do” (Mafrollaa & D’Amicob, 2016).

VI. SEW and reputation

This conforms with findings on the divergent approaches to environmentally friendly practices between FBs and non-FBs. A 2010 quantitative study employed emissions data to measure the willingness of a firm to respond substantively to institutional pressure to implement ‘green’ practices. The conclusion reached was that “family-controlled firms exhibit better environmental performance than their competitors and that this difference becomes more pronounced when the firm concentrates its operations in a given local area” (Gomez-Mejia et al., 2010). The authors continue, “These strategic choices reflect a set of preferences and characteristics, like the desire to project a positive public image or meet the family’s affective needs, which have been cogently described as the pursuit and preservation of socioemotional wealth in the family business literature.” Again, FBs lean more strongly than non-family businesses to act in a way that preserves SEW, even if this has negative financial consequences.

VII. SEW and governance

The SEW perspective is also instructive when studying governance in FBs. The pursuit of SEW helps to explain the tendencies for family-owners to appoint family CEOs (Gómez-Mejía et al., 2017). Further, the preservation of SEW can also impact board composition (Le Breton-Miller & Miller, 2013). There is evidence that publicly traded FBs tend to appoint external directors in response to perceptions of poor governance in order to signal probity (Gómez-Mejía & Kalm, 2016). Perhaps the one clear strand in this field is that FBs are strongly prone to nepotism, hiring family members where an objective assessment would lead to a different outcome (Firfiray et al., 2017).

Like many areas in the realm of FB through the perspective of SEW, the current literature is indeterminate on precisely how SEW influences FBs and their approaches to governance. The most recent review found “an inverted U-shaped effect of family ownership on noncompliance” with corporate governance codes (De Castro, Ricardo, Aguilera, & Crespí-Cladera, 2017).

VIII. SEW and transgenerational control

The emotional attachment one would intuit an owner-family would develop for its business has been borne out by SEW thinking. It has been found that as an owner-family’s willingness to preserve transgenerational control increases, the family demands a higher selling price in order to hand the business to outside owners (Zellweger et al., 2012). This placement of a premium on future ownership was interpreted to mean that owner-families consider knowing that the firm will stay in family hands as a source of SEW. The authors conclude that “transgenerational control has a consistently positive impact on the perceived acceptable selling price” (Zellweger et al. 2012). They argue that “transgenerational control is important because it influences whether socioemotional benefits such as the perpetuation of the family dynasty and continuation of family values are feasible. More importantly, the intention for transgenerational control of the firm influences the controlling family’s vision for the business and its goals for socioemotional wealth creation and preservation” (2012).

IX. SEW and founder dominance

The issue of a dominant founder in FBs touches on other major themes of, in particular, succession and governance. Research has demonstrated the phenomenon of the dominant founder in a FB, the effects of which are colloquially referred to as the “founder’s shadow”, have

widespread and long-lasting impact on the business and people involved with it (Yehya & Sidani, 2017). We have seen, for example, that this individual may develop internal governance mechanisms to satisfy their own personal goals, which has a negative impact on performance for a successor, especially when that successor is a family member (Chang & Noguera, 2016). There are also benefits to a dominant founder, including the fact that he or she often develops a strong network of internal and external allies (op. cit.). Highly relevant to this study are findings that a dominant founder becomes deeply concerned with losing control during the time the FB increases in size rapidly (Makó et al., 2016).

X. SEW and emotional attachment

Owner-families of FBs exhibit an extraordinary emotional commitment to firm survival (DeTienne & Chirico, 2013). As per the FIBER model, this is, in fact, a definitional characteristic of FBs (Berrone et al., 2012). This is especially relevant in the case of a PE investment, where an exit is a necessity at some stage. Given that a true exit means that the family no longer gains any SEW from the business, “the higher the family’s degree of SEW, the lower the likelihood of the family developing a firm simply to disband it for its financial value or for a short-term purpose with the intention to sell or liquidate” (op. cit.).

XI. SEW and unity of strategy

It has also been theorised that the pursuit of SEW might align the owner-family in such a way as to produce a greater degree of unity in strategy. In a study of large, publicly listed firms, it was indeed found to be the case that family firms displayed a heightened degree of strategic conformity (Miller, Le Breton-Miller, & Lester, 2013).

XII. SEW and non-family employees

The fullness of the relationship between family employees and non-family employees within the FB is a complex area beyond the scope of this study. Non-family employees make up a large part of the staff complement of FBs (Memeli & Welsh, 2012), and this leads to a variety of complications, particularly with respect to the identification of non-family employees with the FB (Chrisman & Memeli, 2014; Bao, 2013; Hiebl, 2015).

e. Conclusion

This literature review has offered an introduction to the extant theory on the two types of organisation that are the subject of this study, private equity firms and family businesses. It has also surveyed the academic output on the theoretical paradigm of socioemotional wealth. The purpose of chapter two is to set the context for the research questions and thereby convince the reader of the relevance and value of the inquiry. Only with the literature review complete can the precise research questions for the study be stipulated.

3. Research questions

In light of the preceding introduction and literature review, this chapter stipulates the precise research questions to be explored in this study. Both research questions relate to the management of the business arrangement of a private equity investment in a private family business. The purpose of this study is to better understand the hindrances inherent in such a relationship and to uncover solutions that effectively deal with such hindrances. It is submitted that answers to these questions will better enable both private equity practitioners and family business decision makers to manage the PE-FB synergy successfully.

The following two research questions will be investigated in this study:

a. Research question 1

What are the major challenges to managing a successful private equity investment in a family business?

This question was posed to interviewees on both the PE and FB sides. The former is treated as 1.1 and the later as 1.2.

b. Research question 2

What solutions can decision-makers employ to overcome major challenges to successful management of a private equity investment in a family business?

This question was posed to interviewees on both the PE and FB sides. The former is treated as 2.1 and the later as 2.2.

In the next chapter, the research methodology to be followed to investigate these questions will be outlined. In chapter five the results of the investigation are presented along with concise commentary. Chapter six presents a full discussion of the results as they relate to the literature review and research questions. Finally, in chapter seven, research conclusions are provided.

4. Research methodology

I. Introduction

An appropriate research methodology is the foundation of a study from which the conclusions can be generalised (Adams, Khan, & Raeside, 2014). This chapter describes in detail the methodology employed for this study and defends the choice of each element thereof. These elements include, to begin with, the over-arching philosophy and approach, and range down to more detailed tools such as the data collection instrument and unit of analysis. The methodology was constructed with due consideration for the extant literature, the type of research questions being asked, logistics and advice from industry experts. Being a relatively new field with limited studies around the topic, this research was exploratory, soliciting subjective opinions in response to in-depth, semi-structured interviews with individuals working in the PE and FBs respectively. This allowed for rich data and sufficient freedom for participants to point the interviews in directions not foreseen in the literature review. Transcriptions of the interviews were then subjected to qualitative data analysis techniques, where codes were identified and then grouped into common themes in light of the research questions.

II. Research philosophy

This study was approached from the mainstream research philosophy of interpretivism. This is favoured by researchers who reject the positivist school of “value-neutral observation and natural laws,” thus the focus is on “understanding the lived experience from the point of view of those who hold it” (Ritchie, Lewis, McNaughton Nicholls, & Ormston, 2013). In other words, interpretivism considers the world as too rich and complex to understand through what interpretivism proponents consider law-like generalisations and heuristics. The “social world is not governed by law-like regularities,” they argue, “but is mediated through meaning and human agency; consequently the social researcher is concerned to explore and understand the social world using both the participant's and the researcher's understanding” (ibid.). Interpretivism best applies when the goal is to “understand differences between humans and their role as social actors” (Saunders & Lewis, 2012). Also instructive is one textbook description: “An interpretivist researcher aims to see the world through the eyes of the people being studied, allowing them multiple prospects of reality, rather than the ‘one reality’ of positivism” (Greener & Martelli, 2015).

Interpretivism was thus appropriate for this study, where the thrust was to view business and management as a social science by interacting with people to uncover how they operated in a particular realm, i.e. the situation of a PE investment in an FB. In-depth, semi-structured interviews with multiple parties enabled multiple understandings of reality in this realm, followed by the comparison and contrasting of these during the analysis phase.

III. Research approach

This study adopted the 'bottom up' approach of inductive thinking. This approach requires some flexibility because the theory develops as the data is collected and analysed (Antwi & Hamza, 2015). It is suited to research where one moves from specific observations to broader generalisations; where the goal is to understand the meaning people attach to events; and where emphasis is on the context of the study (Saunders & Lewis, 2012).

This study did, indeed, build up to a conclusion as specific findings from interviews emerge. Interviews elicited the meaning people attach to the PE-FB relationship.

IV. Study type

This was an exploratory study. This is suited to research seeking new insights through interviews with experts in the field. As Saunders & Lewis put it, exploratory research "aims to seek new insights, ask new questions and to assess topics in a new light... [and] is about discovering general information about a topic that is not understood clearly by the researcher. This lends itself particularly well to new phenomena" (2012). They go on to recommend that three components typically make up exploratory research: (i) searching the academic literature, (ii) interviewing experts in the relevant field and (iii) conducting interviews.

The current study did, indeed, ask a question not asked before in a relatively new field. The literature review, interviews with experts and interviews with protagonists also ensured that the above three components were employed.

V. Population, sampling, research instrument and unit of analysis

i. Population

All PE firms in South Africa and all FBs in South Africa. This from a universe of all PE firms in existence and all FBs in existence, respectively.

ii. Sampling

Non-probability sampling was employed. While probabilistic sampling provides greater validity, it is impossible to obtain a full list of all members of the population and select interviewees at random with zero possibility that an interview will not be granted (Saunders & Lewis, 2012). The non-probability sampling took two forms. First, purposive, or judgment, sampling was used. Interviewees were targeted for their experience and acumen in the respective fields (Ritchie et al., 2013). The particular variety of purposive sampling employed was intensity sampling. This is where the sample is targeted to find the most cases that most strongly represent the phenomenon in question (Patton, 2002).

Second, snowball sampling was also inevitable, as with any research where there is some difficulty making contact with the right interviewees (be it due to secrecy in the field and/or the small number of qualified people), and so sample members are asked to identify further interviewees in their network (Hlady-Rispal & Jouison-Laffitte, 2014).

An initial selection of interviewees was contacted via professional and personal connections, from listings such as the membership of the South African Venture Capital and Private Equity Association (SAVCA) (2017), and from online keyword searches. Given that the PE industry in South Africa is small, their deals highly confidential and public information about its members limited, recommendations of further people to approach was requested from those already contacted. A similar approach was taken with FBs. Here the relevant association was the Family Businesses Association of Southern Africa (FABASA) (2017).

The sample size was determined by the point of thematic data saturation, as is best practice in qualitative studies (O'Leary, 2013). In qualitative studies, sample sizes are far smaller than in quantitative studies, and the researcher needs a reference point at which it is no longer necessary to conduct further resource-heavy data collection. This point is determined using the principle of "diminishing return to a qualitative sample – as the study goes on, more data does not necessarily lead to more information" (Ritchie et al., 2013).

Saturation is achieved when new codes cease to materialise from additional interviews, where a code is one theme drawn from the data, and just one occurrence is enough to include a code as part of the analysis framework (Fusch & Ness, 2015). This point was anticipated to be no more than 12 interviewees (Guest, Bunce, & Johnson, 2006). In actuality, saturation was reached after 12 interviews with PE firms and eight interviews with FBs. For a full list of interviewees, with biographical information, see Appendices 1 and 2.

iii. Unit of analysis

The units of analysis for this study were the PE firms and the FBs. These were represented by the units of observation, in the form of the individual decision makers who were interviewed to represent their respective entities.

VI. Methodology and data collection

This study used a qualitative methodology with primary data collected through semi-structured interviews. Where quantitative researchers aim to uncover causal connections and generate predictive formulae, seek causal determination and to generalise findings, qualitative research is, at its heart, an attempt to understand some phenomenon or connection in such a way that findings can be extrapolated to similar situations (Golafshani, 2003). “The particular value of qualitative research lies in its ability to explore issues in depth and from the perspectives of different participants, with concepts, meanings and explanations developed inductively from the data” (Ritchie, Lewis, McNaughton Nicholls, & Ormston, 2013). This has been shown to be an effective combination when investigating an area where extant literature provides only limited understanding and where the challenges and decisions of senior managers are what the study seeks to investigate (Hampton & Rowell, 2013). Qualitative tools are also favoured when, as in this study, an underdeveloped or complex area is in need of exploration and the definition of new concepts and phenomena (Ritchie, Lewis, McNaughton Nicholls, & Ormston, 2013). Another strong justification for use in this instance was the lack of publicly available data on both PE and FBs, and therefore the investment relationships between them (Smit et al., 2012). An in-depth qualitative study is appropriate in such a case (Robbie & Wright, 1998).

Interviews are appropriate where “the primary concern is with the perception or abstract representation of reality of individuals is exposed to the phenomenon [being studied]” (Smit et al., 2012). The research instrument of semi-structured interviews was employed in the current

study. This is “a method of data collection in which the interviewer asks about a set of themes using some predetermined questions, but varies the order in which the themes are covered and questions asked [depending on how the interviewee answers questions]. The interviewer may choose to omit some topics and questions and ask additional questions as appropriate” (Saunders & Lewis, 2012). A benefit of this is that themes and topics not picked up in the literature review, and so not in the set of questions prepared for the interview, can be uncovered by probing into answers as appropriate (Richie & Lewis, 2003). The current study concerned an area with substantial gaps in the literature, meaning there was a need to allow interviewees the scope to bring those up without prompting.

