

Money makes the world go round, or does it?

An exploration of the decisions of first-generation owner-managers of German Mittelstand firms to seek a business sale and select a buyer for their businesses

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Abstract

The German Mittelstand is generally considered to feature a low level of Mergers and Acquisitions (M&A) activity. Because of the emblematic long-term orientation of family firm owners, in particular, the sale of a Mittelstand firm should be the exception not the rule. However, a relatively high and possibly growing number of M&A initiatives in the Mittelstand has been evident during the last decade (Köhler, 2022). There is a surprising gap in the literature regarding the motives of Mittelstand owner-managers to engage in business sales, mergers and acquisitions, their behaviour during the project and their selection of a buyer, acquisition target or merger partner. Mittelstand research still lacks sufficient quantitative and qualitative data, arguably due to the small size of the businesses involved and discretion regarding the process.

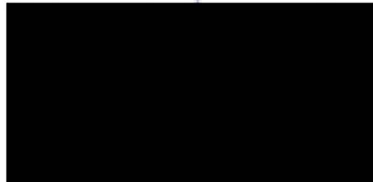
Accordingly, this research aims to contribute to filling this gap in knowledge with a qualitative study of three first-generation core Mittelstand sale projects that resulted in a business exit by the owners. The data collection was derived from in-depth interviews with key actors in each project, being the owner-managers and their advisors and the eventual buyers and their advisors. The data analysis was conducted within a critical realism paradigm and drew on concepts including behavioural agency, socioemotional wealth and mixed gamble theory.

The analysis demonstrated that perceived vulnerability was a key factor in the motivation of the owner-managers to engage in M&A activity and subsequently to sell their business. Furthermore, for the selection of a buyer financial utility was essential. It is concluded that seller's perceived utility required a satisfaction of financial goals before non-financial goals: 'money and heart together', but money coming first. Based on this it is argued that a path-dependent institutional change may have taken place that requires an update of the Varieties of Capitalism theory.

Author's declaration of original content

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Any views expressed in the thesis are those of the author and in no way represent those of the University.



Signed Fabian Fechner

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Table of contents

Abstract	2
Author's declaration of original content.....	3
Table of contents.....	4
Table of abbreviations.....	8
List of figures	9
List of tables	10
1. Introduction.....	11
1.1 Motivation	11
1.2 Research Context	11
1.3 Research Aims and Objectives	14
1.3.1 Research aim	14
1.3.2 Research questions.....	14
1.3.3 Research Approach.....	15
1.3.4 Structure of this Thesis.....	15
2. Literature Review	16
2.1 Introduction.....	16
2.2 Literature Search Strategy.....	17
2.3 German Mittelstand and Family firms	17
2.4 Mergers and Acquisitions.....	21
2.4.1 Definition issues of Mergers and Acquisitions & deal types	22
2.4.2 Mergers and Acquisitions Process and Respondents.....	23
2.4.3 Theories of Mergers and Acquisitions	24
2.4.4 Mergers & Acquisitions and Family Business	25
2.4.4.1 Non-financial family firm goals.....	28
2.4.4.2 Seller's side of the story and knowledge acquisitions.....	34
2.4.5 Business Valuation theory and practical application	38
2.4.6 Business valuation and M&A activity in the German Mittelstand	42
2.4.7 Summary - M&A literature	44
2.5 The Varieties of Capitalism and Corporate Governance	51
2.5.1 The Varieties of Capitalism	51
2.5.2 Corporate Governance and the Market for Corporate Control	53
2.5.3 Comparative International Management and Institutionalism	56
2.5.4 New Institutionalism	57
2.5.5 Summary Varieties of Capitalism and Corporate Governance.....	59

2.5.6	Core findings literature review	60
3.	Methodology & Methods	62
3.1	Introduction.....	62
3.1.1	The range of Scientific Paradigms, Ontology, Epistemology and Methodology in for Mittelstand as an institution	63
3.1.2	Applied research for historical institutionalism	66
3.2	Critical Realism	67
3.2.1	The Ontology and Epistemology of critical realism.....	67
3.2.2	The critical realist framework.....	69
3.2.3	Methodological Principles obtained from critical realism	70
3.2.4	Approaches to conduct case studies.....	72
3.2.5	Critical realism and comparative historical analysis	74
3.2.6	Solution to carry out retroduction based on pragmatism	78
3.3	Research Design	81
3.3.1	Rationale of Case Design and Case Selection	81
3.3.2	Method of Data Generation	83
3.4	Data Analysis	86
3.4.1	Data collection and preparation.....	88
3.4.2	Data coding.....	89
3.4.3	Data analysis and interpretation	91
3.4.4	Data Presentation.....	95
3.4.5	Quality of research	95
3.4.5.1	Trustworthiness.....	95
3.4.5.2	Transparency	97
3.4.5.3	Critical realist perspective on validity or trustworthiness.....	98
3.4.6	Ethical considerations	100
4.	Case Studies.....	101
4.1	CASE 1 - KNIGHT	101
4.1.1	Company history.....	101
4.1.2	Decision to sell the company – Seller’s Strategic objectives.....	101
4.1.3	Searching and screening.....	103
4.1.4	Preliminary buyer selection.....	105
4.1.5	Strategic and Financial evaluation – Due Diligence and Negotiations.....	107
4.1.6	Decision for negotiation exclusivity	112
4.1.7	Closing of the transaction.....	116
4.2	CASE 2 - CASTLE.....	117

4.2.1	Company history.....	117
4.2.2	Decision to sell the company – Seller’s Strategic objectives.....	117
4.2.3	Searching and screening.....	120
4.2.4	Preliminary buyer selection.....	123
4.2.5	Strategic and Financial evaluation – Due Diligence and Negotiations.....	127
4.2.6	Closing of the transaction.....	130
4.3	CASE 3 - BISHOP.....	131
4.3.1	Company history.....	131
4.3.2	Decision to sell the company – Seller’s Strategic objectives.....	132
4.3.3	Searching and screening.....	133
4.3.4	Preliminary buyer selection.....	134
4.3.5	Strategic and Financial evaluation – Due Diligence and Negotiations.....	138
4.3.6	Closing of the transaction.....	141
5.	Analysis - Determinants for buyer selection	144
5.1	Determinants for buyer selection	145
5.2	Decision to sell the business	146
5.2.1	Succession issues.....	146
5.2.2	Market change.....	148
5.2.3	Financial and project struggle	150
5.2.4	Work life imbalance.....	152
5.2.5	Summary - Engagement in the sales process.....	154
5.3	Selection of a buyer.....	156
5.3.1	Optimal purchase price	157
5.3.2	Business complementarity	163
5.3.3	Trust between seller and buyer	167
5.3.4	Financial and organisational rapport.....	170
5.3.5	Avoidance of integration and dissolution	173
5.3.6	Transitional tenure period.....	175
5.3.7	Entrepreneurial freedom.....	178
5.3.8	Preservation of name and identity.....	182
5.3.9	Work environment for employees	186
5.3.10	Summary – Demi-regularities as determinants for buyer selection	188
6.	Conclusion	195
6.1	Introduction.....	195
6.2	Answers to the research questions.....	196
6.2.1	RQ1 Why do first-generation owners decide to sell their businesses?	196

6.2.1.1	Perceived Vulnerability	197
6.2.1.2	Business Sale as a Mixed Gamble.....	198
6.2.2	RQ2 How and why do first-generation owners select a particular buyer?	200
6.2.2.1	Perceived Utility	201
6.2.3	RQ3 What are the implications of the research's findings for the VoC-theory?.....	208
6.2.3.1	The VoC-theory and the Mittelstand	208
6.2.3.1	Market for Corporate Control (MfCC)	210
6.2.3.2	Update of the VoC-theory	210
6.3	Contributions to knowledge.....	213
6.3.1	Seller's point of view	213
6.3.2	Business Valuation.....	215
6.3.3	Buyer selection	216
6.3.4	Explanatory model development	216
6.3.5	Impact on VoC-theory	218
6.4	Limitations	218
6.4.1	Research paradigm of Critical Realism	218
6.4.2	Qualitative data generation & semi-structured interviews	220
6.4.3	Timeframe	220
6.4.4	Sampling	220
6.4.5	Model development – ranking of determinants	221
6.4.6	Usage of SEW.....	222
6.5	Implications for future research.....	222
6.5.1	Quantitative M&A research in the German Mittelstand	222
6.5.2	Testing the mechanisms with mixed methods.....	223
6.5.3	Testing the model with failed M&A projects (failed business exit via sale).....	223
6.5.4	Comparable research in different societal settings	224
6.6	Implications for practice.....	224
6.6.1	Best practices	224
6.6.2	Advice for the owner-seller	225
6.6.3	Advice for the potential buyer	226
7.	Appendices	227
8.	References.....	228

Table of abbreviations

BIM	– Building information modelling
BMWi	– Bundesministerium für Wirtschaft (Federal ministry for economic affairs and energy)
CG	– Corporate governance
CHA	– Comparative historical analysis
CME	– Coordinated market economy
DI	– Discursive institutionalism
EBIT (DA)	– Earnings before interest taxes depreciation and amortisation
FIBER	– Scale to measure SEW
GmbH	– Gesellschaft mit beschränkter Haftung (Limited)
HI	– Historical institutionalism
IFM	– Institut für Mittelstandsforschung (Institute for Mittelstand Research)
IMAA	– Institute for mergers, acquisitions and alliances
KfW	– Kreditanstalt für Wiederaufbau (Credit institute for reconstruction)
KPI	– Key performance indicator
LME	– Liberal market economy
M&A	– Mergers and acquisitions
MfCC	– Market for Corporate Control
P&L	– Profit and loss statement
QCA	– Qualitative comparative analysis
RI	– Rational choice institutionalism
REI	– Scale to measure SEW
SEW	– Socioemotional wealth
SI	– Sociological institutionalism
SME	– Small and medium sized enterprises
SPA	– Systematic process analysis
STEM	– Science, technology, engineering, and mathematics
TIC	– Technical inspection and certification
VoC	– Varieties of Capitalism
WACC	– Weighted average cost of capital

List of figures

Figure 1 – Demarcation of the German Mittelstand and its share in all firms	21
Figure 2 – Categorisation of Family Business and Acquisition research	28
Figure 3 – Seller’s motives to start Mergers and Acquisition.....	35
Figure 4 – Business valuation methods	39
Figure 5 – Valuation situations and agreement areas in conflict.....	41
Figure 6 – The ontology of New Institutionalism.....	64
Figure 7 – Stratified reality and critical realist framework.....	68
Figure 8 – The case	83
Figure 9 – Determinants for buyer selection.....	144
Figure 10 – First phase – Decision to sale – Second order codes / Demi-regularities	156
Figure 11 – Second phase – Selection of a buyer – Second order codes / Demi-regularities.....	195
Figure 12 – Acquisition and business exit as mixed gamble	198
Figure 13 – Conceptualisation of Mechanism Vulnerability for Buyer selection based on Demi-regularities	200
Figure 14 – Conceptualisation of Mechanism Utility for Buyer selection based on Demi-regularities	205
Figure 15 – Model: Critical realist framework & Business exit as mixed gamble	218

List of tables

Table 1 - General M&A research	45
Table 2 - M&A and family business	46
Table 3 - Family firm M&A research focused on non-financial goals.....	48
Table 4 - Seller focused M&A research and knowledge acquisitions	49
Table 5 - M&A research focused on financial goals (valuation)	51
Table 6 - Summary of Case study approaches	77
Table 7 - Overview of interviews and interviewees per case.....	85
Table 8 - Archival data.....	86
Table 9 - Example first order codes.....	90
Table 10 - Example second order codes or demi-regularities.....	91
Table 11 - Conceptualisation of underlying mechanisms / Critical realist framework	94
Table 12 – Quality of research – Strategies to improve trustworthiness	96
Table 13 – Process Milestones Knight.....	117
Table 14 – Process Milestones Castle	131
Table 15 – Process Milestones Bishop	143
Table 16 – Example for all first order codes link to second order code Succession issues.....	148
Table 17 – Example for all first order codes link to second order code Market change	150
Table 18 – Example for all first order codes link to second order code Financial and project struggle	152
Table 19 – Example for all first order codes link to second order code Work life imbalance	154
Table 20 – Example for all first order codes link to second order code Optimal purchase price	163
Table 21 – Example for all first order codes link to second order code Business Complementarity..	166
Table 22 – Example for all first order codes link to second order code Trust between seller and buyer	170
Table 23 – Example for all first order codes link to second order code Financial and organisational rapport.....	173
Table 24 – Example for all first order codes link to second order code Avoidance of integration and dissolution	175
Table 25 – Example for all first order codes link to second order code Transitional tenure period ..	178
Table 26 – Example for all first order codes link to second order code Entrepreneurial freedom	182
Table 27 – Example for all first order codes link to second order code Preservation of name and identity	186
Table 28 – Example for all first order codes link to second order code Work environment for employees	188

1. Introduction

1.1 Motivation

The starting point for this research was my continued interest in the Varieties of Capitalism theory (Hall & Soskice, 2001). My Master's thesis was concerned with the German Mittelstand and its place within the Varieties of Capitalism theory and it is still fascinating for me how the Varieties of Capitalism (VoC) theory is able to explain differences between national economies based on their distinct institutional set-up, while staying true to the principle of parsimony. However, theories like the VoC face continued and justified criticism, when being put to the test by real world experience as well as the advances of research. According to the VoC-theory, in Germany and especially in the Mittelstand there should be hardly any mergers & acquisitions (M&A) activity. Not only does the VoC argue this but also the general perception of the German Mittelstand as such is contrary to M&A, takeovers and short-term focus, or in other words the classic private equity business model. The Mittelstand is in general associated with long-term orientation, transgenerational continuity and the entrepreneurial responsibility of its owners.

During my professional career, I have always worked for Mittelstand companies or enterprises that at least consider themselves to be part of the German Mittelstand. While working in the Mittelstand and especially in the area of M&A, quasi-self-evident truths based on the VoC, e.g. the emblematic long-term orientation of German family firm owners, were put to the test by my personal real world experiences. In my understanding so far, there has been no conclusive theoretical approach to explaining these experiences.

That has spurred my interest to dig deeper and to find out why Mittelstand owners sell their business and to whom they sell it. In consequence, my findings might influence the VoC as a path-dependent institutional change might have occurred in Germany, leading to an active Market for Corporate Control.

1.2 Research Context

In the following section, I am going to introduce the issues current Mittelstand research towards M&A faces. Furthermore, I will cite some stunning examples of M&A activity in the German Mittelstand that may represent the tip of an iceberg and have caught public attention, while most of the M&A deals in the Mittelstand remain invisible. Major problematic issues for research in the Mittelstand include a clear and widely accepted definition of the term itself and a general lack of data in comparison with that available for listed firms. This data gap is not only related

to the inconsistent definition of the term *Mittelstand*, but is an inherent issue due to the relatively small size of enterprises considered as belonging to the *Mittelstand*. There are no mandatory disclosure requirements in Germany for small and medium sized enterprises, which would enable research based on readily accessible data. This makes research rather complicated, as these very small businesses are not required to disclose financial information or information about a change of ownership. This only changes if they incorporate and reach an annual turnover of more than 40 m EUR.

Furthermore, in Germany there is no need to make a takeover, a merger or an acquisition public, if a company is not listed at the stock exchange. Due to this lack of data from official statistics, the institute for *Mittelstand* research (IfM) regularly estimates the number of enterprises that are expected to be transferred to new owners. The IfM focusses in this research on succession-related transfer of ownership. For example, the IfM's 2018 study expected for the period from 2018 to 2022 a number of approx. 150,000 enterprises with some 2.4 million employees to be in search of new owners (Kay, Suprinovič, Schlömer-Laufen & Rauch, 2018). Furthermore Kay et al. had a look at how enterprise succession is organised in the *Mittelstand*. Again their analysis was derived indirectly as primary data is not available, but their findings suggest that 53% of family businesses facing succession issues transfer their companies to other family members, 18% are transferred to employees and only 29% are sold to outsiders. The German federal mergers and acquisitions association carried out a study in 2022 together with the Universities of Lancaster and Bamberg to get some insight into how M&A is used in the *Mittelstand*. They looked at family-owned enterprises with a turnover range from 10 – 250 m Euro. Out of the data they received, it became obvious that said enterprises are ready to engage in M&A activity and that the current global economic situation spurs this engagement, especially when there are supply chain issues and cash problems. Furthermore, the attractive company valuations achievable boosts interest in M&A so much so that 43% of family firm owners could imagine to sell their business to a direct competitor. Furthermore, only half of the owners mentioned succession issues as a reason to think about business sale. However, only 12.5% of the owners could imagine selling their businesses to private equity investors. That finding was quite surprising as the *Mittelstand* is the area of the German economy where private equity investors claim to be most active (Köhler, 2022).

The following information regarding the takeovers of Putzmeister, Rimowa, Grohmann, Birkenstock and Heesemann was only available to the public because the companies involved published a press release. Even Heesemann, with 25 m Euro turnover, is not required to publicly disclose its profit and loss statement.

In 2012, the sale of the renowned concrete pump producer Putzmeister to a Chinese investor was considered a first. Karl Schlecht who founded Putzmeister in 1958 sold his business at the age of 80. Schlecht was the mastermind behind the company and designed the mortar spraying machines that enabled Putzmeister to turn over more than half a billion Euro in 2012 with more than 3,000 employees. Never before had such a hidden champion from the German Mittelstand and an archetypal manufacturer of machinery been sold to a Chinese investor. To this day, the acquisition of Putzmeister by Sany Heavy Industries remains the biggest Chinese direct investment in the German Mittelstand (Bruche & Hong, 2016). While in 2009, only two German companies were acquired by Chinese investors, in 2014 the number grew to 36 and in 2015 46 acquisitions took place. The companies acquired were definitively not all from the Mittelstand as the majority were non-family listed companies like the famous industry robot producer KUKA. However, the Chinese investment in Germany and the growing tensions with China during the Trump administration led to a development which German merger law had not seen for at least three decades – German foreign trade law was actually tightened. German business magazine 'brand eins' asked the question whether there will be a sell-out of German companies to foreign investors in its September 2016 issue. Brand eins considered that there was a threat especially for the Mittelstand as the People's Republic's government eased China's regulations for direct investment in the Mittelstand. So it came as no surprise that the German Außenwirtschaftsverordnung (foreign trade and payments ordinance), was amended in 2017 and the notification requirements for corporate acquisitions by foreign investors were accordingly strengthened (Rusche, 2020).

Yet, acquisitions in the German Mittelstand were not only made by Chinese investors. In 2016, the world-famous luxury luggage producer Rimowa was sold to LVMH, Paul Morszeck and Heinrich Görtz having founded Rimowa in 1898. The iconic 'aluminium suitcase with the grooves' made Rimowa one of Germany's rare global accessory fashion brands. Dieter Morszeck, the founder's grandson, sold the company at the age of 64 to the French luxury brand conglomerate LVMH. At that time, Rimowa had more than 350 m Euro turnover and 1,500 employees.

In 2017, Tesla acquired the automotive supplier and machinery producer Grohmann. Klaus Grohmann founded his business in 1963 and his company had grown to 150 m Euro turnover and 1,000 employees when it was sold to Elon Musk. Shortly afterwards the 72 year old Grohmann left the company in dispute with Musk (Clausen & Olteanu, 2020).

In 2021, Birkenstock the producer of the famous sandals, was sold to LVMH. The shoemaker can trace its roots back to 1774 when the first cobbler of this name started producing shoes. The 4th generation of the owning family

stepped down from management in 2013 and at the time of the sale the company had grown to 550 m Euro turnover and 5,500 employees (Butler, 2021).