A number of experts and entities were identified early on as interviewees for the present study. Preparatory, informal discussions were conducted with the vice-president of a large PE firm based in South Africa with an extensive portfolio across the continent. This was based on a professional recommendation through a mutual business connection. On the FB side, the CEO of FedGroup was consulted for initial thoughts. This connection was made after he had delivered a presentation during a course attended by the researcher. Both of these parties were formally interviewed for the study later on.

VII. Content analysis

Despite the existence of various methods of data analysis in qualitative research, all share the common objectives of reducing large volumes of text into manageable portions, identifying and linking categories, and finally understanding the data. In some way, the researcher attempts to “stay true” to the text and to achieve trustworthiness

Data analysis began with a complete transcription of every interview. All interviews were recorded as digital audio files and the researcher personally transcribed each in its entirety into Microsoft Word. This enabled the first phase of data analysis proper: reading each transcript thoroughly. This was an iterative process, performed after each interview, as soon as transcription was completed. Transcription and reading typically took three to four days after the interview was conducted.

Each initial reading was followed by two to three further readings, during which segments of text were highlighted and notes made on the printed transcripts themselves. Text was noted wherever it stood out to the researcher as interesting or surprising; where a concept resonated

with regard to the relevant literature; where the interviewee emphasised the importance; and where concepts repeated themselves.

The next phase was open coding. Here transcripts were uploaded to Atlas.ti software and criteria outlined for the highlighting phase described above were employed to assign codes to portions of text; codes being “tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study. Codes are usually attached to ‘chunks’ of varying size – words, phrases, sentences or whole paragraphs.” Both in vivo and constructed codes were used. Through constant comparison, these codes were iteratively compared to other codes in order to combine codes, ensure uniformity of code naming and to avoid redundancy. This describes an inductive coding process, colloquially known as ‘bottom-up’ coding (Saldaña, 2015).

Upon completion of coding, each transcript was re-read in order to reassess the overall understanding in light of identified codes. This enabled the categorisation phase – also called closed coding or ‘coding of codes’. Here, codes were grouped together into categories in order to compress the vast quantities of data into manageable portions.

In much the same way as codes were collected into categories, the researcher then grouped categories into themes.

Finally, Microsoft Excel was used to produce a convenient tabulation of the results. This enabled direct quotations to be filed according to the relevant interviewee and the category or categories to which they applied. This provided an efficient system for retrieval of verbatim answers for the chapters on results and discussion. See a sample of this output in Appendix 3.

The outcomes of this process are presented later in chapter five.

VIII. Credibility

While originally applied in quantitative studies, it is essential that qualitative studies demonstrate both validity and reliability in order to be credible and trusted by users (Saunders & Lewis, 2012). Validity is concerned with how well the research is in fact measuring what it claims to, as well as the robustness of the conclusions drawn from these measurements (O’Leiry, 2013).

Reliability is concerned with repeatability: if the research or experiment is repeated, how likely are the outcomes to be the same as or similar to the research in question? (ibid.)

This study was conducted using best practice to ensure sufficient credibility. These include: justifying and using a proven sampling strategy; a full, clear explanation of data collection and analysis; explanation of contradictory data; and storage of primary research for potential later analysis (Mays & Pope, 1995).

5. Results

a. Introduction

Having collected the data as per the method outlined in chapter four, the sections below provide a systematised presentation of the results. These are assembled into categories so as to best relate results back to research questions posed in chapter three. Commentary is sparse as the purpose of chapter five is to present results in preparation for full discussion in chapter six.

A total of 20 interviews were conducted. Of these, 12 were with PE professionals. Each was a decision-maker in his or her respective firm. The remaining eight interviews were with owners or other decision makers in FBs. While all of the PE professionals interviewed have experience transacting with FBs, not all of those interviewed on the FB side have gone through a PE transaction. The five FB decision makers who do have this experience were asked for insights based on that experience. The remaining three who have not experienced a PE transaction were invited to answer questions based on a hypothetical scenario. One of the three has experienced outside ownership in the business. The remaining two have seriously considered outside equity options such as PE. Distinctions between FB interviewees who have and have not experienced PE will be noted and highlighted wherever necessary.

Interviews were conducted over approximately three months. This began with a pilot interview administered to a colleague to confirm clarity of the questions asked. The majority of interviews were face-to-face interviews in Johannesburg and Pretoria. Two were conducted via Skype with interviewees based in Cape Town. One hour was targeted for each interview. Questions were refined and improved as each interview was analysed by the researcher, meaning later interviews were more efficient and the necessary responses reached well within the hour.

The iterative process meant that several new questions emerged as the interviews progressed. Later interviews were adapted to reflect this. For example, the category on fear of losing control (see below) was not included in the original literature review or interview guide. It emerged during the course of coding the initial PE interviews. The issue was then researched further for the literature review and the question added to the interview schedule.

Being in-depth, semi-structured interviews, the course of each respective interview was unique. Clarity was sought wherever appropriate and new insights probed further. The broad interview guide is included in Appendix 4.

Each interview began with a brief summary of the research being conducted, ensuring the participant was aware of the context. This included an explanation of the academic purpose of the study, definitions of FB and PE for the purposes of the study, and an outline of SEW. The opening question was a broad and open-ended one. The PE executives were asked about the main barriers they had experienced in dealing with FBs. Those FB owners and decision makers who had experienced a PE deal were, similarly, asked for the main barriers they had encountered. Those FB owners and decision makers who had not experienced a PE deal were asked for the primary barriers they perceived they might encounter in such a situation. The same format was applied to the rest of the research questions regarding experienced or perceived tactics to overcome barriers.

Each interview concluded with an open-ended invitation for the participant to clarify any topic they felt had not been properly addressed or to add in any further opinions on topics not raised by the interviewer but with the participant felt to be pertinent to the study.

Interviews were transcribed iteratively after each one was completed. These were analysed using a combination of computer analysis using Atlas software and manual coding. It is asserted that saturation was achieved (the point where no new codes were extracted from an interview).

b. Data characteristics

I. Private equity participants

Participants on the PE side were all highly qualified professionals operating in a sophisticated PE environment. Their respective qualifications included advanced degrees and professional memberships. These included the fields of actuarial science, chartered accountancy – CA(SA) – chartered financial analyst – CFA – and engineering.

Warnings from colleagues and faculty suggested that interviews with PE professionals were very hard to obtain. MBA candidates in the past have tried and failed. The researcher took this concern seriously and put out requests very early, acknowledging that failure to secure access would require a change of topic. Given positive responses, the decision was taken to continue. The target of 12 firms was met. Two additional interviewees had agreed to make time available if further data was needed to reach saturation.

The PE firms represented by participants ranged from relatively new and small organisations up to the largest PE houses and banks in South Africa, including two participants from the so-called ‘Big Four’ banks that dominate the retail banking industry in South Africa.

Many of the PE interviewees expressed substantial concern about anonymity regarding themselves personally or the firm they represent. The researcher kept a record of precise requests from each firm on exactly what level of detail could be revealed and what level of detail would require additional permission to be requested before publication. In light of this, information given on each individual has been limited accordingly in this report. PE interviewees will all be referred to by a code, ranging from PE 1 to PE 12, assigned randomly.

While the purposive sampling method aimed at securing interviews based solely on experience and expertise, the demographics of the resultant sample bears noting. On the PE side, just two of the interviewees were black. Both were born in African countries outside of South Africa, received part of their education in the West and now reside in South Africa. One participant was of Pakistani origin, received his education in the United States and now resides in South Africa. Only one female was interviewed. She was a white South African educated in South Africa and the United States. One other white female agreed to an interview, but scheduling did not allow this. This demographic distribution is certainly not inconsistent with relative over-representation of white males in South African banking and finance (Gyapong, Monem, & Hu, 2016). Table 2 below provides information on the types of entities represented by the 12 PE interviewees that partook in this study. See Appendix 1 for a detailed list of PE interviewees’ experience, roles and qualifications.

Table 2 Types of private equity firm represented by interviewees

Type of organisation participant represents	Number of participants (N = 12)
‘Big Four’ South African bank	2
Large, established PE firm	5
Small PE firm (three partners or fewer)	5

II. Family business participants

All interviewees on the FB side represented organisations deemed of a size roughly appropriate for a PE buyout. The smallest annual revenue figure offered by an interviewee on the PE side as a minimum for a firm to be a target was R20,000,000. While the FBs interviewed did not

open their books to the researcher, a reasonable judgment suggests all meet this minimum requirement. Several are many times larger than this.

Interviewees included four second-generation family members in a business and one who represented a third generation. The other three were founders who are still involved in the business. In the case of MoreCorp, three members of the same business were interviewed. This included Darryl Edges, a co-founder and current CEO, his son Daniel, now a director of a department, and Rhys Hughes, a co-founder alongside Darryl who recently divested during the PE deal and has remained on at MoreCorp as head of customer experience.

One unusual case is that of Sonari Capital and Jaycor. Samantha Pokroy is the founder and principal partner of Sonari Capital, a PE firm specialising in dealing with FBs. She also sits on the board of Jaycor, a family business founded by her grandfather, into which her firm has bought. Samantha's brother, Greg, is a director at Jaycor and was interviewed on the FB side.

Also worth noting for its relevance to the self-selection bias is one potential interviewee who the researcher made contact with through a mutual professional acquaintance but was unable to secure time with. A married couple who had sold to a PE firm initially agreed to speak about a PE transaction they believe had been ruinous for them. They came across eager to tell a story they described as hugely unfair to them due to an exploitative PE firm. Several days after promising to check their availability for an interview, one member of the couple phoned to cancel. The reason provided was concern about souring further an already problematic relationship. In their words, referring to the PE firm in question, "These people are not to be messed with".

This was the only case of this sort, but does highlight the sampling concern that FBs who have suffered poor experiences of PE will self-select themselves out of positions where they might be interviewed for a study. This concern will be noted where relevant.

Five of the eight FB interviewees had experience with a PE transaction. In fact, all five were currently part of FBs that form part of a PE portfolio. The researcher was unable to secure interviews with more FBs with such experience. PE contacts were mostly wary of making introductions to their respective FB investees, citing confidentiality and sensitive relationships. The researcher settled for three additional FBs that appear to be of a size appropriate for a PE

investment, but who have not been part of a PE transaction, and so unfortunately could not speak from personal experience.

See Appendix 2 for a detailed list of FB interviewees' experience, roles and qualifications.

Table 3 Type of family business represented by interviewees

Type of organisation participant represents	Number of participants (N = 8)
Retail	4
Wholesale	2
Mining and vehicle services	1
Financial services	1

c. Results: Research question 1 – The challenges

Research question 1 asked: What are the major challenges to managing a successful private equity investment in a family business?

This question was asked of both PE decision makers and FB decision makers. For analysis, the results will be presented separately, beginning with PE.

I. Research question 1.1: Challenges: PE perspective

Research question 1 was broached first in all interviews with PE professionals. Participants were invited to answer the question in a broad, open-ended manner. Only after this information had been provided and clarity sought where necessary were types of problems suggested by the literature offered as other sources of difficulty in the PE-FB relationship.

After open coding, a total of ten categories were generated, as represented below. A count of the number of PE participants who brought up each code serves as the most basic starting point of analysis.

Table 4 Categories of challenge experienced by PE

	Category	Abbreviation
1	Formalisation and corporate governance	PE-FormGov
2	Financial sophistication	PE-FinSoph
3	Founder dominance	PE-FouDom
4	Family culture and bonds	PE-FamCB
5	Loyalty to staff	PE-LoySta
6	Family external relationships	PE-FamER
7	Emotional attachment	PE-Emo
8	Fear of losing control	PE-Ctrl
9	Strategic misalignment	PE-StratMis
10	Risk appetite	PE-RiskApp

Table 5 Categories of challenge cited by each private equity participant

PE	PE-FormGov	PE-FinSoph	PE-FouDom	PE-FamCB	PE-LoySta	PE-FamER	PE-Emo	PE-Ctrl	PE-Strat-Mis	PE-RiskApp
1	X	X	X	X		X	X	X		
2	X	X	X	X		X	X	X		X
3	X	X	X	X	X	X	X		X	
4	X	X	X	X		X	X		X	X
5	X		X	X	X		X		X	X
6	X	X		X		X	X		X	X
7	X	X	X	X			X	X	X	
8	X	X	X	X	X	X	X	X	X	X
9	X	X	X						X	X
10	X		X	X			X	X	X	
11	X	X	X	X			X		X	X
12	X		X	X		X	X	X	X	X
Total	12	9	11	11	3	7	11	6	10	8

i. Category 1: Formalisation and corporate governance – PE-FormGov

Almost by definition, this is a keystone challenge for the PE firm, regardless of the target business and its nature. The nature of the business, as described in the literature review, is for experienced business people to identify businesses with the capacity to scale up. This almost always entails formalising portions of the business and instilling the sort of corporate governance that a larger organisation needs. In other words, instilling formal controls and structures and putting in place good governance is part of the PE model.