In addition, there were numerous takeovers in the German Mittelstand that did not cross the border. A good example is Heesemann, a woodworking machinery manufacturer. Heesemann was acquired by a German family office, or in less flattering words a private equity investor, in 2012. At that time the company with a turnover of 25 m Euro and 150 employees was managed by the founder's son Jürgen Heesemann (Bauer, 2015).

The aforementioned examples of acquisitions in the German Mittelstand got extensive media attention and are therefore widely known; recent research also shows that there seems to be a lot of M&A activity in the German Mittelstand (Kay et al., 2018; Köhler, 2022). Thus, there might be more diversity in this area of the German economy than is generally assumed. A key point is that family firm owners in the Mittelstand are not a unitary group - heterogeneous interests, goals and preferences can even exist within a single owning family (Zellweger & Kammerlander, 2015). At present, there seems to be no conclusive theoretical framework, which tries to explain why family owners want to sell their company and why they choose a certain buyer, while research regarding M&A is mainly focused on joint company performance after the merger. Our understanding of how and why potential transaction partners, sell-side and buy-side, apart from financial criteria, are selected remains blurred, in other words the connection between M&A and buyer marketing is nearly untouched so far (Bauer, Matzler & Wille, 2012). In addition there is no doubt that the VoC-theory lacks a better understanding of the German Mittelstand and especially family firm owners and owner-managers.

1.3 Research Aims and Objectives

1.3.1 Research aim

To enhance understanding the reasons why first-generation German Mittelstand family firm owners sell their businesses and how and why they select a particular buyer.

1.3.2 Research questions

1. Why do first-generation owners decide to sell their businesses?
2. How and why do they select a particular buyer?

3. What are the implications of the research's findings on The Varieties of Capitalism theory?

(Note: I added this question because of my long-term interest in The VoC-theory, which formed the basis of my Master's thesis).

Questions 1 and 2 can only be answered through empirical research talking to owner-sellers. Therefore, the sale of German Mittelstand family firms during mergers and acquisitions projects is assessed and interpreted focussing on buyer selection.

1.3.3 Research Approach

This research uses explanatory critical realism case studies (Wynn & Williams, 2012) of completed M&A projects in the German Mittelstand, which resulted in the sale of companies by their family owners. While critical realism is open to a multitude of methods, case studies are best suited to develop causal explanations of complex events, due to the unit of analysis being organisations and relationships within them and with members of other organisations. The research questions look for the underlying mechanisms that caused the events associated with the phenomena to occur (Easton, 2010; Wynn & Williams, 2012).

The case study's research design follows Easton (2010) and is of the intensive type asking the question as to what produced change and assesses individual agents in context using interviews and qualitative analysis, to employ causal groups and to produce causal explanations that are, however, limited to the situation studied, so that testing is by corroboration. Notwithstanding that, the selection of cases follows a replication logic rather than a sampling logic, (Yin, 2003), in that cases are able to support the development of theory and theoretical generalisation, based on demi-regularities. The quality of research is based on ontological plausibility, empirical adequacy and practical utility (Ronkainen & Wiltshire, 2021).

1.3.4 Structure of this Thesis

This thesis encompasses six chapters including the first chapter, which is the introduction. The second chapter is concerned with the literature review. The literature review starts with the German Mittelstand, followed by general Mergers and Acquisitions research and a deep-dive into family firm Mergers and Acquisitions research. Subsequently the Varieties of Capitalism theory and Corporate Governance are assessed with a focus on the Market for Corporate Control.

The third chapter presents the methodology and methods applied in accordance to the research aims and objectives. Here the underlying ontology and epistemology of the research context are explored and the chosen methodology of this research is presented, explained and justified. It is explained how critical realism is able to account for the bounded rationality of the Mittelstand family firm owner / seller in the business exit process via sale. In addition, it is argued that, for research rooted in historical institutionalism, critical realism is an appropriate ontological position. Furthermore, the use of explanatory case study research in critical realism is discussed and it is explained how the specific methodological principles of critical realism are accounted for.

In chapter four, the three case studies of completed business exits via sale in the German core Mittelstand are presented in a thick description providing explication of events as well as structure and context. The descriptive overview of each of the three case studies provides a context for the detailed discussion of the data analysis in the next chapter.

In the following chapter five, the acquired data is analysed. An explanatory critical realist framework is employed that presents the identified determinants for buyer selection during the M&A process and their interrelation.

The final chapter six presents the conclusions drawn from the research project. Here, the answers to the research questions are presented, contextualised in the literature and critically discussed, as is the development of the derived explanatory mechanisms following retroduction, empirical corroboration and triangulation. The key contributions to knowledge generated by the research are in turn presented and critically discussed, as are the limitations of this research and potential areas for future research and theory development in the field.

2. Literature Review

2.1 Introduction

This research is based on the Varieties of Capitalism theory and critically explores a potential path-dependent institutional change in Germany. The sale of German Mittelstand family firms during mergers and acquisitions projects is assessed and interpreted focussing on buyer selection. The aim is to identify proxies or functional equivalent mechanisms, which differ due to path-dependent national developments, but may lead to similar effects, i.e. an active Market for Corporate Control.

In accordance to the research aims and objectives, the literature reviews starts with the definition debate of German Mittelstand, followed by general Mergers and Acquisitions research and a deep-dive into family firm Mergers and Acquisitions literature. Here the focus lies on goal formation especially non-financial goals and furthermore the seller's perspective towards mergers & acquisitions. In addition, emphasis is placed on valuation theory and application and the interrelation of financial and non-financial factors. Subsequently the Varieties of Capitalism theory and Corporate Governance are assessed with a focus on the Market for Corporate Control and institutional change.

2.2 Literature Search Strategy

The literature search used conventional subject searching followed by reference list checking and citation searching and was not limited to a certain timeframe (Papaioannou, Sutton, Carroll, Booth & Wong, 2010). To access the literature the two research web-sites Google Scholar and Abi/Inform were used. The literature search started with journal articles and was continuously widened using the articles reference lists. In addition, the University of Gloucestershire's library discovery services was consulted. Via the discovery services various other databases were accessed, e.g.: business source complete, EBSCO, Proquest, Emerald, Science direct etc. The following keywords were used stand-alone and in various combinations: 'M&A', 'mergers & acquisitions', 'family firm(s)', 'family business(es)', 'family management', 'Mittelstand', 'Varieties of Capitalism' and 'Market for Corporate Control' etc. Since the research focuses on the German Mittelstand all key words were searched in German as well. As the research progressed the goal formation of family firms was included, which resulted in the addition of the following key words: 'business exit', 'seller', 'buyer', 'motives', 'goal formation', 'non-financial goals' and 'socioemotional wealth'.

2.3 German Mittelstand and Family firms

In the beginning of the literature review, it seems helpful to describe what the term Mittelstand means today and how it developed over time, especially in its interrelation with family firms. In order to deal with the scientific and public disagreement regarding a Mittelstand definition consensus, it is assessed how Mittelstand research evolved and which ways to approach and define Mittelstand companies are most suited for this research.

The German word 'Mittelstand' has turned into a buzzword that seems to be astonishingly hard to define and to translate into English. First, Mittelstand should not be confused with middle class, though this is one of the correct translations due to the online Cambridge dictionary. Nonetheless, the second translation, which the Cambridge dictionary lists as well, is medium-sized companies and the dictionary further, elaborates on the translation with a quantitative size definition of companies with 10 to 500 employees (Cambridge University Press, 2019).

However, the question remains why there is so much confusion about the term Mittelstand. Pahnke and Welter found in their recent work (2019) about the German Mittelstand, that the French, British and Korean government are interested in understanding Germany's secret business weapon: Researchers wonder, if Great Britain may get a Brittelstand, or ask why Le Mittelstand is France's blind spot or why the Mittelstand is especially important for South Korea. While the term is frequently used in media, politics and research in Germany and abroad – looking at a clear definition of what Mittelstand actually means or who and what belongs to it seems to be rather complicated. In 2008 Becker, Staffel and Ulrich came up with a quite useful explanation for the growing confusion about the German Mittelstand. They state that German scholars simply refuse to clearly distinguish between small and medium sized enterprises (SMEs), Mittelstand and family firms. In their opinion, this is a special trait, which is rather uncommon in the rest of Europe and especially different from the USA where usually a clear line is drawn between SMEs and family firms.

Maybe the refusal dates back to the early years of the newly founded Federal Republic of Germany. In 1957 Ludwig Erhard then Economics Minister and later Chancellor of Germany founded a research organization dedicated to the Mittelstand the Institut für Mittelstandsforschung (IFM) at Germany's former capital Bonn. Ludwig Erhard is associated with (West) Germany's post war economic miracle (Wirtschaftswunder) and together with German economist Alfred Müller-Armack he stands for the creation of Germany's national business model the so called Social Market Economy (Soziale Marktwirtschaft), which to this day continues to define German economy as a whole. Due to Venohr, Fear and Witt (2015) Ludwig Erhard warned in 1956 not to reduce the Mittelstand term to a quantitative and revenue-based classification but instead to emphasise more on qualitative characteristics that embody the Mittelstand, as more of an ethos and a fundamental disposition of how one acts and behaves in society. This collides with the tight boundaries of the quantitative definitions, e.g. the IFM definition until 2016 saw Mittelstand companies as firms with annual revenues up to 50 million EUR and a maximum of 499 employees or

the definition of the European Commission, which defines SMEs as firms with up to 250 employees and revenues up to 50 million EUR (Welter, May-Strobl, Wolter, & Grünberg, 2014).