A number of responses exemplify the general challenge:

- “PE firms like to have very robust governance setup. And a very robust decision-making process. But a family is typically a lot more flexible. They sit around the table and make decisions like that. Now with the PE firm coming in there, you have to write memos, you have to make presentations. And you just slow down the process, but you bring more discipline into it.” – PE 5
- “But what is critical, what a lot of them don’t understand is, if you make an additional R100 of income that you’ve tried to put through the books of that company by paying family members, if you take a multiplier of that in terms of the purchase price, they’re losing out that much capital.” – PE 8
- “On an African context, guys really, really struggle. There will be a set of books for the tax man, there will be a set of books for their clients, there will be a set of books for the family and then a set of books for themselves to see what they actually make.” – PE 9

Most relevant to this study was the finding of a tendency for family businesses to aggressively manage their taxation – if not worse. PE interviewees spoke of a variety of personal expenses being written off as business expenses. Further, some spoke about FBs keeping several sets of financial statements, one of which was the ‘legitimate’ set submitted for tax purposes.

PE interviewees explained the conundrum this creates when investing in a FB. Since the PE model typically values a target firm based on a multiple of earnings (Gompers et al., 2016), lack of certainty over the accounts of the FB make it hard to value the business with any certainty.

ii. Category 2: Financial sophistication – PE-FinSoph

Much like category 1 above, financial sophistication is a mainstay of what PE firms provide. The PE interviewees had vast financial qualifications and experience. Typical of the environment, very few of the FB interviewees had financial qualifications. It followed that PE firms described major financial restructuring as a necessity. One particular trend was that several firms put in place an independent chief financial officer (CFO) or financial director (FD) as a matter of course in every deal they do.

- “I think they’re looking for business... or call it financial acumen.” – PE 6
- ““It became very apparent that particularly our strength was around the finance function and around bringing financial discipline. We would very quickly take that finance function that

was undertaken by her son and really take that from say two out of ten to nine out of ten." – PE 1

- "What family companies want from PE or private equity, is exactly that: some form of financial sophistication and some financial steering." – PE 7

iii. Category 3: Founder dominance – PE-FouDom

All but one PE participant cited some form of challenge around the founder. In most cases this was a patriarch, but one interviewee spoke at length about a matriarch with dominance issues very much like in the other cases. Codes within this category tended not to point to a precise form of dominance. Rather, they spoke in general terms about a founder not being answerable to any person or rule, almost governing by fiat.

- "How do you get that mind-set to move from what was or is his baby and what he's nurtured and created and developed over X years, to more of a broader company where decisions cannot reside with one person?" – PE 7
- "Unfortunately, as a family, no one challenges you enough. Because, are you going to... if someone's started a business, was very successful and then the sons, depending on who they are, often are quite obedient to the original founder, one because there's family dynamics at play; two, well, this guy came up with it." – PE 9
- "In my experience, the sons bring a little bit more sanity in dealing with the whole thing. So, if you ask me who would I rather be negotiating with, the founder up top or his sons who are more similar to me? I'd rather be dealing with his sons." – PE 12

iv. Category 4: Family culture and bonds – PE-FamCB

Perhaps most directly related to the theoretical lens of socioemotional wealth,¹¹ of the 12 PE participants raised a concern falling under this category. As the sample quotations below indicate, there is frequently a failure on the part of the family members to distinguish between their roles as part of the family and their roles in the business. Not only do families treat the bonds between family members as a legitimate institution within the business, but other stakeholders, understand this as part of dealing with a FB. Several interviewees hesitated about using the term 'nepotism', explaining that this had a negative connotation they didn't necessarily want to imply. However, there was an almost unanimous opinion that families stick together (sometimes even band together) and give strong preference to family members when making hiring and promotion decisions.

Sample quotes:

- “The parent in the business was there through the down years, through the dip, and into difficult circumstances and into the turnaround and I think he [the son of the founder] is associated with that. People look to him and say, listen, your mom was responsible for that.” – PE 1
- “The father is the CEO the son runs logistics, the other son does something else, the wife does something else, you know, and so it goes. And I’m saying, “guys, I’m not saying you’re not good enough, but this is probably not the way it’s gonna be going forward.” – PE 3
- “Family members who were sort of skating along or were not rigorous in their thought process, they sort of get naked. They’re exposed a bit.” – PE 5
- “That’s when things will get very emotional. So we’ve had situations where... In our case it’s also an FD where it’s like, this FD is clearly not cut out for the job. But we can’t fire them because they’re part of the family. So what do you do?” – PE 5
- “If it’s a true family business, it’s a nightmare in the sense that it comes as a package deal.” – PE 6

v. Category 5: Loyalty to staff – PE-LoySta

A number of respondents noted that staff are often treated as if part of the family properly so called (the biological family). Staff that make up this quasi-family often attract great loyalty from the owner-family.

- “Look, we need to get the benefits out of this business, we need to streamline it, right-size it, that business or that area’s got too many employees, let’s downsize, then it becomes a battle. Why do you need to do that? You can’t lay them off.” – PE 8
- “Reputation is their perception of what their reputation is. It doesn’t mean by doing something, let’s say, you may want to reduce staff. It doesn’t necessarily mean it’s a bad thing. It’s good for the business.” – PE 8

vi. Category 6: Family external relationships – PE-FamER

Many assets of the FB are easily purchased for the right price. However, there are intangibles that cannot necessarily be bought. One that came up with some prominence in the interviews is the relationships that family members have with people and entities related to the business. This

included both personal relationships with suppliers and customers, and the sense of reputation that families had in the community more widely.

Sample quotes:

- “Who’s gonna stay? How are they gonna stay? What are they gonna do? If they’re gonna move out, who will take their place and how big a void is that to fill? Because all the relationships with suppliers and customers sit with founders. That’s the key. So structuring is everything, in my opinion.” – PE 2
- “Stuff like having a nice cafeteria where food is catered for and all that stuff. That’s something that the family cares about, because it makes them feel good. It makes them feel like they’re patronising their staff. Makes them feel like a benevolent big man or whatever you want to call it. And private equity, we don’t care about that.” – PE 5
- “But you find that these guys would... through their networks, meet another good operator. And then almost strike a deal where you say, jussie [Afrikaans exclamation], we should have spent quite some time thinking about it.” – PE 6

vii. Category 7: Emotional attachment – PE-Emo

This category was variously attached to the founder, the family more generally and the staff. It was deemed a dominant enough concern to occupy a category on its own. Only PE 9 did not raise it in any form, and this was the interviewee least forthcoming with ideas in the interview, showing up in only four categories.

Sample quotes:

- “And it became quite apparent in the process that she had enormous emotional attachment to the business. She really made things... made decisions based on emotion. And that severely clouded her views.” – PE 1
- “The biggest challenge you face is obviously how do you value this business? Because there are ever gonna be completely detached, it’s their baby. Its literally their baby. So why would they sell it unless they got a ridiculous offer? Even then it’s very hard for them to let go because if they’re successful, what happens is it’s not just a business anymore, this is what they do.” – PE 2
- “Especially a family business. They are very territorial, emotionally attached to this business.” – PE 4

- “The point I want to make is that a family sort of thing, there is subjectivity. It’s not always the business case will prevail. And I think that’s the biggest, biggest single disadvantage.” – PE 6

viii. Category 8: Control – PE-Ctrl

Control might well be analysed under emotional attachment. However, several interviewees spoke about these two categories very differently and passionately. In light of the research questions being heavily focused on the human and emotional side of business, these two codes were considered separately. Emotional attachment was understood as a broader inability to dissociate oneself (or the family) from the business. Control generally spoke to matters within the business, where family members struggled to delegate or revolted against a PE partner wanting to make changes once already inside the business. Several codes in this category overlap with founder dominance. This is where the founder struggles to give up control.

Sample quotes:

- “And you can go worldwide, there’s many a family office in whatever business, that have been tremendously successful. And that’s the critical success factor to family business, is the empowerment of the individuals and allowing people to flourish, without being overly controlled.” – PE 7
- “They want to just carry on as they were. ‘Don’t interrupt me. I’ll give you figures in my form’.” – PE 8
- “All of a sudden, you come in and I’ve bought into the business, they start questioning themselves. He gets to work at 11 o’clock and you’re the new CEO, you tell him he’s late. Late? He looks at you like, really? Then the conflicts start.” – PE 12

ix. Category 9: Strategic misalignment – PE-StratMis

On the PE side, the broad strategy is consistent: to build a company that will sell for the greatest sum in approximately five years. Being essentially a synonym for leveraged buyout (LBO), the keystone of value creation for PE firms is gearing. The results of the interviews confirm the robust theory that FBs are averse to these high levels of debt, making it a major challenge for the relationship.

FBs have a greater array of strategies. Most telling of all was the responses either directly or tangentially said: money isn’t the most important thing about this business. Two other notable

types of misalignment PE participants noted were, first, that FBs are content just to stay in their current niche and grow organically (inertia); and second, that FBs have a much longer time horizon, often with no intention of ever selling the business. On the timeline issue, several explained that when they spot some reason the time horizon may be limited – for example, the next generation doesn’t want to run the business – this is a trigger to get involved.

Table 6 Sub-category of PE-StratMis and number of participants who cited each

Sub-category	Number of participants
Gearing	5
Profit motive	8
Time horizon	7
Inertia	6

Sample quotes:

- “We don’t have to make profits. I mean, you don’t have to. We certainly have to be profitable over the long run, you can’t be running a loss for long otherwise you’re not a business. But ours can be very much about making a difference in South Africa, making a difference in our own lives etc.” – PE 4
- “I would say, often if families are wealthy enough, they would keep it in the family. In that sense it would not become a private equity opportunity.” – PE 6
- “But their vision may be very different, because it would typically be more narrowly focused on this is what our business is, as opposed to where we want to go. Some of them have never thought about strategy. Their strategy is at best: what is our sales target for next year?” – PE 8
- “Can we get agreement that in five years you’ll sell out? Or is the owner still so emotionally involved in trying to keep the door open for the children?” – PE 8
- “I think it is an issue. I think it’s seeing the market slowly changing in my view on this, because families often that have created a business never have a sell mentality ever. They just want to keep this thing into perpetuity, like across grandchildren, great grandchildren, they’re really just like, these are like babies to them and they never want to get rid of them.” – PE 9
- “The profile of some of these families, they’re all multi-millionaires, so they go to work out of habit. They all multi-millionaires. They don’t need anything.” – PE 12

x. *Category 10: Risk appetite – PE-RiskApp*

Conflicting levels of risk appetite between PE and FB is treated distinctly from gearing for three reasons. First, it is treated as a distinct topic in literature assessing FB through the lens of SEW. Second, many responses dealt with gearing and as well as risk appetite in a more general sense. PE 6, for example, argued that FBs are averse to gearing, but have a higher appetite for taking on new ventures. When discussing risk appetite for outside of gearing, respondents spoke about willingness to move into new products or locations, spending money and the speed at which things are done. Finally, this category was treated separately because of the vast array of different answers. Respondents not only contradicted one another on which type of business has the higher risk appetite, but several delved into very nuanced and conditional answers.

Two PE respondents argued that PE firms had a greater risk appetite. One said FB had the higher appetite. One suggested they are about the same. Four gave in-depth answers conditioned on factors such as the stage of the company and the industry they are in.

Sample quotes:

- “They want to start from scratch and bring in something that Africa doesn’t have. Again, it goes to that higher tolerance for risk than a private equity firm wants.” – PE 5
- “But they would probably be less risk averse in sort of taking on new challenges, branching out, almost like, because often these family businesses are very, very entrepreneurial. They will come up with an idea over a braai and the nephew would be there and there would then and there, why don’t you start that?” – PE 6
- “If they’re saying well, over time I’ve taken out a lot of dividends, I’ve taken out some wealth from the system, I’ve diversified into listed assets and other things, then they suddenly go, well listen I’m very keen to say can we have a proper go at turning this into a huge thing?” – FB 9

II. *Research question 1.2: Challenges: FB perspective*

As with research question part 1.1 with PE firms, research question 1.2 was posed in broad terms. Participants were all decision makers in the FBs. They were invited to provide and explain what they deem to be the major challenges to managing a successful PE investment in their FB. The five interviewees who have experienced a PE transaction could speak from personal experience. The three who have not gone through a PE deal had all either dealt with

some form of external ownership in their FB or seriously considered PE or some other outside equity. This distinction will be highlighted where relevant.

Data analysis enabled the construction of six categories into which the cited challenges can be analysed:

Table 7 Categories of challenge cited by family business participants

	Category of challenge	Abbreviation
1	Impact on the person or bonds between people	FB-PersBon
2	Emotional attachment to the business	FB-Emo
3	Strategic misalignment	FB-StratMis
4	Fear of losing control	FB-Ctrl
5	Failure to appreciate unique attributes of the particular	FB-Apprec
6	Risk appetite	FB-RiskApp

Table 8 Rank and frequency count of challenges cited by FB participants

Rank	Category of challenge	Number of participants
1	Impact on the person or bonds between people (FB-PersBon)	8
2	Emotional attachment to the business (FB-Emo)	6
2	Strategic misalignment (FB-StratMis).	6
4	Fear of losing control (FB-Ctrl)	4
4	Failure to appreciate unique attributes of the particular (FB-Apprec).	4
4	Risk appetite (FB-RiskApp)	4

Despite emotional attachment and fear of losing control appearing very similar on the surface, they were analysed separately for several reasons. First, this allowed consistency with the analysis on the PE side where the two were treated separately. Second, as per the argument on the PE side, respondents did offer answers that treated the two differently.