In consequence, the term *Mittelstand* does not only describe companies of a certain size but with special qualitative traits. Becker, Staffel and Ulrich (2008) call this the psychological and social aspects of the *Mittelstand* definition, which they link to the paramount importance of the owner for the *Mittelstand* company. Due to these qualitative aspects and the *Mittelstand* ethos as Erhard calls it many larger and mostly family-owned companies claim to be part of the *Mittelstand*, based on the *Mittelstand*'s positive connotations such as nimbleness, flexibility, innovativeness, customer focus, social responsibility, a family-like corporate culture, and long-term policies (Venohr, Fear & Witt, 2015). Venohr and his colleagues link the German *Mittelstand* especially to the export oriented success of the German economy, which was able to perform well from 2006 – 2019 despite the various economic issues occurring over the last 15 years. Here one may find two other traits related to *Mittelstand* research. On the one hand, the boundaries of the definition are opened up towards the largest companies (>1,000 million in revenues) or to companies which are as hidden champions at least market leaders (Venohr & Meyer, 2007). On the other hand, the term *Mittelstand* seems to be always linked to the current economic situation and research fashion. When Hartmut Berghoff (2006) looked back at how the *Mittelstand* was viewed around the year 2000 he paints a rather dark picture: Companies unable to solve succession issues, firms not competitive enough to survive in a globalised world and a company culture hindering change and transformation. Venohr and Meyer (2007) looked at how the *Mittelstand* was viewed half a decade later and rejoice at the miraculous performance of Germany's hidden champions. In 2015 Venohr, Fear and Witt named their study 'Best of German *Mittelstand* – The world market leaders' and half a decade later Pahnke and Welter (2019) ask if the *Mittelstand* is the antithesis to the Silicon Valley entrepreneurship model and if the *Mittelstand* may ever be able to compete with California's unicorns. Apart from the ongoing and ever changing debate if the *Mittelstand* is doomed or if it is the future of Germany's economy or even a template for other countries there are some elements most scholars may agree upon:

The typical German *Mittelstand* company is both family-owned and family run. This is what Berghoff (2006) calls classic *Mittelstand*, i.e. family firms, focused on long term strategy, emotional attachment, generational continuity, patriarchal culture and informality. Venohr, Fear and Witt (2015) agree and emphasize that *Mittelstand* companies are usually not listed at the stock market. Accordingly, due to the updated definition of the IfM Bonn, the terms "medium-sized business", "family business", "owner-operated business" and "family-run business" are to be

regarded as synonyms (Welter, Levering & May-Strobl, 2016). Thus, today the IfM defines Mittelstand as an enterprise where up to two natural persons or their family members hold (directly or indirectly) at least 50% of the shares of the company and these natural persons belong to the management. However, a considerable amount of research still clings to a purely qualitative definition of the Mittelstand. Due to the blurred and mixed quantitative and qualitative Mittelstand definition, an overwhelming congruence between the Mittelstand and the German economy as such is inevitable. This answers the question why Mittelstand research always is a mirror of Germany's economic performance. The Federal ministry for economic affairs and energy (BMWi) views the Mittelstand as the heart of the German economy and states that 99% of all German firms belong to it, representing more than half of Germany's economic output, almost 60% of jobs, 35% of all sales and 82% of all apprentices (BMWi, 2020). When trying to translate the various Mittelstand definitions into empirical research the shortcomings of the unclear definitions become visible. As Berlemann, Jahn and Lehmann (2019) state the empirical research on Mittelstand firms is scarce due to the lack of data from official sources, which again relates to the unclear definition. A workaround is the use of the SME definition, for which data is available, but which does not take into account the importance of owner-management. In consequence, the statistics seriously overestimate the size of the German Mittelstand to 99% or more of all German firms. In 2016 Berlemann, Jahn and Lehmann did a survey where they included the owner-management precondition and by this came to an overall result of 71% of all German firms belonging to the Mittelstand.

Pahnke and Welter (2019) came up with a very promising solution to the ongoing problem of Mittelstand definitions. Their governance based model takes into account the identity of ownership and management. The resulting approach distinguishes between core or classic Mittelstand, extended Mittelstand and non-Mittelstand firms. In their model SMEs and Mittelstand are not congruent, e.g. if a small venture is dependent. Additionally, they are able to account for the family controlled businesses as extended Mittelstand. For example the family controlled but not family managed Porsche AG, where 50% of all voting rights lie in the Porsche and Pierch families, is extended Mittelstand, while the Volkswagen AG where the two families only control 30% of the voting rights, but not enough to consider this as a full controlling interest, clearly is non Mittelstand. Due to Pahnke and Welter's model, Rimowa a German high-quality luggage manufacturer albeit making revenues of more than 350 m EUR in 2015 clearly falls into the core Mittelstand category as the company until its sale to French luxury brand conglomerate LVMH was

family managed. Pahnke and Welter's model fits astonishingly well to the empirical research of Berlemann et al. (2018).

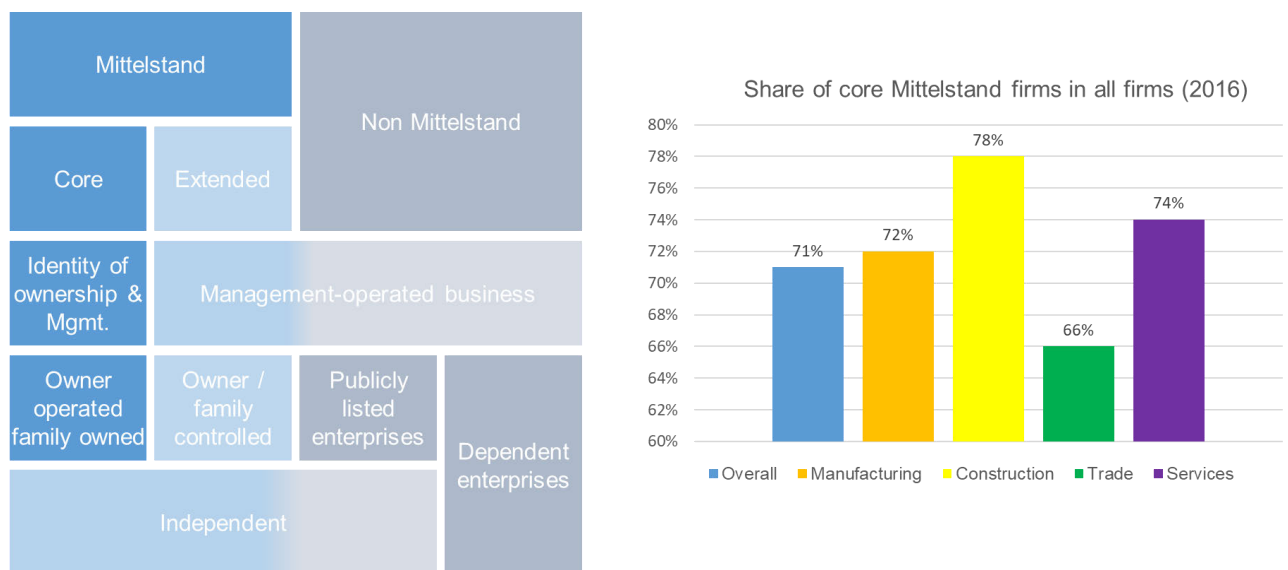


Figure 1 – Demarcation of the German Mittelstand and its share in all firms

Source: Adapted from Pahnke & Welter (2019, p. 4) and Berlemann et al. (2019, p. 47)

As established before the Mittelstand is of high importance to the German economy and the term is frequently used. Overall Mittelstand research suffers from the inability to clearly define the companies it tries to assess. Mittelstand is not synonymous with SMEs or family firms, while some researchers base their definition on qualitative traits associated with Mittelstand companies, the distinction is predominantly based on the unity of ownership and management. Thus, for future research, it seems to be advisable to use the approach of Pahnke and Welter (2019) to enable sound comparative research and omit issues that previous studies faced.

2.4 Mergers and Acquisitions

After discussing Germany's Mittelstand business sector and how Mittelstand companies as potential targets of mergers and acquisitions can be defined. The next step is to assess mergers & acquisitions research as such to be able to investigate these organizational encounters. At first, the definition difficulties of M&A are established, followed by ways to distinguish and structure the various forms of M&A and account for the relevant stakeholders in the M&A process. Only these differentiations enable comparative research and lay the baseline to assess the

current state of research towards M&A in general and family business / the Mittelstand in particular in a second step.

2.4.1 Definition issues of Mergers and Acquisitions & deal types

It seems appropriate to suggest that, there are probably three main reasons why so much confusion exists regarding the terms mergers and acquisitions and the inability of researchers to agree upon a clear definition: First companies often try to avoid speaking in public about hostile takeovers, if possible. Often acquisitions are framed as mergers among equals to avoid public discussions regarding who won or lost a takeover battle. Additionally the fears of employees or other stakeholders related to the post-merger integration process shall be eased. Second mergers and acquisitions is usually a process, which may start hostile but along the way often turns into a joint project, since a mutually beneficial agreement has to be found to make a deal happen. Finally, often the result of a merger or of a particular acquisition can be the same, since in both cases two companies may become one entity (Junni & Teerikangas, 2019). Therefore, the terms mergers and acquisitions are used synonymously or are just abbreviated into M&A. Often authors wrongfully subsume everything from strategic cooperation up to joined ventures under the term M&A (Haspeslagh & Jemison, 1991; Coyle, 2000; Malik, Anuar, Khan, & Khan, 2014). However, from a legal perspective on mergers and acquisitions, there are only two deal types: asset and share deal. An asset deal usually comprises only certain assets owned by a company or an individual, e.g. machinery, plants, real estate etc., which are sold by one entity and bought by another. In contrast, a share deal means that shares of a company and thus a part of the legal entity or the company as a whole is bought by another entity (Meynerts-Stiller & Rohloff, 2019). From a strategic perspective, mergers and acquisitions can be structured into horizontal mergers, vertical merger and conglomerate mergers and all of these types of mergers can be acquisitions as well (Moeller & Brady, 2014).

In a merger, the assets and liabilities of a company are vested in another company. The merging entity legally ceases to exist and its shareholders become shareholders of the merged company often via share swaps. However, the companies may even decide to form a completely new legal entity. To complicate everything the degree of integration may vary, as companies sometimes tend to merge only part of their operations and systems. Now an acquisition or business takeover is the process of buying out another business. This means that one company buys

most, if not all, of the target company's ownership stakes in order to assume a controlling interest in the target firm. Again, as with mergers, full or partial acquisitions are possible (Vazirani, 2015).

For M&A research, a clear definition and distinction of the terms is important to allow for comparative research, especially when looking into the motivations of the stakeholders.

2.4.2 Mergers and Acquisitions Process and Respondents

An M&A process is usually divided into two phases: the pre-merger and the post-merger phase. These two phases are only set a part by the closing of the deal (Parvinen & Tikkanen, 2007). The traditional acquisition process model as it is called by Angwin, Paroutis and Connel (2015) is based on Haspeslagh and Jemison (1991). The model has eight phases. The first three phases usually happen before there is contact between the target firm and the buying firm: First, an M&A strategy is defined, this strategy is the basis for searching and screening of the market, which then leads to an evaluation of potential targets. The next three phases require contact between the target firm and the buying firm: A financial evaluation or more broadly a Due Diligence can only be thoroughly conducted, when the buyer has direct access to financial data of the seller. The results of the Due Diligence are the basis for the negotiation of a sale and purchase agreement. The last two phases deal with the post-merger integration process. As Parvinen & Tikkanen (2007) argue Haspeslagh and Jemison's model of the M&A process is very abstract, idealistic and maybe over-simplified. However, looking at the state of M&A research the traditional acquisition process model is still the mainstay of research. Interestingly the pre-merger phase (phase 1-6) seems to be underexplored, while the post-merger phase received high scholarly attention. In addition, the seller can structure the M&A process. The first option is a negotiated sale, where only the single most likely buyer is approached and the best terms possible are negotiated, the second option is a controlled sale where a select number of bidders are canvassed and the third method is a full-scale auction among a large number of bidders (Boone & Mulherin, 2009). Surprisingly, I was not able to identify any literature that links the structuring of the process to buyer or seller motives or intentions.

Due to Parvinen and Tikkanen (2007) the M&A process can be seen to comprise a set of interactions between different stakeholder groups, i.e. top executives, non-executive directors, middle managers, employees, large and small shareholders, block holders, shareholders without a voice, customers, competitors, suppliers, governments, consultants, lawyers and investment bankers and even entire societies. Obviously, the dimension of the stakeholder

group depends on the size and market position of the respective target company and the potential buyer. To reduce the complexity researchers may use four simplified stakeholder groups: owners, managers, employees, and professionals (Parvinen & Tikkanen, 2007). M&A research often lacks a full picture by focusing on one of the stakeholder groups only, i.e. predominantly buyers or employees in a post-merger situation.

2.4.3 Theories of Mergers and Acquisitions

After establishing the definitions, process and players in M&A, the next step is to employ how M&A theory has evolved and if it is able to explain the actions taken by the actors involved.

As Worek points out in her 2017 study, there is no general theory of mergers and acquisitions. Junni and Teerikangas (2019) agree and state that despite decades of scholarly attention the study of M&A is still criticised for its inability to provide robust theories to explain the underlying dynamics and value creation mechanisms of this organizational encounter called a merger or an acquisition.

Notwithstanding that, there is no general mergers and acquisition theory it remains useful to review the main topics of M&A research the decades of scholarly attention have brought to the table. One common starting point are the so-called merger waves. The waves started at the beginning of the 20th century and are now spanning right into our current millennium. In short, the big US merger waves followed the cycles of the US economy leading to high activities in boom phases and concentration tendencies in bust phases. Due to M&A scholars, we are now in the 7th wave cycle after recovering from the financial crisis in 2011. Since the third wave due to continued globalisation, the pattern does not solely focus on the USA anymore, but it still mainly refers to big stock market related M&A with more or less national importance (Vazirani, 2015; Junni & Teerikangas, 2019).

To structure the theoretical background of M&A research, many scholars again follow the 1991 book of Haspeslagh and Jemison regarding the management of acquisitions. Haspeslagh and Jemison describe four different schools of thought: Capital market school, strategic management school, organisational behaviour school and the process perspective. The capital market school focuses mainly on the impact of M&A towards wealth creation on a societal level. The strategic management school investigates the performance after M&A comparing amongst others related or unrelated mergers and acquisitions. The organisational behaviour school focuses on how people react to M&A and how M&A affects the organizations and people in it. Finally, the process perspective looks mainly on the actions taken by the management in post-merger integration processes towards human integration (Vazirani, 2015).

Wirtz (2017) uses another way to structure M&A and lists eight different theoretical approaches, which he divides into two groups. The first group are decision-oriented, the second design-oriented approaches. Decision oriented approaches try to answer the question if, when and how M&A is favourable for an organization. Design oriented approaches try to theoretically underpin how an M&A project needs to be structured to be successful. Wirtz subsumes transaction cost theory, strategic management theory, i.e. market based view and resource based view as well as portfolio theory under decision-oriented approaches. Concepts leaning more towards resource-based view, which he employs are capability-based view and knowledge based view. Regarding design-oriented approaches, Wirtz focuses only on agency theory to tackle the problem of information asymmetries between the parties involved in a mergers and acquisitions project.

Wirtz's distinction between decision and design-oriented studies is a good way to explain the development and current state of M&A research and the resulting gaps or shortcomings. There is a vast body of literature for M&A professionals aimed at supporting decision making and process optimisation for buyers. Hence, this literature is about lessons learned from past M&A projects looking at financial performance and post-merger integration. All of this research has a strong corporate or managerial perspective or maybe even bias. In consequence, studies that deal with motives to engage in M&A predominantly focus on the buyer manager. The motives are usually divided in a financial and personal domain. Again, the financial or performance domain make up the majority of research, e.g. Vaziranis (2015) does not go into detail regarding personal motives. Due to the corporate and managerial focus the perspective of the seller in an M&A project and even more so, of an owner-seller, i.e. a family business is underexplored.

2.4.4 Mergers & Acquisitions and Family Business

In the following section, the current state of research regarding family firms and their engagement in M&A is presented and debated. Here the focus again lies on the motives to engage in M&A activities and towards decision making based on the goals set to be achieved via M&A.

In 2017, Maija Worek wrote an article in the journal of family business management about the state of research and remaining gaps regarding M&A in family businesses. She states that her article is the first to systematically review the literature on this topic. Worek found that the scope of research in family business related M&A is very narrow thus, she was only able to analyse twenty journal articles. However, her analysis shows that the M&A

behaviour of family firms differs from that of non-family firms in several ways. Worek employs three dimensions, somewhat similar to Haspeslagh and Jemison's schools of thought, to structure the literature towards family business M&A: propensity, process and performance.

In the propensity category, Worek (2017) summarizes research, which found that family firms are less likely to engage actively in M&A than non-family firms. Importantly they seem to have other family-related non-financial growth preferences. This is why Worek sees a need for research to explore more specifically the overall goals and motives in acquisitions for both the acquirer and the seller, because prioritising non-financial goals is one of the most central principles in family business research. In addition, this would enhance research regarding performance, which can be understood as the successful achievement of the afore mentioned goals.

In the process category, Worek employs research, which emphasizes that cultural aspects affect the merger process and the strategic objectives of family firms. Especially family-specific networks influence the merger motives, process and outcome, but how family firms perceive the cultural values and their importance in a merger, and how specific cultural issues, such as power structures, affect the integration process has not been answered yet. When the perceived fit of firms and the planning of mergers in a family firm setting is examined a better understanding of the specific strategic preferences in family firms would be possible, as their preferences, goals and thus the perceived fit seem to differ from non-family firms. This is an overlap to general M&A literature as strategic management's main topics regarding M&A are relatedness and strategic fit.

In the performance category due to Worek (2017) there is contradicting evidence from the literature as some studies found M&A projects to perform better, creating higher shareholder value, in a family firm setting compared to non-family businesses, while other studies have opposite results. Worek emphasises that the reason for these inconsistencies probably is related to the variety of family firm definitions. The sheer number of definitions makes findings less comparable and hampers generalisations, as researchers seem to compare apples and oranges. Additionally, almost all studies examine performance from the acquirer's side, but not the seller's side and while some studies take into account the legal environment and corporate governance systems, not all do, which may be another field for future studies.

Towards the theoretical background and methodologies used in family firm M&A research Worek points out that most of the studies base their arguments on agency theory.

Overall, Worek (2017) is of the opinion that the methods used, fail to capture the conditions under which M&A creates or destroys value, because in her view the majority of studies use quantitative methods narrowing down deal success on stock market reaction and the number of deals. Therefore, Worek proposes the use of alternative theories to access the motives behind family firms' acquisition decisions, i.e. SEW theory and qualitative methods. This approach might reveal the underlying assumptions and attitudes of family firms with regard to M&A that current quantitative studies have not been able to capture. Furthermore, considering the overall goals and motives would shed light on the pre-merger phase, an area in the general mergers and acquisitions literature that is underexplored. Meglio and King (2019) state in their more recent literature review that there is still limited research investigating acquisitions by or of family firms, i.e. there is limited insight of acquisitions or divestments by family firms or how these firms become either an acquirer or a target. The literature still considers M&A in family firms mainly as a means to solve succession problems and not as a strategic tool of growth.

Due to Meglio and King (2019) there are two main reasons for the scarce literature regarding family firm M&A. First the majority of studies focuses on public firms because getting data from family firms is not easy, which leads to a streetlight problem and second family firms are incredibly heterogeneous. Different from Worek, Meglio and King do not see the root of the heterogeneity issue in the inability of scholars to clearly define family firms, but in the variety of family firms as such. For Meglio and King the heterogeneity of family involvement has a direct impact on the business aspects of family firms like size, resources & capabilities and governance:

A family firm's size, which includes its assets, is an important predictor if a company is a potential acquirer or a potential target. Small companies face less threat of hostile takeover due to high information asymmetries and the risk of the acquirer to overpay on the other hand side small companies lack the resources to acquire themselves. Size again is related to the resources and capabilities of a company to gain and sustain competitive advantages and in challenging markets acquisitions are an appealing strategic choice to gain the resources and capabilities a firm requires. A lack of managerial and financial resources can prevent acquisitions both during the pre- and post-acquisition phase. While poor financial resources may prevent acquisitions from taking place, lack of managerial resources could rule out the exploitation of synergies and lower acquisition success. Therefore, family firms that are rich of resources are desirable targets. In such a case, family factors might or might not lead to a deal, with the family firm as the seller. A deal is likely especially if the first-generation is due to hand over the firm and there is no second generation to take over. Outside these circumstances, the other family issues are likely to pose a barrier to

an acquisition. Regarding governance family business researchers focus on whether the company is managed by a family member or external management, because governance, i.e. high or low family involvement influences the propensity to acquire or being acquired.