Barriers most commonly cited relate to the FB-PersBon category, with 28 instances across all eight participants. But with such wide use, further drilling down into the results is necessary.

The FB-PersBon category can be further refined into the following sub-categories, all of which relate to people and/or the bonds between them:

- Impact on the person – i.e. the interviewee (FB-PersBon-P)
- Impact on the family (FB-PersBon-F)
- Impact on staff (FB-PersBon-S)
- Impact on family relationships with parties outside the business (FB-PersBon-O)

Table 9 Rank and frequency count of sub-categories within FB-PersBon by number of participants who cited each

Rank	Sub-category	Number of participants citing sub-category
1	Impact on the person (FB-PersBon-P)	7
2	Impact on family (FB-PersBon-F)	4
2	Impact on staff (FB-PersBon-S)	4
4	Impact on family connections with outside parties (FB-PersBon-O)	2

i. Sub-category 1: Impact on the person

Several quotations from the interviews offer insights into the personal barriers (IOP) FB decision makers cited. The decisive flavour of these is a fear of losing control and falling under the control of someone else. To that extent, a number of codes in this category are repeated in the fear of losing control category.

- “I mean, imagine me asking to go on leave. I don’t ask my bother-in-law to go on leave. Now I must go and ask [censored, their PE partner] to go on leave? I’ll tell you to go fly a kite!” – FB 1
- “And then, what I’d be nervous of is losing... getting so many restrictions that before you know it I’m running their business in the way they want it and not our own business.” – FB 4
- “Automatically you get excluded from the decisions. When you’re excluded from one decision, you’ll be excluded from the extensions of that decision.” – FB 8
- “Well, obviously, you’re giving away power and decision-making and things like that. That’s the main thing. You wouldn’t be the master anymore.” – FB 3

ii. Sub-category 2: Impact on the family

As for the sub-theme of 'impact on family', the thrust behind the comments of all four of the participants who cited barriers that fell into this sub-theme was a loosely defined fear that a family culture would be replaced by a corporate culture. Some refined this to a loss of identity or a clash of ideals. One participant simply said he would not even consider selling equity if any of his family in the business had objections. Perhaps the most specific concern was that of family employees being replaced by external staff.

Sample quotes:

- "To me that's the biggest mistake. 'Cos family culture and corporate culture are two different animals." – FB 1
- "Obviously going into a more corporate type of business and having different shareholders and that, there was certainly a risk that we would lose that family culture, but we knew that's what made our business." – FB 5
- "A family environment became a corporate environment or otherwise the direction of the company has changed. They don't feel the familiness anymore." – FB 7

iii. Sub-category 3: Impact on staff

The four participants who cited barriers related directly to staff did so for two types of reason. One was concerned about staff being treated less well by the PE firm. This is the 'almost like family' stance. The other was a more arm's-length reason: the struggle of getting staff to adapt to a new, scaled-up business.

Sample quotes:

- "They're [the staff] almost part of the family as well. So anything that would jeopardise that would be a no-no, absolutely..." – FB 3
- "My staff are well looked after. And not just financially, you know. Whether it be... the soft issues, like, we really care about them." – FB 4
- "And we have our staff, who are almost like our family. Some of them have been with me since... 25 years. So to be honest with you, some of my staff members have even be my driver that took me to school. So the intention is not to grow it to sell it. The intention is to grow it to survive, to support the families and to support the staff's families." – FB 8

iv. Sub-category 4: Impact on family relationships with outside parties

Several interviewees cited distinct barriers that related to stakeholders outside the business. One stated that some of their external shareholders had expressed concerns when they announced negotiations were ongoing with a PE firm: “When we go out and tell the guys out there that listen we’re doing this, they say you’re crazy.” – FB 1.

The same participant went on to cite a worry of the PE firm implementing practices that would damage the family and the business’s reputation with outsiders: “But it’s not stuff that they can come and change the reputation of the business. And that for us was the main concern, you know.” – FB 1

Two participants showed wariness about how a PE firm’s entry may impact on the great care they currently take with their customers:

- “I think what for me is quite difficult is that my clients are very well looked after. They get a great product.” – FB 4
- “They don’t have the owner who is passionate about their products. Now it’s become a business. They started cutting their product lines. We only focus on what makes us profits, we’re not focused on what the customer needs – we will dictate what the customer needs.” – FB 8
- “You won’t know who my customers are, because I’ve built up my relationship with them over 30 years. If they came to me and said they have a hassle or they’ve got a problem, I’d help them solve it.” – FB 8

Another participant shared a somewhat more nebulous concern about the FB’s ongoing ability to serve a role as a pillar in the community.

- “People in the community specifically, it’s difficult for them to look... they don’t separate the individual from the business. It’s like one thing. You know, let’s say the business is run with integrity and people see... they look at, let’s say my uncle or my father, and they say those are the guys that I want to do business with. They’re trustworthy. You know, they don’t do things wrong. So, ja. And also, things are... they’re able to help in certain ways.” – FB 3

v. *Category 2: Emotional attachment to the business*

This may well have been treated under the individual or family code. Many of the codes here also fall under the individual and family concerns. However, this category is considered separately given that it was typically described without ascribing it to an individual or group.

Sample quotes:

- “All of us have got a wish list that all our shareholders are more than welcome to bring their kids up to carry on with the legacy and for us with our Big Save brand, we don’t want to just sell it to anybody, ‘cos there’s some legacy behind it that we want to leave behind. And we obviously want the kids or the next generation to carry on.” – FB 1
- “But the other guys were happy selling at that price and I guess through your eyes your kid is always the cleverest and the prettiest and the everything else, so for me I always thought the business was cheap.” – FB 2
- “It’s their baby. It’s very important that they... it’s their home, it’s not just their work. Something that they feel at home when they walk into the shop they actually feel more in control than they do when they’re at home.” – FB 3

vi. *Category 3: Fear of losing control – FB-Ctrl*

Very similar to the category of emotional attachment, FB-Ctrl picked up on a theme of the interviewees struggling with handing over their own control to the new PE partner. Less ubiquitous was the inability to delegate control within the business to subordinates, including family members.

- “I mean, imagine me asking to go on leave. I don’t ask my bother-in-law to go on leave. Now I must go and ask [the PE firm MD] to go on leave? I’ll tell you to go fly a kite!” – FB 1
- “I think that provided those first three things are ticked off, that the exit strategy is well-defined, that I’m not gonna lose control of my business” – FB 4
- “The father was a retired banker. And he took some of his retirement fund and he invested in buying a franchise for his two boys. But he wouldn’t let them do a darn thing.” – FB 7
- “And as your shares go down, automatically, strangely enough, you get excluded.” – FB 7

vii. *Category 4: Failure to appreciate unique attributes of the particular FB – FB-Apprec*

Four participants highlighted concerns about the ability of a PE firm to understand the unique levers that make their business successful. These ranged from understanding the personalities in the FB to the necessary technical capabilities.

Sample quotes:

- “We’re scared that it scares them [their PE investor] off, because I’ll vloek [Afrikaans for ‘swear at’] the one manager and he’ll vloek me, and the corporate guys will see this and say how can this oke talk to you like that? And then it scares everybody off.” – FB 1
- “I find they don’t have the experience that I would value in my business.” – FB 4
- “there was certainly a risk that we would lose that family culture, but we knew that’s what made our business. So it’s been very important for us to actively keep that family culture.” – FB 5

viii. Strategic misalignment – FB-StratMis

Covering higher-level and longer-term issues than FB-Appre, this code displays the worry FBs have regarding the different time horizons, approaches to debt and the importance of profit relative to other goals.

Table 10 Rank and frequency count of sub-categories on FB-StratMis by number of participants citing each

Rank	Sub-category	Number of participants
1	Profit motive – FB-Profit	4
1	Time horizon – FB-Timeline	4
3	Gearing – FB-Gear	2

Sample quotes:

- “Ja, it’s definitely a long term thing. It’s a, something you want to keep going for as long as possible. There’s no time horizon for an entrepreneur.” – FB 3
- “well, we don’t have to make profits. I mean, you don’t have to. We certainly have to be profitable over the long run, you can’t be running a loss for long otherwise you’re not a business. But ours can be very much about making a difference in South Africa.” – FB 4
- “We’ve, ja, just bootstrapped it all ourselves. We don’t even bond our buildings. So we’re incredibly conservative in the way we run.” – FB 4
- “I’m building a business here that I want to last for 50 or 100 years. Not just the next five or six years.” – FB 5

- “We wouldn’t gear ourselves and we wouldn’t stick our toes deep enough into that sort of water. We would fund everything from organically generated funds etc. Just because it made us sleep better at night and made us feel less exposed.” – PE 7

ix. Risk appetite – FB-RiskApp

As outlined above, responses were various and contradictory. Two FB participants felt PE had a higher risk appetite and two felt the opposite. As the literature shows, such contrasting positions are not an outlier.

Sample quotes:

- “A lot of their [PE firms] funding comes from what I term the ‘widow and orphans’ fund. So they have to be absolutely careful, cautions, conscious of what they do and how they do.” – FB 2
- “Private equity has a much bigger appetite for risk, obviously. Certainly in my experience. And that’s because they’re operating with deeper pockets and you represent a portion of their investments, where in your life you represent 100% of your investments.” – FB 7

d. Results: Research question 2 – The solutions

What approaches to managing a private equity investment in a family business are successful at overcoming its challenges?

Interviewee responses to research question 2 were more limited in number and extent. Several reasons may explain this. It is submitted that the explanation is twofold. First, participants were likely wary of giving up trade secrets. In fact, several of them stated this explicitly while answering questions. The second reason is the logical assumption that most participants have not yet worked out successful ways to deal with all of the challenges they experience in this scenario. Finally, as part of the interview process, solutions were invited in the second half of the interview, after having settled questions on challenges. Given that the interviews typically took between 50 and 60 minutes, it is feasible that participants lost focus as time went on.

Nonetheless, solutions will be presented, as far as possible, in line with the challenges they address.

Several participants proffered solutions to issues of formalisation, corporate governance and financial sophistication. These responses are not included in the results chapter. For the purposes of this study, it is assumed that these are all important tasks within the PE business model and are applied across the board. The best practices and techniques are outside the scope of this research.

I. Research question 2.1: Solutions: PE perspective

i. Corporate governance

Two solutions were offered to the challenge of FBs employing questionable expensing methods and unreliable financial statements. One was simply to assist the FB to correct the practices over a reasonable time. As per PE 11: “[The] company has to rectify that as we invest. So they’ll need to buy out the ... like the car, they’ll need to buy it out of the business. Expenses that are being run through the business, during our financial due diligence we get the third party that looks at the company to isolate what expenses or what practices are not gonna be done going forward.”

The other step is to allow for a fair way to price the business. The PE firm pays an initial price based on the books the FB presents to them. Attached to this is what is referred to as an “earn-out” (Handler & Hirsch, 2014). Here the PE firm pays a price based on audited financials they have produced during their due diligence, with the promise of another sum (the earn-out) to be paid later if actual earnings turn out to be an accurate reflection of the FB’s claimed higher earnings in their own books. “we would normally pay an up-front amount, based on audited financials. And create an earn-out on what they say the truer reflection of actual numbers are” – PE 4.

i. Category 1: Founder dominance

Here, three sub-categories of solutions presented themselves.

Table 11 Sub-categories of solutions to PE-FouDom challenge

Sub-category	Number of participants
Work with	6
Remove/avoid	2

Six participants' initial solution offered was some process of working with the dominant founder. In some cases this was in the form of a high degree of accommodation and personal involvement in order to understand the founder and find common ground. Two participants suggested a change of role for the founder within the business. Several spoke about making the right sort of argument in order to change the founder's mind. PE 12 gave a unique solution: Reasoning that the founder will never be moved by 'outsiders', work through his sons who will be able to reason with the founder.

The "remove/avoid" category includes the two participants whose first response was to either remove a dominant founder or simply avoid a deal where the PE firm believed a founder to be too dominant. Several of those who began with less rigid solution went on to give removal as the way to resolve the issue if initial efforts fail.

Sample quotes:

- "In our view it was much better to get her out of the business, remove that legacy, remove that emotional attachment to the business. We could look at things in a pure commercial way first." – PE 1
- "I think if the founder is the right age, and of the right disposition, I think... sort of a non-exec chair role or semi-exec chair role can be quite good." – PE 3
- "We need to understand what his aspirations are. And we need... and we often do, we plot out a roadmap as to the timeframes. Because if we can see he or she, by the way, it could be a she, is gonna be problematic." – PE 7

ii. Category 2: Family culture and bonds and staff loyalty

The two categories of family culture and bonds and staff loyalty are dealt with together here. While stated distinctly by interviewees as challenges, the solutions are equally applicable to both. This is in line with the finding that FBs very often consider their staff to be part of the family.

Table 12 Sub-categories of PE-LoySta by number of participants who cited each

Sub-categories	Number of participants
Work with	5
Remove	1

As with solutions to a dominant founder, several participants had approaches that involved initially working with the family. Typically this amounted to offering non-performing family (or loyal staff) support (additional staff or training) to enable them to meet performance targets. PE 12 argued vehemently that the PE investor must invest in the family (as opposed to just the business) and allow them to operate as they choose, because disrupting the family is the main danger. In other words, PE 12 saw family bonds not as a challenge but as a benefit.