Finally, Meglio and King (2019) argue, that strategic choices by family firms are influenced by both family and business factors, which again affects M&A. Therefore, they structure the literature across three research domains: Family issues, Business related issues and Acquisition issues.

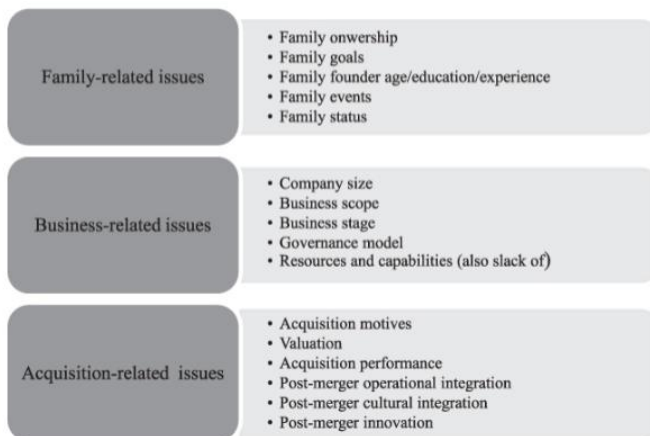


Figure 2 – Categorisation of Family Business and Acquisition research

Source: From Meglio & King, (2019, p. 92)

Theory wise, compared to Worek, Meglio and King add game theory, i.e. mixed gamble theory to the picture. Finally, in terms of substantive issues they advise to dig deeper into motivations for either selling or acquiring family businesses and therefore promote a joint research agenda of researchers studying M&A and researchers studying family firms.

To sum up the analysis of Worek and Meglio & King there is very little research and theory building so far regarding the motives of family firms to engage in M&A. The same applies to the motives of family firm owners to sell their company and even more so regarding the selection of potential buyers by family firm owners. Nonetheless, there is the general believe that family firms are and behave different from non-family firms not only towards M&A, but also in many other areas. As already, mentioned before a central approach to explain the perceived difference is the pursuit of non-financial goals by family firms, which shall be assessed next.

2.4.4.1 Non-financial family firm goals

Since non-financial goals seem to constitute the predominant difference between family and non-family firm goal formation in the following it is established what constitutes non-financial goals especially regarding socioemotional

wealth. Subsequently it is analysed how current research considers these goals to inform and influence M&A towards family firms.

Non-financial goals are defined as goals, which do not have a direct tangible monetary value and occur at the family firm level. Therefore, non-financial family firm goals include amongst others: autonomy and control, family cohesiveness, supportiveness, loyalty, harmony, belonging and trustful relations as well as family name recognition, respect, status and goodwill in the community (Zellweger, Nason, Norquist & Brush, 2013). Now the concept of socioemotional wealth (SEW) by Gomez-Mejia (2007) takes non-financial goals a step further. Socioemotional wealth is defined as the nonfinancial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence and the perpetuation of the family dynasty. Thus, SEW is an important factor in the decision-making processes of family firms so much so, that Zellweger and Astrachan believe that socioemotional wealth considerations reflect the family firm's perceived value or sales price (Zellweger, Nason, Nordqvist & Brush; 2011). In other words, it takes a better offer to make an individual sell an endowed asset compared to the price the individual would be willing to buy the asset, if it was not for the bias of ownership and loss aversion (Rousseau, Kellermanns, Zellweger & Beck, 2018). This is the reason for SEW to reflect the family firm's perceived value or sales price.

The problem is that not all family firms seem to strive for SEW or generally non-financial goals in the same way. One way to explain this is the high level of heterogeneity among family firms especially regarding the involvement of the family in the governance or the direct management of the firm (Zellweger & Kammerlander, 2015). Therefore, using organizational identity theory Zellweger et al. (2013) show that the degree of a family firm's pursuit of non-financial goals can be explained by the varying fit between family and organizational identity. Overlapping identities push controlling families to strive for a favourable organizational reputation via nonfinancial goals to satisfy nonfamily stakeholders. By reaching beyond the view that any family firm should exhibit integrated family and business identities, Zellweger et al. explain how controlling families differ in terms of the family's visibility as the controlling coalition of the firm, the intention of the family for transgenerational sustainability of family control, and the salience of the business for family self enhancement. These factors alter the family's concern for corporate reputation and ultimately the pursuance of nonfinancial goals.

Zellweger, Kellermanns, Chrisman and Chua (2011) argued that SEW increases with the extend of current control, duration of control and intentions of transgenerational control. They draw their findings from a sample of Swiss and

German family firms. While current control seems to have no impact on the minimum price owners are ready to sell their business and duration only has a mixed influence, the intention for transgenerational control has a measurable influence, i.e. the intention to inherit the family firm to the next family generation increases the perceived valuation of the company.

Now when there is SEW an opposite concept or socioemotional costs should exist as well. Thus, Rousseau, Kellermanns, Zellweger and Beck (2018) state that in the literature there seems to be little work regarding the question how owners handle negative experiences – especially relationship conflict – related to the family firm coining this socioemotional costs. Additionally they looked at how name congruence interacts with relationship conflict and how this affects perceived valuation, which again is similar to SEW as stated before. Relationship conflict in their view may stem from family member incompetence, entitlement or opportunism. They looked at a sample of 149 CEO owners of German family firms and found a U-shaped association between relationship conflict inside the family firm and subjective firm valuation. Between name congruence and subjective firm valuation, they were not able to find a direct effect, but they show that name congruence interacts with relationship conflict to affect valuations in a complex more salient fashion.

All the research presented so far tried to come up with an explanation for family firm decision-making apart from financial goals based on SEW and directly linked SEW to family firm valuation, but so far no research looked at actual M&A transactions in this context. That changed in 2018 when Gomez-Mejia, Patel and Zellweger applied the SEW concept to family firm acquisitions. They assessed a sample of over 600 manufacturing firms from the S&P1500 and looked at over 1,000 acquisition events from 1997 to 2011. As a result, they consider strategic decision-making in family firms based on game theory as a mixed gamble, because the owners have to assess the potential gains and losses of their actions in financial and socioemotional terms in tandem. Gomez-Mejia, Patel and Zellweger come to two main conclusions: 1. Family businesses are hesitant to acquire, especially unrelated targets, because the hoped for financial gains are ultimately uncertain and the loss in SEW terms is certain. Thus, if family firms acquire, they prefer related targets. 2. Under vulnerability however, i.e. because of below level of aspiration performance and/ or the absence of resource slack, SEW terms and financial concerns are aligned as drivers of acquisitions. In other words absence of resource slack and financial vulnerability lead to an alignment of financial and non-financial goals - money and heart in tandem- motivating family firms to actively engage in M&A. Apparently, the model of Gomez-Mejia, Patel and Zellweger to explain the acquisition activities of family firms is very appealing

to solve the dilemma family businesses face between preserving socio-emotional wealth vs. financial wealth in the acquisition context, but as usual, it leaves the family firm as a target or as the seller out of the picture.

In 2019, a study by Chirico, Gomez-Mejia, Hellerstedt, Withers and Nordqvist got closer to the seller's perspective. It revealed that family and non-family firms possess different preferences in terms of various business-exit modes. The study supports the idea of family firm long term orientation as it shows that family firm owners are increasingly less sensitive, than their non-family counterparts to greater negative performance, when confronted with the exit or continue option. As performance diminishes the likelihood of exit increases for non-family firms but decreases for family firms, which the authors link to the greater focus on non-financial utility and desire for generational continuity. Family firms firstly try to exit by merger, then dissolution and finally sale. Conversely, non-family firms first try the sale, then opt for dissolution and finally exit by merger. The study referred to a longitudinal data set of over thirty thousand Swedish companies and controlled amongst others for owner management in the family firms. The authors attribute the differences between family and non-family firms to the preservation of some SEW utility in a merger. A limitation all SEW research features is that SEW is not directly measured through a psychometric procedure, instead the research relies on archival proxies of family involvement, e.g. family ownership and proportion of family members in the top management. On the other side psychometric studies show, that SEW can be significantly measured via proxies (Chirico et al., 2019). More concerning is the easy distinction of Chirico et al. between mergers and acquisitions. As described before it is complicated to draw a clear line between mergers and acquisitions. Chirico et al. simply argue that if owners remain partial shareholders it is a merger and if not it is an acquisition. The problem is that in many SME related M&A activity former owners remain shareholders and or are active in a management role during a certain period after the sale of their family business to allow for a more balanced risk allocation between buyer and seller. Hence, a transaction coded as merger could actually just be a delayed sale. Nonetheless, Chirico et al. add to the literature through the first study which tries to compare and explain preferences in business exit for family and non-family firms and thus for the M&A process. What Chirico et al. do not offer is an insight into the question how family firm owners select a buyer or a partner to merge their business with apart from financial criteria.