Sample responses:

- “It might be a problem in the business, but not when they partner with us. We’re pretty blunt. We’re not gonna have that. In most cases the family members, unless they are highly, highly valuable to the business, they’re out when we come in.” – PE 2
- “[We] started to introduce new external leadership, largely on a consultative kind of basis, but who can hopefully plug some of those gaps over time.” – PE 10
- “They [the family] wake up in the morning and they feel it’s not theirs. And you looked at the business and you saw one guy doing nine jobs, but in reality that one guy was doing 29.” – PE 12

iii. Category 3: Family external relations

No participant offered a direct solution to this. Participant PE 6 simply remarked “You’ve got to watch for that,” in relation to portfolio companies signing deals with outside parties without consulting the PE firm or following thorough procedures.

It is suggested, given that all 12 PE participants cited formalisation and corporate governance and something they deal with, this subsumed problems of family external relations.

iv. Category 4: Emotional attachment and fear of losing control

Emotional attachment and fear of losing control are addressed together here. While participants were clear in distinguishing these as challenges, their responses on solutions treated them as one in the same.

Table 13 Sub-categories of PE-Emo and PE-Ctrl by number of participants who cited each

Sub-category	Number of participants
Work with	6
Walk away/remove	2
Long-term	2

Eleven of the twelve PE participants cited emotional attachment of the family to the business as a challenge. Asked for solutions, six provided some scheme to work with the family. Of these, five spoke about gaining rapport. Three described how they offer portfolio companies arguments on how they can grow the business together. Just two participants described the first response to emotional attachment as walking away from the deal or removing the family members. Two were able to allay such attachment by providing a long-term investment.

PE 5 offered an alternative approach. He described how one can foster emotional attachment to secure a lower price. He argued that one can speak to the non-financial motivations of a family and how the PE firm can enhance those.

Sample quotes:

- “We don’t really do contentious deals. If it comes down to that, we just walk away. Because there’s enough deals and it’s not worth it.” – PE 2
- “We’ll accommodate them to a point, but there’s a point where, you know, we don’t bring them in on one pretext and then the day after the marriage we have a different approach. We’re very upfront.” – PE 3
- “They don’t want to see arrogant, obnoxious individuals. You’re not gonna get, I can tell you now, no matter what price you put on the table, they’re not gonna sell their souls to people they don’t get on with in day one... So you’re slowly getting them to buy into... you know how it makes sense, it makes commercial sense... then they light up and they...” – PE 4
- “Sometimes you find family businesses that, because they have this other motivation that is not purely financial, if you speak to their wishes, and what they want to sort of get out of someone investing, you can end up sometimes paying a lower price than you would if it was a purely commercial and purely financial transaction.” – PE 5
- “I think that was one of the things that was attractive, we don’t have a fixed... I mean we are long-term investors. We could give them that comfort. Otherwise I don’t think we would have done the deal.” – PE 6

v. *Category 5: Strategic misalignment*

As noted above, strategic misalignment referred to different approaches to an acceptable/optimal level of gearing, relative importance of profits and the length of the time horizon. Four categories of solutions emerged. First, an economic argument. This took the form of convincing the owner-family that dilution of shares, gearing, an exit in five years etc. made financial sense. Part of this was the argument that the family will have ‘two bites at the cherry’ – cash injection in the initial PE deal (where they may or may not be allowed to take money out of the business) and the later liquidity event when the exit occurs. Second, several interviewees spoke about tempering their favoured debt level in order to allay the family’s fears of being saddled with debt. Third, three participants provided the solution of a long-term vehicle for FBs unwilling to shorten their strategic timeline for the business.

Finally, several interviewees mentioned “drag-along rights”. This is a back-up facility for a family business that transacts and refuses to sell in an exit. In that case, the PE firm has a more limited pool of potential buyers (trade buyers, for example, will not buy just the PE firm’s stake). Drag-along rights entitle the PE firm to force the family to sell alongside them. These are a standard contractual term (Demaria, 2013).

Table 14 Sub-categories of solutions to PE-StratMis challenge by number of participants who cited each

Category	Number of participants
Economic argument	7
Temper debt preference	2
Long-term vehicle	3
Drag-along rights	3

Sample quotes:

- “And private equity transactors will try and conservatively yet aggressively push the envelope in gearing up a business. But what we often do, and I just speak for our organisation, is to try and get a debt level that the management team can sleep with at night.” – PE 4
- “I think our approach in general is to... our first thing is, be fact based. That’s the best defence for those things. Be fact based. What that means is that, if you want a particular change, we need to spend a lot of... if we know that someone is going to go against us, we

need to spend a lot of time building up our argument: doing surveys and bringing factual bodies of evidence.” – PE 5

- “So what we’ve seen is quite a shift for guys saying, I’d rather do PE in a permanent vehicle. Saying, where you don’t have this five-year lifecycle.” – PE 9

vi. Category 6: Risk appetite – FB-RiskApp

Just two PE interviewees provided solutions to the challenge of differing levels of risk appetite. Both had been of the opinion that FBs have a higher appetite for risk.

PE 5 had spoken about the challenge of FBs far more readily moving into new markets and products, even doing this across borders: “Family-owned business, depending on where they are in their development, most of the time they want to take more risk than a private equity firm would want to. So a family-owned business, in terms of the revenue increase options, they would want to go to a particular country, brand new greenfield and set up a factory from scratch. Which is very, very risky because you haven’t tested the market.” He described a solution that amounted to fostering debate between the family and the PE firm, performing market research and finding the best solution: “What may happen is that, you may present this very nice presentation that let’s take the lowest risk. But then the family will come with very, very strong arguments about why that will fail.”

PE 6 spoke about the frustration of a FB portfolio company that will very casually decide to create a new venture at a family social gathering: “They will come up with an idea over a braai and the nephew would be there and there would then and there, why don’t you start that?” The PE firm response to this was subdued: “So we tolerate it because we bought into this very entrepreneurial family business, and we’re trying to introduce a degree of governance and all of that, but it’s baby steps.”

II. Research question 2.2: Solutions: FB perspective

FB participants offered even less in the form of solutions. Perhaps surprising was that responses to questions on solutions typically elicited a general description of how pleased they are with their PE partners. Terms like “a particularly nice bunch of guys,” “absolutely fantastic” and “we’ve been lucky” were used to describe the PE contribution. All of those who responded made it clear that the PE firm brought great value. A number offered general answers suggesting that discussion and collaboration was useful.

Two responses spoke to a definite solution. FB 1 described how only the founders had any dealing with the PE firm, for fear of staff and other stakeholders being spooked by the whole deal: “It’s the founders and [PE firm] that do the liaising and talking. We don’t include the other shareholders as of yet, cos of the buy-in process... But you need to do it in baby steps. You can just, now we’ve got an equity partner, just throw everyone into the room.” FB 8 spoke about how they had begun formalising processes and improving corporate governance in the months leading up to their search for a PE suitor.

As for a general solution, five interviewees spoke very positively about the arrangement where the PE investor limited involvement to high-level strategic direction, and left the operations to the family and their staff. That said, referring to the PE model outlined above as well as the PE interviews in this study, that is very much the PE model. In fact, it seems unlikely any PE firm has the resources or desire to move in and operate the portfolio company on a day-to-day basis.

Sample quotes:

- “But the actual running and operations of the business, they bought into how we currently do things.” – FB 5
- “They’re very much about investing in the team. And when they liked the team, they agree with the strategy of the team and they’ve signed off on the vision, as I say, they say go out and do it. And as long as you’re doing what you say you’re going to do, they’re cool.” – FB 2

As flagged in the methodology chapter, the lack of content in this area may be explained partly by self-selection bias – i.e. only those FBs with positive experiences or who had overcome challenges without much trouble made themselves available.

Another potential explanation is that a number of the FBs interviewed simply hadn’t found solutions, but had accepted certain restraints as necessary evils to gain the benefits they expected from the relationship with PE.

III. Conclusion

With the results summarised and presented, one begins to see how many relate to the literature. In the chapter to follow, that process is formalised. The findings of the present study will be analysed with reference to the literature presented in chapter two, all with a view to answering the research questions.

6. Discussion of results

a. Introduction

Having presented the results of this study in the preceding chapter, these will now be discussed in chapter six. The results will be analysed and evaluated against the research questions and in light of the extant theory presented in the literature review. While in chapter five the researcher was careful not to give evaluation, chapter six is the opportunity to provide deep insights gleaned from the researcher's experience conducting the interviews and exploring the literature. The purpose of this chapter is to show that the research objectives have been met.

Given the nature of the research questions, the two main questions will be presented separately. For ease of reading, 1.1 will be discussed alongside 2.1. That is, challenges as perceived by PE participants will be discussed with the solutions suggested by PE firms. Likewise for challenges and solutions from FB participants in 1.2 and 2.2.

b. Challenges and solutions: The PE perspective

Research question 1 asked: What are the major challenges to managing a successful private equity investment in a family business? This was addressed from both the perspective of the PE firm (1.1) and the perspective of the FB (1.2). This discussion begins with the challenges as perceived by the PE firm. Where they were provided, the solutions offered by PE participants will be presented so as to immediately follow the related challenges.

1. Formalisation and corporate governance

PE interviewees emphasised the problem of FBs who, through poor corporate governance, allow a variety of personal expenses to be expensed through the business in order to save on their tax bill. While this appears to be in line with anecdotal evidence, there is a conflict with the literature on FB. For example, Chen et al. found that FBs are less aggressive with their tax-saving strategies than non-FBs. They argued that, "although the benefits of tax aggressiveness are expected to be higher for family owners than for managers in non-family firms, the costs are likely higher too" (2010). In agreement with this outcome are (Strejvers & Niskanen, 2014) and (Mafrollaa & D'Amicob, 2016).

Applying SEW, a more recent study explained this further: "Their findings follow the logic of socioemotional wealth because family-owners fear negative outcomes associated with

aggressive tax avoidance that may diminish the family's socioemotional wealth" (Gómez-Mejía & Kalm, 2016).

The SEW paradigm does appear to be an elegant explanation of the findings in Chen et al., (2010). If families make their decisions primarily with reference to the impact on their SEW, they will be very cautious about risking family reputation. Given that a public finding of tax avoidance or evasion would damage reputation, the theory goes, FBs will be less aggressive with tax policies than non-FBs.

However, this is difficult to reconcile with the results of the present study, which found FBs tended to be highly aggressive with taxation. Rather than invalidating SEW, the conflict may be a function of the likelihood of being found out for unscrupulous taxation policies. Chen et al (2010) used a sample of "1,003 firms in the S&P 1500 index (S&P 500, S&P Mid Cap 400, and S&P Small Cap 600 indices) covering the period 1996-2000". These are all American firms that pay taxes to the Internal Revenue Service (IRS). In the present study, FBs were all based in South Africa, thus paying taxes to the South African Revenue Service (SARS). One potential difference that could explain the different approaches to tax would be that the American firms perceived a higher likelihood of being caught for unscrupulous tax policies. This would alter their decision-making calculus, heightening the weighting they attach to SEW in relation to the financial savings from aggressive tax schemes. But this is not a question asked or resolved in the present study, and would require further research.

Solutions offered here were standard. PE firms, by their nature, must follow laws and regulations of good governance. Any entity they sell to upon exit will demand fully audited results and a clean tax history.

II. Financial sophistication

Common sense may explain some of the differential in financial sophistication. As is clear from the description of data in chapter five, PE firms are staffed by financial professionals. FBs, on the other hand, may contain financial expertise, but they are not designed to specialise in this area in the same way as PE firms are. In the private space (as per this study) they are also relatively small. As PE 10 explained, this meant they lack the scale to employ a full-time FD or CFO.

SEW can help to explain the lack of financial sophistication, too. SEW suggests that owner families will gain utility from creating wealth within the family and having family members involved in the business (Berrone et al., 2012). Several of the interviews conducted for the present study point to this as an explanation for poor financial sophistication. PE 1, for example, described how the founder's son had been operating as the financial director, but was not qualified for this role: "We would very quickly take that finance function that was undertaken by her son and really take that from say two out of ten to nine out of ten."

Precise solutions were not explored in depth. Financial engineering is a key skill of PE firms (Gompers et al. 2016) and a complex field of its own, well beyond the scope of this study. For discussion of the issue of gearing, see the section on strategic misalignment below.

III. Family and staff bonds

Perhaps most directly forecast by the literature was the findings regarding the bonds among family members and staff within the FB. First, family bonds properly so called (that is, among biological family) were the foundation of a variety of challenges that PE firms face dealing with FBs. Responses that were coded directly as challenges of this sort were numerous, but certainly do not exhaust the theme. In fact, the responses that explicitly cited family bonds as a challenge did little more than confirm the validity of SEW as a lens for the study. Without the existence of family bonds that influence behaviour, SEW has no application. Therefore, these responses are analysed in other sections of this chapter, where more specific challenges borne out of the existence of family bonds are discussed.

Of more relevance was the finding that many FBs spoke about a heightened loyalty between the family and non-family staff or employees. This accorded with literature (Miller, Lee, Chang, & Le Breton-Miller, 2009). While the vast arena of the relationship between family employees and non-family employees is beyond the scope of this research, this extension of the family-like bond beyond biological family to employees is important to the way SEW is applied. Put simply, to the extent that non-family employees are considered to be 'part of the family', the owner-family will include the well-being of such employees when using SEW as their primary reference point in making decisions.