However, it has to be noted that with the growing amount of research concerning SEW there has been new and continued criticism regarding the concept and the ways to measure SEW. In 2019, Brigham and Payne wrote a paper that was intended as a general call for a revision of the concept and its measurement. Their questions

concern the concept as such: Is SEW uni- or multidimensional, if it is multidimensional, than how are the dimensions interrelated and most importantly, they question if the concept might be firm specific. Firm specific means that SEW might vary tremendously between families and maybe the level of analysis needs to be revised as this shortcoming might explain the mixed findings of current research. In 2022, Gomez-Mejia and Herrero discussed and tried to answer the questions of Bringham and Payne. When SEW is not only used as a theoretical concept there have been approaches to measure it apart from proxies, e.g. with the FIBRE scale (Berrone, Cruz & Gomez-Mejia, 2012). The validity of these measures has been partially confirmed amongst others by Hauck, Suess-Reyes, Beck, Prügl, and Frank in 2016 as well as Filser, De Massis, Gast, Kraus, and Niemand in 2018. Nevertheless, Hauck could only confirm three aspects of the FIBRE scale: Identification of family member with the family firm, Emotional attachment of family members and lastly Renewal of family bonds through intrafamily succession & Long Term orientation. In consequence this SEW, scale became the REI scale. Gomez-Mejia and Herrero validated in their work the original FIBER scale proposed by Berrone et al. (2012) with items they inferentially drew from a literature review. To do so they used a large sample of Spanish family firms and compared their results with the work of Hauck et al. (2016) focused on an Austro-German sample of family firms and the study of Filser et al. (2018) who looked at Finnish family businesses. Another way to structure and measure SEW is so called restricted and extended SEW (Miller & Le Breton-Miller, 2014). Restricted SEW describes limited short-term benefits to the family members, extended SEW encompasses long-term benefits to a broader range of stakeholders of the family firm, including employees and business partners (Kurta, Kammerlander & Khoury, 2022). In summary it has to be noted that SEW faces substantial shortcomings regarding its measurement and towards its definition as such. From my point of view that comes to no surprise and is rooted in the unit of analysis – ultra heterogeneous family firms, however it is still the mainstay for the explanation of deviant family firm behaviour.

Leaving the concept of SEW, I was able to identify three other family M&A papers concerned with goal formation: In 2010 Niedermeyer, Jaskiewicz and Klein evaluated the sale of family businesses from the family perspective and tried to derive implications for new venture activities. They looked at retrospective satisfaction of the seller after the deal and created a model to explain seller's satisfaction. In their view, satisfaction is based on utility, which again is a function of financial and non-financial factors. Their model assumes that the fairness of the decision-making process within the family to sell the business and the degree of freedom to sell the business are positively related to retrospective satisfaction of the seller. The same applies for the goal alignment between seller and buyer

as well as the adequacy of the purchase price. They already use the concept of identity between family and firm as they point out that in case of a psychological ownership of the family firm retrospective satisfaction of the seller is positively related to the seller's remaining influence and information or to the possibility to create a new family identity via new ventures. The model offers some insight towards optimized process management but cannot explain which type of buyer leads to a higher satisfaction.

In 2017 Ahlers, Hack, Madison, Wright and Kellermanns asked if family firm sales are all about money as they looked at affective deal commitment and differences between family and non-family sellers in buyouts. Thus, again they ask the question of financial vs. non-financial goals. Unfortunately, instead of an answer to the question why family firm owners sell and how family firm owners select a buyer Ahlers et al. come up with a model to explain the perception of private equity firms by family firm owners. A common perception in mergers and acquisition literature is that family firms are not fond of private equity investors, because the goal structure between the two parties differs so much, i.e. long-term oriented family firms vs. short-term oriented private equity investors. In line with that Ahlers et al. concluded that if trust, reputation and goal congruence exist between family firms and private equity investors, family firms start to be less reserved to private equity investors and are willing to sell their business to them. The authors were able to confirm that non-financial factors play an important role in buyouts after testing a sample of 174 transactions.

Sabel (2015) conducted a study on how German Mittelstand family firms perceive private equity investors. After 40 interviews and 8 case studies, he comes to the conclusion that the acceptance of private equity investors is generally low in the German Mittelstand. However, the acceptance is positively related to the level of private equity experience and knowledge family firms owners in the German Mittelstand have. Sabel's study is part of the limited research towards M&A in the German Mittelstand, though his focus is private equity at least he provides some insight of the sellers' perspective.

Another study from 2022 by Kurta et al. combines the sellers perspective and the SEW approach. The study found out that employee orientation has a significantly positive influence and family prominence has a significantly negative influence on the willingness to sell a minority share in a family business. Furthermore, it is shown in addition to a direct, positive effect of below-average financial performance on willingness to sell that below-average financial performance weakens the positive relationship between employee orientation and willingness to sell. The same applies for the positive relationship between pure family management and willingness to sell. However, the

data sample does not reach a significant level for the relationship between below-average financial performance and family prominence and willingness to sell. This result suggests that, contrary to the predictions of previous studies that family prominence may influence family members' decisions regardless of their economic situation. These findings have to be considered carefully, since they are based on a vignette study, i.e. a mix between a sample and an experiment considering a hypothetical sale situation. In addition, the focus was not a complete sale but only a minority stake in the family business. The idea of employee orientation and the family prominence due to a minority sale share in my view some common ground with the concept of organisational rapport.

Overall, the family firm M&A research towards non-financial goals is deficient in theory building, remains buyer focused, lacks evidence from completed transactions, does not take into account all stakeholders and is predominantly using quantitative approaches.

2.4.4.2 Seller's side of the story and knowledge acquisitions

As established before a significant gap in M&A theory is the seller's perspective. Therefore, in the following section the limited literature concerned with the seller is debated and complimented with the in my view fitting research regarding knowledge acquisitions.

Motives to engage in M&A activity are usually structured alongside a financial and non-financial as well as a personal and business dimension. Seller and buyer motivation only seem to differ in the non-financial and personal dimension and if ownership is involved. While for an external manager in the non-financial and personal domain hubris may play a role, the paramount reason stated in the literature for the disposal of a family business is considered to be succession (Roll, 1986; Sabel, 2015; Wirtz, 2017). This approach seems to be one-dimensional, neglects the M&A process perspective especially the selection of a potential buyer and follows a mere take-over perspective.

	Personal motives	Business motives
Non financial	Succession issues	Change of strategy
	Inter Family / Owner conflicts	Growing competition
	Own career planning	Management problems
	Changing priorities	Weak assets
Financial	Better investment alternatives	Lacking growth capital
	Return on initial investment	Reduction of debt
	Financial crisis	Cash crisis
	Reduction of exposure	Reduction of capital cost

Figure 3 – Seller's motives to start Mergers and Acquisition

Source: Adapted from Wirtz (2017, p. 78) and Sabel (2015, pp. 38-40)

However, there is one alternative approach that nearly, all researchers looking at family firm mergers and acquisitions cite. It is an article by Graebner and Eisenhardt dating back to 2004. This article still seems to be the premier source to focus on the seller's side of the story. Graebner and Eisenhardt assessed a sample of twelve US technology-based high entrepreneurial firms engaged in acquisitions out of which the majority came from the Silicon Valley. Graebner and Eisenhardt explicitly are not researching family firms, but entrepreneurial firms today often coined start-ups. This distinction is probably related to the tendency in the US to draw a clear line between SMEs and family firms, though some of the firms in Graebner and Eisenhardt's sample may actually be family firms.

The authors concluded that both managers and investors do have multidimensional motives. Rather than simply choosing the offer with the highest price, selling-firm leaders look for a buyer that offers organisational rapport with their company. Regarding seller's motives to sell or engage in an acquisition Graebner and Eisenhardt distinguish between business motives and personal motives. For them business motives include strategic hurdles, organisational rapport and combination potential. While combination potential just means synergies and organisational rapport is the personal and cultural fit between buyer and seller Graebner and Eisenhardt see strategic hurdles in a very growth oriented way. Hurdles amongst others are CEO search, funding, sales ramp up or a strategic gap towards a competitor. Personal motives of a seller that Graebner and Eisenhardt found are the fear of failure, stress, financial gain and dilution risk. Graebner and Eisenhardt state that sellers' interest to be

acquired is higher when they face strategic hurdles and when they have strong personal motivations. In addition, the pull of an attractive buyer influences whether an acquisition happens:

Selling-firm leaders pay limited attention to short-term personal rewards such as managerial perquisites and their own jobs in the post-acquisition firm. Rather, although price is important, selling leaders are attracted to buyers that offer long-term fit in terms of combination potential and organizational rapport. Such strategic and organizational compatibility is seen as providing the opportunity for the acquired company to prosper and for a positive, post-acquisition work environment for employees to emerge. (Graebner & Eisenhardt, 2004 p.395).

From this perspective, an acquisition is not a takeover, but a courtship process. Therefore, acquisition turns into a social exchange between buyers and sellers shaped by considerations of long-term fit as well as price. Graebner and Eisenhardt consider the courtship perspective especially important for family firms and knowledge acquisitions, where the value lies within the individual employees.

In the same year Graebner and Eisenhardt presented the seller's side of the M&A story, Kreitl and Oberndorfer (2004) looked at professional service firm motives for M&A especially focussing on knowledge acquisitions. Professional service firms are a distinct part of the service sector where the business model is based on human resources, i.e. the employee, rather than equipment and machinery. Professional service firms encompass amongst others law firms, accounting firms, management consultants, architectural services and engineering consulting firms. Kreitl and Oberndorfer's survey among the Top 100 engineering consulting firms in Europe showed that the most important motive for undertaking an acquisition was the penetration of new service or client markets. Interestingly the firms Kreitl and Oberndorfer analysed only engaged in M&A transactions among their equals, i.e. engineering consulting firms merged with or acquired other engineering consulting firms. As engineering consulting firms tend to have a low tangible asset base combined with well-educated and highly mobile professionals, carrying out an M&A transaction in this particular service sector is considered by Kreitl and Oberndorfer to be rather risky as the employees are walking assets and might be lost after the merger. Therefore, the critical input for engineering consulting firms is qualified and experienced staff, while bargaining power of suppliers seems to be less relevant for those firms. Nonetheless, for Kreitl and Oberndorfer an important growth path for engineering consulting firms

is to engage in M&A to facilitate their corporate development. Unsurprisingly Kreitl and Oberndorfer do not focus on the seller's motives to engage in M&A they only briefly mention that succession is an important motive for engineering consulting firms.