The implication for PE investors is that their strategies in dealing with a FB ought to allow for the possibility that staff well-being impacts SEW of the family. In short, where a family treats non-

family staff as part of the family, the lens of SEW is applied in the same way with respect to family and those non-family employees in this ‘in group’.

IV. Founder dominance

The role of a dominant family principal who makes the decisions based on the SEW paradigm is well established in the literature (Berrone et al., 2012; Feltham & Barnett, 2005). This came through strongly in the results. 11 of 12 PE participants cited a challenge around this.

The relevance of this for the PE firm is that it may inform their dealings with such a dominant leader. While this is a challenge they may face in any sort of business, in the case of a FB, such dealings can be analysed through the SEW paradigm. That is, a patriarch, for example, as distinct from the CEO of a non-family business, will respond to appeals to SEW rather than merely to financial arguments. PE 12 offered a creative solution to this: since the father, as it was in this case, won't be moved by financial logic, he recommended working through the sons who would, in turn, be better able to deal convincingly with the father.

FBs dealing with a PE firm ought to be aware of the sentiments they have towards this sort of dominance. While six PE respondents said they would work to resolve conflicts with a dominant founder, all of them either stated or implied that removal would be the next step. Two firms gave no room for working with a dominant founder. Their first step was removal or simply walking away from a potential deal.

V. FB and external relationships

It was not just the intra-family relationships and family-like bonds with non-family staff that PE firms found difficult about dealing with FBs. The substantial concern about the relationships families had with outsider parties can also be understood in light of SEW. This was in line with the literature, which has found that the sense of belonging members of the owner-family feel can extend to long-time suppliers and vendors (Fitz-Koch et al., 2017). The theory also says that “the family principal’s SEW preservation objectives lead them to be more concerned about the needs of others, even if doing so is less appealing financially” (Berrone, Cruz, & R. Gómez-Mejía, 2014).

The foundational concern in this category was that family members would strike deals with suppliers and customers without due regard for the financial soundness of the relationship. Applying SEW, these associations often come into being not because of their pecuniary value, but the non-financial benefits. PE 8 put it succinctly: “Have they got favourable deals because of whatever the association is or the relationship? That also becomes difficult to break those logically and saying, it doesn’t make sense from a business point of view.” Without defining precisely what the family gains from such relationships, they clearly gain something non-financial.

This is a peculiarity of FB that PE firms must be aware of. The installation of a robust corporate governance system would include the sorts of procedures (such as tender rules) that would address this challenge.

Also part of the FB’s relations with external parties is the issue of reputation. There is substantial literature on reputation as a source of affective wealth for an owner-family. The literature review showed that FBs have been found to have more conservative tax regimes - (Steijvers & Niskanen, 2014; Gómez-Mejia & Kalm, 2016; Gomez-Mejia et al., 2011) – and are more likely to adopt practices that are good for the environment - (Berrone P. , Cruz, Gomez-Mejia, & Larraza-Kintana, 2010) – because of their intense interest in protecting the family reputation. In the language of SEW, FBs consider the money saved by aggressive tax practices and lax environmental standards secondary to the potential loss of SEW that they would suffer if negative practices are made public, damaging their reputation.

It is noteworthy that none of the PE interviewees brought up the FB heightened focus on reputation without prompting. Those who then agreed that reputation was an issue were non-committal. Several pondered on the question of whether FBs were indeed more concerned with their reputation than non-FBs.

Just one strong stance was taken on this topic. PE 5 spoke about how the owner-family would spend money to enhance its reputation among non-family employees. In the context of the discussion, the employees were considered outsiders – that is, although internal to the business, they were outsiders to the family. The participant explained how one owner-family in particular had provided a cafeteria and food for employees in order to appear benevolent. His pithy conclusion highlighted the clash of cultures: “We don’t care about that.”

The upshot is that the challenge of reputation ought not only to be considered in the space of external relationships. PE firms need to be cognisant of the potential for investee FBs seeking to enhance their reputation internally, among employees. The SEW paradigm suggests this is just another source of non-financial utility a family considers when making decisions.

VI. Emotional attachment and fear of losing control

Here the importance of the issue in the literature was reflected in the interviews. One manifestation of SEW is a sense of emotional attachment to the business that goes beyond what an employee, manager, executive or shareholder of a non-FB would experience (Le Breton-Miller & Miller, 2013; Zellweger et al., 2012). All but one of the interviewees cited this as a challenge.

The commonest solution offered by PE participants was to work with family members. They spoke of efforts to understand the concern and find a compromise. Two participants showed no hesitation, stating that they would walk away from a deal where the family displayed emotional attachment or remove the problematic party if the deal had already been done.

Two participants gave novel responses that suggest a fundamental shift in the PE industry, as regards the time horizon of PE investments. As was outlined in the literature review, fundamental to the PE model is that the investment is time-bound. The intended duration of an investment varies from firm to firm and even fund to fund, depending on the chosen strategy. There is also an element of variation caused by market conditions. Firms attempt to time their sale within some intended window of time so as to maximise their returns. However, target lifetimes of investments rarely fall outside of five to seven years.

Two PE participants provided the solution of a long-term investment vehicle to overcome the challenge of family attachment and suggested that this was a growing phenomenon in the industry. Their reasoning was testament to the power of SEW: fighting the family's emotional attachment to the business is more trouble than it is worth. In fact, it would not be hyperbolic to suggest this approach is a new business model. The long-term PE investor certainly cannot act as it would when targeting a sale for the highest value in five years. But it is equally not a passive shareholder. In both cases the interviewee gave no indication that this approach meant less involvement in the target firm.

Also of great interest to the PE investor is the thinking of PE 5. This PE professional suggests that he has experienced a deal where speaking to the emotional attachment of the owner-family had the impact of achieving “a lower price than you would if it as a purely commercial and purely financial transaction”. This contrasts with the concern other PE firms gave that the emotional attachment meant that owner-families demanded a higher price than the business was valued at on a strict appraisal in order to compensate for the emotional loss. Again, this is acknowledgement of the strength of SEW. It suggests that a PE firm can ‘buy’ a financial discount in return for making a positive impact on the family’s affective endowment, or SEW.

VII. Strategic misalignment

Four sub-categories of strategic misalignment presented themselves, each of which can be explained using the SEW paradigm and existing literature on the topic. First, consider the challenge that PE firms experienced with FBs resisting financial gearing. As found in the interview process and described in the literature, an essential part of the PE business model is to leverage investments in portfolio companies with debt. The more debt, the further profits are enhanced. However, unlike equity, debt demands servicing and adds risk.

FBs are strongly averse to debt. For several reasons, debt subtracts from the family’s SEW or at least poses a potential threat to SEW. At its most extreme, debt represents an existential threat to the business as a going concern. Inability to service debts may force the business to shut down. This represents a total deletion of all SEW the family can derive from the business.

Less dramatic is the simple loss of SEW that debt brings in the form of removing some degree of control from the family. As sole owners, families have total control over profits, and are free to use them to enhance SEW. Being obligated to repay loans diminishes this freedom, thus subtracting from SEW.

Two PE participants offered the very pragmatic solution of tempering their own appetite for debt. This took the form of a compromise: taking enough debt to keep the investment viable but limiting it to a level that allowed the FB to, as one participant put it, “sleep at night”.

A more widely cited solution serves as a reminder that SEW does not actually trump financial motivations. It emerged that economic arguments are able to convince reluctant FBs to take on

additional gearing. Far from a departure from the SEW paradigm, this is an indicator that FBs have more than one reference point for decision making, and that strengthening the financial argument relative to the non-financial argument is an effective tool for the PE firm negotiating with the FB.

Divergent timelines represent another challenge that the literature suggested and the interviews confirmed. As demonstrated earlier, the PE model hinges on an intense spell of approximately five years to boost the value of a business before exiting.

A long time horizon provides families with various types of SEW. First, it stands to reason that the longer the business is in the family during each family member's lifetime, the greater the ability to earn all of the varieties of SEW: reputation, kinship ties, control and influence, identification etc. Second, families gain SEW from the knowledge that the business will benefit later generations – even those yet to be born (Gomez-Mejia et al., 2011). For these reasons, FBs have a timeline of decades, if not more. Like FB 3 put it: “[This business] must run forever.”

As per the challenge of family attachment and fear of losing control, a solution offered on the PE side was to provide a long-term investment vehicle. Although PE involvement would in and of itself limit the family's SEW, if that comes in the form of a long-term vehicle, the family does not face the typical PE exit after five years, which often demands that the family exit, too.

A less desirable solution is the contractual drag-along right. This gives the PE firm the ability to demand that the owner-family sell along with them when the PE firm exits, even if the family decides during the lifetime of the PE investment that they want to retain ownership long-term. PE interviewees were unanimous that using these sorts of legal tools was a last resort, only employed after relations had broken down.

A solution between these two extremes was offered by the PE participant who specialises in FB investments. Here the PE firm invests without drag-along rights, but does not pay the premium that comes with that privilege. The result is that the FB receives the benefits of the cash and expertise of the PE firm, albeit for less money than otherwise would be the case, but does not have to give up long-term control of the business. In the language of SEW, this means the family gives up some SEW in return for financial gains, but does not face the extinction after five years of all subsequent SEW the business can provide.

VIII. Risk appetite

The literature examining FB through the SEW paradigm has considered the topic of risk appetite extensively, beginning with the seminal 2007 study that coined the term socioemotional wealth (Gomez et al.). However, this has brought little agreement. As per the literature review above, FBs are heterogeneous in their degree of risk appetite, even in the specific case measuring this relative to that of PE firms. Still, SEW can be used to better understand the issue.

Recall from the literature review that studies have variously found FBs to have a greater (Poletti-Hughes & Williams, 2017) and smaller (Gómez-Mejía & Kalm, 2016) appetite for risk as compared to non-FBs. The complexity grows still when considering different types of risk. For example, there is evidence that FBs have greater appetite for venturing risk (Block et al., 2013).

Both PE interviewees who provided a discernible, unconditional answer (PE 5 and PE 6) said that FBs had the higher appetite for risk. They spoke about the relative freedom with which FB investees would expand the business.

Perhaps most telling is the variety of conditions mentioned by PE interviewees, who gave elaborate and nuanced answers, depending on factors such as how much the family has taken out in dividends, the extent to which the family has diversified, the stage in the lifecycle of the FB, the industry they are in, and even the level of education among family managers. Indeed, some general principles of risk apply here. For example, a family that has a diversified portfolio of assets can afford to take on extra risk in any chosen asset. And while an established PE firm will have a portfolio of companies to offset risks in any individual investment, the smaller ones may have just one or two. In fact, two of those involved in the present study had two or fewer companies.

All of this uncertainty and conflict of opinion suggests that FBs do not display a uniform risk profile across the board. This conclusion is affirmed in discussion of the opinions solicited from FBs later in this chapter. This is not to suggest that SEW is an inappropriate lens to study the topic. Merely that further study is required to understand how families evaluate the impact of risk-taking activities on their SEW.

c. Challenges and solutions: The FB perspective

Having discussed the challenges and solutions from the perspective of PE firms, it remains to do the same using the responses from FB participants.

I. Impact on the person or bonds between people

From an SEW perspective, it is instructive that FB participants placed great emphasis on this category. While responses were divided into four sub-categories (impact on the individual as well as bonds between family members, bonds with staff and bonds with outsider stakeholders), all of these underlined the weight attached by FB decision-makers to non-financial factors.

These sentiments were forecasted most clearly by Berrone & Gomez-Mejia in their FIBER model (2012). The first three elements of this model are (1) family control and influence, (2) family members' identification with the firm, and (3) binding social ties. FB interview responses make it clear that the risk a PE deal poses to these is a major challenge.

First, an outside entity taking equity in a FB necessarily limits the family's control and influence. Even if sources of such control like status or personal charisma don't change, the legal change of ownership must lessen the family's ability to control and influence, and therefore impair their SEW. While no FB offered a solution directed at this challenge specifically, several did, in more general discussion, highlight their preference for a PE firm that limited its involvement to a strategic level, leaving the family's control and influence at an operational level unchanged.

Second, it stands to reason that the arrival of a PE firm would limit the family's identification with the firm. However, this is not necessarily the case. FB 1, for instance, argued that the PE investment had only made the very limited impact that they had chosen it to make and had not impaired the family's identification with the business. The interviewee spoke about the way that only the four founders of the FB (who still made up the entirety of the top leadership team) had any dealing with the PE firm, and neither their staff nor the public had any sight of the relationship other than knowing it existed.

Finally, multiple sources back up the third element of FIBER. Members of the owner-family gain SEW from kinship ties (Cruz, Justo, & De Castro, 2012) which may extend beyond biological family to staff and even external vendors (Miller, Lee, Chang, & Le Breton-Miller, 2009; Fitz-Koch & Nordqvist, 2017). A number of interview responses displayed this. FB 3, for example,

spoke about the importance of his father (well beyond retirement age) being at the business every day, even though he no longer took active part in operations. FB 4 took pains to explain how his family cared about their staff and would resist any form of investment that would jeopardise that relationship in order to make profits.

That said, PE need not be deleterious of kinship ties within the FB. This was most clear in the case of FB 5. Here the founder was pleased with the fact that the PE transaction had allowed him to give his son (who runs a division of the business) shares in the business. This represents a strengthening of their kinship ties within the FB context.

II. Emotional attachment

Employing the FIBER model again, where the fourth element is emotional attachment (Berrone et al, 2012), the theory was borne out in interviews with FBs. Interviewees variously described their businesses as their “baby”, their “home” and their “children”. This aligns with theory that finds family-owners identify with their firm personally (Gibb & Whetten, 2006).

Here FBs will do well to study the solutions that came out of the PE interviews. Long-term PE vehicles and the option of the family retaining the right not to exit when the PE firm does are positive options. They ought also to be aware of examples of PE investments where only high-level strategy is impacted, leaving the actual running of the business to the family as it was. This may also allay damage to the SEW represented by emotional attachment.

III. Strategic misalignment

The misalignment of attitudes towards gearing between PE and FB was highlighted by two FBs. They were concerned about being saddled with debt by a PE firm, and so the analysis on gearing above applies.

More stark was the conflicting stances on the profit motive. From the literature review, it ought to be plain that the PE industry is highly competitive and that PE firms and professionals are measured against very stringent financial criteria. All important is the multiplier – how many times you make your money back on a transaction (Kalleberg, 2015).

A majority of the FB interviewees made statements that placed the importance of non-financial goals above profits. As per the results chapter, some very explicitly declared that they did not need to be profitable. This underlined the value of SEW as a paradigm for studying FBs. When making decisions, owner-families use non-financial measures as their primary point of reference. Several PE participants had encountered an FB they would like to invest in, only to discover that the family is already so wealthy that they are working out of habit or simply aren't moved by financial arguments.

The challenge for FBs in this regard is that, while money may not be their primary goal or reference point, they may need money to survive as a going concern and thereby reap the non-financial benefits that provide them SEW. To that extent, all of the solutions that enable a FB to take in PE investment but retain SEW become relevant.

IV. Risk appetite

Adding further to the complications around risk that arose from interviews with PE participants, FB interviewees were not even in agreement among themselves as to whether it is PE or FB that has the higher appetite for risk. Two took the former stance and two the latter, all with the same degree of certainty while presenting the answer.

As per the argument above, attached to the PE stance on risk appetite, this does not invalidate SEW as a theory for analysing this question. It is submitted that SEW remains the primary reference point for families. The variation in results merely suggests that there are additional inputs that the model needs to consider. Referring to the answers offered, these will include the likes of the stage reached in the company's lifecycle, which generation currently runs the company, the level of diversification of family wealth and the industry in which the FB operates. These complexities suggest the need for further study.

7. Conclusion

a. Introduction

This study set out to investigate two research questions with the objective of contributing to both theory and business in specific ways. This included a months-long process of conducting in-depth interviews and getting to grips with the extant literature on the topic. In the preceding two chapters the findings of the exploratory process were presented and then discussed in light of the literature. In this concluding chapter, the outcomes of this entire effort are brought together so as to highlight the most important findings in a cohesive manner, confirm how and to what extent each research question has been answered and, finally, to acknowledge limitations of the research and suggest areas for future research that have been uncovered in this study.

The introductory chapter to this study began with the assertion that the 'post-2008 economic crisis' economy has left a number of fundamental changes to the world business and economic landscape. Again this backdrop, family business was argued to be an area of business and academia deserving of attention, given its global ubiquity and potential to provide jobs, growth and tax income for governments. From the myriad potential levers with the capacity to contribute positively to FB, it was the model of private equity that was chosen to study. It was asserted that PE is in a unique position to impact the FBs it invests in. However, it was also submitted that the PE-FB relationship is a complicated one. While theory and business practice have learned a great deal about this interaction through the few decades it has existed, there remains even more to find out. Further, opinion remains divided on whether, or how frequently, the marriage is a fruitful one for both PE and FB.

A reminder of the two research questions:

RQ 1: What are the major challenges to managing a successful private equity investment in a family business?

This question was posed to interviewees on both the PE and FB sides.

RQ 2: What solutions can decision-makers employ to overcome major challenges to successful management of a private equity investment in a family business?

This question was posed to interviewees on both the PE and FB sides.

Based on a thorough reading of the literature and discussions with faculty and business acquaintances, it was decided that socioemotional wealth (SEW) would be the most appropriate theoretical lens through which to analyse this relationship. Established only a decade ago (Gómez-Mejía, 2007), SEW has steadily grown in popularity as a paradigm through which to study FB as a distinct type of business (Börje et al., 2017).

To recall, the essence of SEW is the acknowledgement that FBs are distinct in that they frame decisions primarily around the impact the owner-family believes it will have on their SEW, or non-financial utility (Gómez-Mejía, 2016). In other words, of primary importance to the family is how the decision will affect them in terms of affective wealth in the form of reputation, family bonds, their emotional attachment to the business etc. The explicit acknowledgment SEW makes of these 'soft', human elements that motivate FBs is striking as a contrast to not only the popular opinion of PE as a cut-throat industry (The Economist, 2013), but also to the highly impersonal and aggressively profit-motivated business model of PE (Appelbaum et al., 2014) as outlined in chapter two.

Semi-structured interviews produced a large volume of data from which findings were drawn. It was these data, transformed through content analysis, that enabled the researcher to distil answers to the research questions.

b. Principal findings

I. Formalisation and corporate governance

On the PE side, a number of the challenges covered extensively in the literature were confirmed to be major problems. First, it was clear that formalising and inculcating corporate governance is a starting point for every PE firm investing in a FB (Demaria, 2013). Formalisation is a very basic function that is demanded of a PE firm with large institutional investors (Gompers et al., 2016). It also makes sense, in light of the way FBs (including those in the study) are built up from nothing by individuals and families who are typically not steeped in the formalities of the corporate world.

One of the interesting findings related to tax. Interviews with PE very definitely stated that FBs they invest in are aggressive with their tax saving tactics. This conflicted with SEW-based research on the topic, which found that FBs were very conservative and careful to keep their tax

records clean so as to avoid the reputational damage – and therefore loss of SEW – from a potential public outing of unscrupulous tax practices (Chen et al. 2010).

It is submitted that this very strong conflict is an area for future research. Several variables, including the jurisdiction in which the FB operates, may explain the difference. The studies cited on this topic are from different legal dispensations to that of the present study. SEW may well still be an appropriate lens through which to view the problem, as long as the relevant variables are identified.

Nonetheless, the solution offered by PE is of great importance to a FB that may be considering taking in PE. A number of PE firms highlight how tax strategies that lower accounting income and profits also reduce the price a PE firm will pay, given that PE firms typically use a multiple as a valuation tool (Scharfman, 2012). PE firms do offer the solution of holding back some money, payable if the business proves to be as profitable as the owner-family claims it is – a contractual setup known as an earn-out (Handler et al., 2014). However, it is suggested that FBs are a more attractive target to PE if their finances are reliable. This makes valuation easier and less contentious, it saves the PE firm a great deal of time on their due diligence and it makes the entire formalisation process simpler. FBs would do well to ensure proper accounting practices and financial audits by reputable firms if they are intending to take PE investment.

II. Financial sophistication

Financial sophistication came through clearly as a skill that PE firms provide and that FBs typically lack. The challenge was noted as such by both PE and FB. PE firms tend to either provide financial sophistication by their in-house expertise (which are generally at a very high level) or, where needed, hire a new FD or CFO for the FB.

It is suggested that financial sophistication is a keystone for any business hoping to scale up from the typical size of a PE target to the next level (e.g. listing on a stock exchange). It is for the FB to consider how they obtain this. Whether they opt to hire their own financial experts (although PE 10, who specialises in FB investments, suggests this is often too expensive, demanding a part-time CFO), or they do a PE transaction requires an understanding of the many implications of such a deal. In particular, understanding how PE investment will impact their SEW is vital. This study ought to provide a robust snapshot for an owner-family in such a position.

III. Founder dominance

PE firms also struggle with founder dominance in the FB. This was equally clear in the literature (Yehya et al., 2017; Chang et al., 2016) and findings. Generally, PE interviewees were open to working with such a dominant party to find a compromise. However, two participants were insistent that they would not entertain working with such a personality. So, this is a critical issue for the owner-family to resolve before opening up discussions with a PE firm, especially in light of the tendency for the founder to become worried about losing control as a FB grows (Makó et al., 2016). There is a real chance it will scupper a deal in early talks. Even with PE firms that will entertain alternatives, it is a standard term that the PE investor keeps key positions like CEO as a reserved matter, which may take it out of the family's hands if unresolved before a deal is made.

IV. Family bonds and culture and staff loyalty

One may well call family culture and bonds, and staff loyalty the heart of SEW. It is the non-financial utility to these parties that makes up SEW. It can also be the largest challenge or benefit to a PE-FB deal, depending on the parties. Certainly some of the PE firms were highly wary of these bonds, particularly when they manifest as nepotism. Much like founder dominance, there was some appetite to work with people the PE firm would not have hired themselves on merit. This included tactics such as giving the individuals extra support and trying new positions that may suit them better. However, there was also emphasis from some PE firms that, as many put it, "we invest in the family". In other words, they believe in whatever it is that this family did to make the business a success. Here the assumption is that the PE firm can offer capital and strategic direction, enabling that ability the family has to operate the business to flourish. Again, it is for the family to do its own research and self-reflection to determine the nature of their own internal bonds and the stance any potential PE investor has on this. Those who insist they value the SEW they gain from having family in the business, even where not qualified in an objective, professional sense, will be able to find PE investors who agree and are willing to enable that sort of 'family magic', as one interviewee called it, to continue as it was.

V. Family external relationships

Also integral to the family's SEW are the external relationships. One manifestation that worried PE interviewees was the personal connections that can exist between family members and

outside stakeholders such as vendors (Fitz-Koch et al., 2017). Very little was offered in terms of a solution to this. It is submitted that the entire task of formalising and instilling corporate governance resolves this. Tendering, for example, will alter how suppliers are chosen.

Of interest for its incongruence with the literature was the theme of reputation. The literature is heavy with papers on how reputation is a source of SEW for owner-families. It is striking that none of the PE interviewees brought up reputation as a challenge before being prompted with the question. Even then, just one participant took a strong stance, talking about how one of his investee FBs provided lunches free of charge to staff. He argued that this was to enhance the family's reputation, and concluded "We don't care about that."

Likewise, none of the FBs pointed to reputation as a challenge without prompting. When asked the question, several did cite a concern that a PE firm would implement practices that might damage their reputation, but they were not forthcoming with any deeper insights.

It is submitted that this issue is open to further investigation. The answer to the conflict between literature and findings may lie in the self-selection bias. The five FBs that have already taken in PE may have been outliers with limited concern for reputation. Alternatively, FBs who have had their reputation damaged by a PE firm may have self-selected themselves out of a position where they may have been approached for a study like this. That was surely the case with the FB who refused to be interviewed and perhaps with several of the instances where the PE firm chose not to give details of FBs they have dealt with due to sensitive relationships.

VI. Emotional attachment

Emotional attachment and fear of losing control on the part of the FB came through strongly in both literature (DeTienne et al., 2013; Berrone et al., 2012; Gomez-Mejia et al. 2016) and findings, where the findings presented this as a challenge from both the perspective of the FB and PE. This was to be expected, given that the mix of emotional and financial utility for the owner-family is so fundamental to the SEW paradigm. Owner-families struggle to break the emotional connection to the business that they built. Further, families and the individuals that make it up struggle to hand over any degree of control, be it to non-family staff or outside management and shareholders, as per what the PE firm provides.

Several solutions presented themselves. One is much like the answer found regarding family culture and bonds: PE doesn't necessarily want this to change. In a number of PE and FB opinions provided in interviews, the intention on both sides was that very little should change at an operational level for the FB when PE moves in. The PE is there to provide capital and high-level strategic input. This need not have an impact on the family's emotional attachment to the business or the control they exert. The obvious advice is for PE firms and FBs to satisfy themselves with the other party's stance on this issue to ensure compatibility before any deal.

Another, more drastic, solution emerged, too. Several PE firms suggested a fundamental shift in the mindset of the PE industry from one of a very clearly targeted time horizon (typically five years) to one where the investment has no exit strategy or time limit. This suggested solution came from both from the smallest outfits and the largest, most established firms. For owner-families who need the capital and expertise, but are not prepared for the total elimination of the SEW the business provides them when they are forced to sell, this is the solution to aim at. Of course, it comes at a price. The PE firm will not pay the premium for the power to sell, and to sell the entire business to the buyer of their choosing.

VII. Strategic misalignment

Strategic misalignment was a substantial category of challenge for both PE and FB. Perhaps most important was the issue of gearing. Here the findings perfectly matched the literature. PE firms earn much of their return by leveraging up their profits through debt. The FB wariness of debt can be explained by SEW (Miller et al., 2014). Debt places external demands on the business which amount to a loss of control (Carney et al., 2013) and, in the worst-case scenario, loss of the entire business, thereby extinguishing the SEW they can earn from the business. Unfortunately, as the synonym 'leveraged buyout' (LBO) suggests, PE relies on gearing too heavily to discard (Demaria, 2013). It seems established that the numbers would not work out without debt. The way around this was compromise. Several PE firms spoke about accepting less debt than they would favour in order to appease the worries of the FB. It is suggested that FBs accept a large injection of debt as a non-negotiable if they are to deal with PE. However, they do have scope to argue for a limitation on the extent of gearing.

Also elegantly predicted by the theory of SEW, FBs in this study spoke about profits not being their ultimate and primary goal. Instead, they spoke of a variety of goals and intentions they have for the business, all of which would appear to provide them with SEW: having family

around, taking care of staff, building a legacy etc. As the PE model and the findings of this study are clear on, the PE model has no place for these sorts of niceties any further than they are regulated.

As noted regarding two challenges above, the solution is for the PE firm and the FB to find the right transactor to work with. There are PE firms who, while motivated by profit and have no interest in their own SEW or that of the FB, believe enough in the ability of the owner-family that they are happy to limit themselves to shareholders and high-level strategic partners. This is in contrast to those who indicate no tolerance for anything that lacks a demonstrable and direct impact on improving the bottom line. It is critical that PE and FB partners understand precisely what sort of entity they are dealing with in this regard and know that alternatives are out there.

The misalignment of respective time horizons between PE and FB is another strategic challenge predicted by the theory and borne out in the results of this study. It is trite that the PE business model demands a limited time during which the firm aims to boost the value of portfolio companies for a capital gain upon sale. A set time, the model goes, is the window during which the PE firm can create the most value by scaling the business. It represents an intense spell of growth and change during which the particular skills of the PE firm are most valuable. Whether the individual firm targets five years or seven years or somewhere in that region, it will clash with the typical owner-family of an FB. Theory tells us that the one of the factors that make up the reference point for the family when making strategic decisions is the potential SEW to be gained from the FB by later generations of the family (Zellweger et al., 2012). This is necessarily a far longer time horizon than any traditional PE firm has. It is decades at least. One of the FB interviewees spoke about building a 400-year old business and another asserted “This business must never end”.

Again, the solution of PE firms developing a long-term vehicle was suggested. As explained above, a long-term vehicle gives the PE firm two options. First, they can invest and stay on as shareholder well beyond their normal time window. This implies lower returns based on the assumption that growth will fall to a steady pace after the high-speed growth during the scaling period. A second option is that the PE firm still divests itself of its shareholding after a short window, but allows the FB retain their shareholding. Given that this limits the pool of potential buyers, it means the PE firm must buy in at a lower share price and sell at a lower share price.

Of course, the family also receives a lower share price when the PE buys in. They are compensated with the right to stay in the business after the PE firm exits.

Apart from being an important trend for PE and FB to investigate, this also represents an area for further theoretical inquiry. Further study ought to determine how strong the trend towards long-term vehicles by PE firms is. It is also important to understand how the return is impacted in such a case.

Under strategic misalignment, PE firms cited inertia in FBs. This was unilateral, as six PE participants cited it, but FBs did not bring it up. PE interviewees spoke about FBs becoming comfortable in their space. This was in terms of geography, product and operations. They spoke about FBs they encounter who, despite being successful, have not changed what they do in years.

Although this appears to contradict theory that has found FBs to be a force for innovation (Lerner et al., 2011), SEW can explain inertia (Hedberg & Luchak, 2017). The PE firm is necessarily aiming at changing things in the portfolio company, given their model and perspective. On the FB side, it is argued that SEW favours overall caution that leads to a preference to self-fund and the concern for later generations. In other words, borrowing a large sum to enter a new market risks not just the loss of assets but the extinction of all the potential future SEW the business could provide.

This challenge, more than others, appears to be less of a challenge than an opportunity. Inertia properly so-called is a negative. PE firms are by their very nature against inertia – they tackle each new investment as its own project. FBs, as SEW and the findings of this study show, can lean towards inertia. Considered as a point on its own, this is not so much a challenge as it is a win-win.

The inertia ‘challenge’ raises a point that suffuses the PE-FB relationship. It is simply that without a misalignment between PE and FB, there is no value in the deal. In fact, in many cases, the greater the misalignment, the greater the opportunity. Consider corporate governance, one of the mainstays of what PE firms provide FBs. PE firms specialise in implementing corporate governance. Therefore, the worse the state of the FBs corporate governance, the lower the price the PE firm pays for shares and the more work it does to

improve the situation before selling a scaled-up, corporatised company for the sort of price such an entity attracts. *Ceteris paribus*, the return will be higher. The very same reasoning applies to several of the challenges. Likewise, several of the solutions apply. Consider the several PE participants who relied on making sound economic arguments to sway owner-families. Or the assertions on both sides that amount to forming a solid personal bond between the parties.

VIII. Risk appetite

Finally, the most vexing challenge of all turned out to be a misalignment in risk appetite. Recall that the PE participants who brought this up were in agreement that FBs had a higher appetite for risk – this despite both of them noting that FBs are still less adventurous with gearing. On the FB side, four respondents were split down the middle with opposing stances. Two agreed with the PE firms and two felt that PE firms had the higher risk appetite.

To the extent that it exists, the literature on this topic from a SEW perspective agrees with the traditional portfolio theory, that the FB will have a lower appetite for risk (Gómez-Mejía, 2016). An owner-family is likely to have a majority of its wealth in the one FB, while the PE firm typically has a number of portfolio companies which may offset the losses of one. One PE participant argued, contrarily, that PE firms have to be far more cautious because of the exacting demands of their limited partners. There is also recent research employing SEW that has found FBs to take more risk than non-FBs (Poletti-Hughes et al., 2017).

It is submitted that the present study is not designed to untangle a question as large and contentious as this. Certainly it has been shown that this is a challenge to successfully managing a PE-FB relationship. But it is suggested that further research is needed to understand this. A dedicated study, through the SEW perspective, ought to be able to determine the relevant variables that determine the risk attitudes of an FB. Given the flaws with subjective opinion and the vagaries of defining risk appetite, it is suggested that triangulation through semi-structured interviews and a quantitative test is best suited to answering this question.

c. Limitations of this study

Several limits apply to the sample obtained for this study. It is likely that FBs with negative experiences with PE made themselves less easily available. While only the one such FB explicitly stated as much, there were several refusals from PE firms to put the researcher in contact with FB investees due to sensitive relationships.

d. Closing

To close, this study has provided answers to the research questions and, it is submitted, contributed positively to the literature while providing a resource that businesses may learn from. There are a number of major challenges to managing a successful private equity investment in a family business. A number of innovative solutions have been uncovered. Several challenges are beyond the scope of this study. In such cases, further research has been suggested.

8. Works Cited

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Appendices

Appendix 1: Data characteristics: PE interviewees

Role and business	Experience	Education
Founder and Executive	Over 20 years in private equity, focusing on early-stage mining	BA in Economics from Greenwich University, United Kingdom; MBA from the Cass Business School, City University, London; a certificate in Private Equity at the Saïd Business School, University of Oxford; Global Leadership and Public Policies, Harvard Kennedy School
Vice-president of large PE fund based in South Africa, investing across the continent.	Five years as investment analyst for a global bank. Five years in private equity as executive.	MBA from Harvard Business School; a Chartered Financial Analyst, CFA Institute.
Partner, Ethos Private Equity	20 years performing various roles at BP in various leadership and directorship roles; six years in private equity focusing on value creation.	Bsc in Chemical Engineering from the University of Natal; MBA from University of the Witwatersrand.
Principal at large SA bank		Bcom (Hons) at the University of South Africa. Chartered Accountant, CA(SA).
Managing Director, The Abraaj Group Southern Africa	More than a decade of private equity experience, across several global growth markets including the Middle East, North Africa and Sub Saharan Africa.	Bachelor of Science in Electrical Engineering from the Georgia Institute of Technology and has an MBA from the Wharton School, University of Pennsylvania.
Partner, ASO Capital	Corporate Finance at Investec Bank Limited Johannesburg and PwC New York.	Bachelor of Science in Accounting and an MBA from Southeastern Louisiana University, Louisiana, United States. CPA (NY) and is a CFA charter holder. Master of Finance from INSEAD, France.
Founder and principal	More than 30 years in investment; formerly head of private equity at Nedbank Private Equity. Founded Paeen Private Equity in 2014 to focus on sub-Saharan Africa.	Bachelor of Accounting Science Honours from the University of Natal, a Master of Business Administration from the University of Cape Town's Graduate School of Business; Chartered Accountant of South Africa, CA(SA) and a Chartered Management Accountant of England, CIMA.

Head of Leveraged Finance, Rand Merchant Bank (RMB)	Joined RMB Leveraged Finance in 2007.	Bsc Actuarial Science and Mathematical Statistics; Bsc (Hons) Advanced Mathematics of Finance
Director at SPEAR Capital	15 years' experience in finance, including five years as director of Royal Bank of Scotland based in London	Bachelor of Business Science, Finance from the University of Cape Town. CIMA, CAIA, CFA, CGMA
Managing Partner of	Joined Momentum in 1988 and retired as CEO in 2005	BCom (Econometrics), Fellow of the Institute of Actuaries
Investment Professional,	A Chartered Accountant with experience as Financial Director and Chief Financial Officer	B.Com, B.Acc, CA(SA), CFA
Founder & CEO at Sanari Capital	Thirteen years' experience in private equity and venture capital in South Africa and the US.	Bcom (Econ) (Wits), BA Honours (Industrial Psych)(Wits). MBA with Honours from Univ of Chicago Booth School of Business. CFA Charter Holder

Appendix 2: Data characteristics: FB interviewees

Role and business	Generation	Experience	Credentials
CEO, FedGroup	2	Worked up through the family organisation	Professional engineer. MBA.
MD, Azen Foods	2	Took over business from father	Chartered Accountant (South Africa), MBA candidate (GIBS)
MD	2		B.Com (Hons) Investment (UJ)
CEO	1	Founder of The Pro Shop.	Matriculated at Pretoria Boys High School. 2010 ABSA Jewish Businessman of the Year for non-listed companies.
Managing Executive	2		B.Com Honours (Marketing) from UNISA.
Customer Experience Officer (and co-founder who recently sold shares to PE)	1	Founded The Pro Shop.	Matriculated from King Edward VII School
Director - Marketing & Product Development	3		Courses in database administration and graphic design.
Director	1	Founder of BigSave	South African senior certificate.

Appendix 3: Sample Excel output of quotations from interviews

	A	B	C	D	E	F	G
1		Barriers					
2		Formalisation	Financial sophistication	Founder dominance	Family bonds	Staff loyalty	Family connections
3	PE 1						
4		<p>"executing the transaction which really meant simplifying the corporate structure"</p>	<p>"It became very apparent that particularly our strength was around the finance function and around bringing financial discipline. We would very quickly take that finance function that was undertaken by her son and really take that from say two out of ten to nine out of ten."</p>	<p>Founder too powerful, emotional and lacked necessary skills for the business; "For example she was driving an expensive car, she was essentially had a very high cell phone balance, she was taking quite a large salary and we viewed these things as unnecessary for the business"</p>	<p>"So the process is still ongoing in that respect. I think we still have to arrive at a judgment. But the intention was that he has a lot of institutional knowledge around the business. So it's very difficult to take a guy like that and unplug him immediately"</p>		<p>"She brings institutional knowledge and understanding and perhaps some relationships. Not necessary directly with the parents. We found that key relationships are not necessarily held by the entrepreneur, but actually the key relationships are held by the principles of the schools and the managers of each school. And they hold the relationships directly with the parents and the children."</p>
		<p>For example she was driving an expensive car, she was essentially had a very high cell phone balance, she was taking quite a large salary and we viewed these things as unnecessary for the business</p>	<p>"So the finance function has been a major focus of ours – that's an area we can add a lot of value, we come from accounting backgrounds ourselves"</p>	<p>"whereas he previously... because it was his mother he was reporting to, there was a lot more leniency there, a lot more forgiveness"</p>	<p>the parent in the business was there through the down years, through the dip, and into difficult circumstances and into the turnaround and I think he is associated with that. People look to him and say, listen, your mom was responsible for that. And I think he feels a bit of personal... he feels a bit of personal responsibility that you know... So, perhaps from a legacy standpoint I think on the one side he wants to try and pick it up, but on the other side as well maybe he</p>		<p>such ment, ting point filling</p>

Appendix 4: Sample interview guide

Thank you very much for meeting with me, [insert name of interviewee]

As we discussed on the phone, I would like to interview you as part of the data gathering process for my research project for the MBA degree at GIBS.

I am investigating the relationship between private equity firms and family businesses they invest in. I want to explore the major challenges that emerge when trying to successfully manage this sort of investment. Thereafter, I'd like to look at what solutions prove successful at overcoming these challenges.

I am viewing the topic through a theoretical lens called socioemotional wealth, or SEW. This is the academic term for something quite intuitive. It essentially says that family businesses are distinct from non-family businesses because they seek not just financial profits, but also 'socioemotional wealth'. This refers to all the non-financial benefits that an owner-family can enjoy through operating the business together.

Typically, the literature says, owner families will gain SEW from things like: improving the family reputation, building wealth for later generations and the sense of control it provides.

So, from your perspective as [either PE or FB], I'd like to begin with asking a broad question: What do you find the major challenges to successfully managing the relationship of a private equity investment in a family business?

*Prompted by answers. Probe the following if time allows:

Do you find PE and FB vary widely in their respective:

- Time horizons?
- Appetite for risk?
- Need for profits?
- Attitude to tax?
- Attitude towards corporate governance?
- Attitude towards staff?
- Attitude towards debt?