Margaret Dalziel (2008) tested Graebner and Eisenhardt's assumptions regarding the seller's perspective on acquisition success using interview and survey data of 33 acquisitions in the telecommunication industry. Dalziel argued that sellers who use strategic and social criteria to evaluate acquisition success interpret acquisitions as partnerships, while sellers who use financial criteria to appraise success interpret acquisitions as sales. She found that sellers of technology-based firms measure acquisition success based primarily on strategic and social criteria. Sellers see an acquisition as a success when it has a positive impact on their former firm's strategic initiative, and when their former employees and customers gain a high level of value from it. Thus, the strategic and social factor is a significant predictor of the seller's appraisal of acquisition success, conversely the financial factor is not. Therefore, Dalziel provides support for the view that sellers of technology-based firms view the acquisition as a partnership rather than as a sale.

Two years later Graebner and Eisenhardt together with Roundy (2010) looked again at technology acquisitions and tried to subsume lessons for buyers and sellers from the current state of research. Their advice for sellers is from my point of view in line with the courtship-perspective or M&A as syndication. More importantly, they again acknowledge the voids in M&A research towards the seller. They point out that still relatively little is known about the seller's point of view as only a few studies, e.g. Dalziel (2008) have begun to shed light on sellers' motivations and viewpoints. They argue for additional research as sellers' perspectives are considered to vary in relation to company history, size and ownership structure, especially whether the target is family-owned versus venture capital-controlled or publicly traded. In addition they underline that sellers' motivations also depends on the company's performance, the industry or branch and alternative options apart from exit and sellers' personal expectations.

Kammerlander (2016) conducted a study, which provides indirect quantitative support for Graebner and Eisenhardt's proposition that sellers', i.e. owner managers try to find the best successor rather than to maximize the transaction price. Building on behavioral finance theory Kammerlander argues that owner managers do not fully act as *homines oeconomici* but act based on bounded rationality. Testing a sample of 1,300 owner-managed Swiss SMEs, who provided their intended views on business exit and comparing those results with more than 400 actual

ownership transfers, Kammerlander concluded, that owner managers are willing to provide substantial discounts to their successors in management buyouts. The range of the discount or so called emotional-pricing component depends on factors like perceived firm performance, managerial tenure within the firm, and the relationship (familiarity or closeness) between the owner-manager and the successor. Additionally, Kammerlander found that discounts tended to be higher in the service sector due to the higher proportion to immaterial assets.

In 2017, Mawson and Brown confirmed the findings of Graebner and Eisenhardt as well as of Kreidl and Oberndorfer. Mawson and Brown looked at entrepreneurial acquisitions among high growth UK SMEs and found that the access to knowledge and the prior relationship to the target was at the heart of many entrepreneurial acquisitions. The key factor for the acquisitions was the desire to augment and exploit technological complementarities between buyer and seller.

The main takeaway from Graebner and Eisenhardt as well as the knowledge acquisition papers is the view of M&A as syndication. Thus, in this set up M&A is not a takeover battle but a process to gain organisational rapport for future success based on trust.

2.4.5 Business Valuation theory and practical application

After debating non-financial goals, it would seem important to establish how the financial components for business valuation are actually justified in practice and in theory. Furthermore, it is of importance if and how non-price facts are valued in at all and if there is research regarding the interrelation between the two.

Company or business valuation is not to be confused with a purchase price negotiated by seller and buyer during a mergers and acquisitions process. Businesses, SMEs as well as large stock marked listed firms, are valued constantly and regularly due to external and internal demands (Fernandez, 2007;. Hayes, 2012; Miciuła, Kadłubek & Stępień 2020).

Business valuation methods				
Asset approach	Income approach		Mixed	Market approach
Balance sheet analysis	Cash flow discounting	Value creation	Goodwill	Comparable company
• Book value • Liquidation value • Substantial value • Replacement value	• Equity cash flow • Free cash flow • Capital cash flow	• Enterprise value added (EVA) • Economic profit • Cash value added • Cash flow return on investment	• Average cost method • Swiss method • Berlin method • Excess earnings method • Stuttgart method • UEC method	• Multiples • Options

Figure 4 – Business valuation methods

Source: Adapted from Fernandez (2007, p. 3)

From the above figure there are various approaches to business valuation. All these approaches should in theory lead to the same result. In general, the valuation methods can be divided in three main groups: Asset, income and market based valuation. Additionally, there are sometimes mixed approaches, which use two or more of the aforementioned areas for input generation.

Especially, the various cash flows are used for valuation purposes. Depending on the size and legal form of the commercial entity, businesses are obliged to provide so called cash flow statements. In Germany, this is a requirement for large holdings only. In consequence, many SMEs do not have to provide a cash flow statement, hence for valuation purposes the cash flows have to be derived from the P&L. However, what the financial statement will never be able to provide are projections for future developments. Only a historical analysis comparing several annual reports usually from the past three to five years is possible (Wirtz, 2017; Schwartz, 2019).

One of the most common valuation methods, Fernandez (2007) actually states that it is the only conceptually correct method, is discounting the future cash flows (DCF) to calculate their present value. Thus, cash flow discounting methods require a detailed forecast, for each future period, e.g. budget figures of the next three to five years for each of the financial items related with the generation of the cash flows. After that, the required cost of capital has to be calculated, which then enables the cash flows to be discounted. Furthermore, the discounting rates are not set in stone but often determined by buyer and seller (Fernandez, 2007). In this context, it is interesting to note that

Fernandez's paper on company valuation methods is concerned with the most common errors in this field of activities.

Another income valuation is the market approach based on comparable companies and comparable transactions. Now the idea behind valuation based on comparable stock market listed companies is that comparable companies, while not identical are somewhat similar in growth, profit and risk and should therefore have similar prices (Wirtz, 2017). A prerequisite for this approach is that the comparable companies must be active in the same industry and should represent the industry average in terms of performance. In consequence, a panel of companies is used to come up with a range of multiples. Usually, the comparison is related to the turnover and various profitability KPIs. In 2008 Imam, Barker and Clubb conducted a study on the use of valuation models by UK investment analysts. They interviewed 42 analysts and reviewed reports of 98 investment banks to find out which models are actually used in practice. What they found was that discounted cash flow analysis was the preferred method of choice, but due to the inherent shortcomings of cash flow discounting the valuation was cross-checked with a multiple valuation. While the methods mentioned before are clearly industry standard and applied by audit companies all over the world they are based on neo-classical theory.

Matschke and Broesel (2008) follow a different approach to conceptualize business valuation. They try to answer the question why the different valuation approaches do not lead to the same results and they try to account for non-price facts. In their idea, the outcome of the valuation depends on the purpose. In other words, a company does not only have a specific value for every person interested in the valuation, but depending on the purpose of the valuation may have different values. In consequence, the forms of valuation depend on the type of property change, the degree of complexity, the degree of domination and degree of relationship. For the type of property change they differentiate between acquisitions and mergers / splits, regarding the complexity they open up for multi-dimensional conflict situations, regarding dominance they acknowledge power asymmetries and regarding relationship they are aware that a valuation decision can be related to other decisions, e.g. a sale of multiple companies or a group. Based on this Matschke and Broesel are able to come up with a model for agreement areas. In a conflict situation of the type acquisition / sale, which is non-dominated, one dimensional and unrelated the purchase price plays a dominant role for the decision value. Hence, the decision value is the agreed rationally acceptable price limit between seller and buyer. For the potential buyer, the decision value or upper price limit is the price he can pay without an economic detriment after the acquisition, while for the potential seller it is the lowest

price he must achieve without suffering an economic detriment from the sale. However, Matschke and Broesel explain that the conflict situation of the type acquisition / sale is multi-dimensional. In consequence, other factors, i.e. non-price facts have to be included, which move the potential agreement areas.

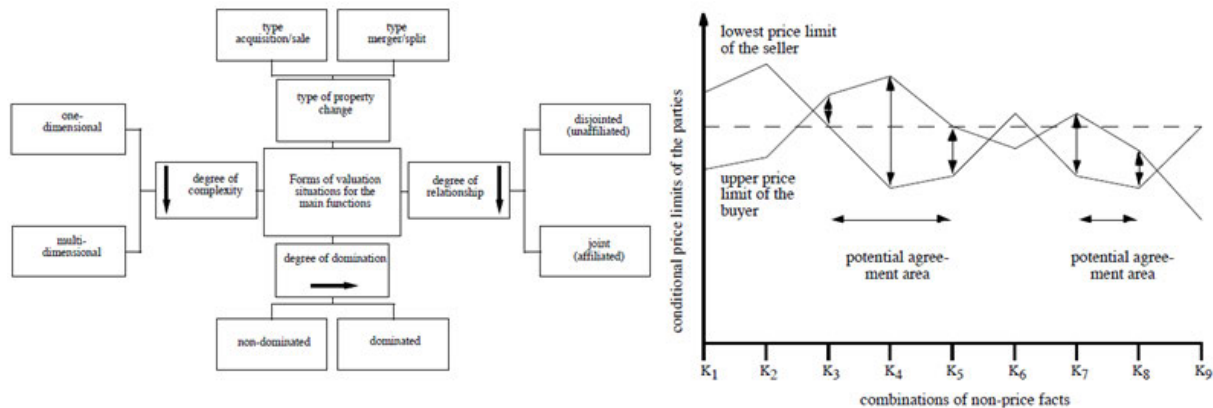


Figure 5 – Valuation situations and agreement areas in conflict

Source: From Matschke & Broesel (2008, p. 19 and p. 27)

Matschke and Broesel strongly criticize the standard valuation approaches especially the discounted cash flow methods. They see them as consulting products of international audit companies that hamper the scientific debate. The auditors and appraisers are for them nothing but a secular cast of priests worshipping a model that is open for numerous possibilities of manipulation. Therefore, the market-value-oriented valuation models are for Matschke and Broesel only used in an argumentation function to impress the other negotiating party and to force the other party into an agreement. Thus, the results are equal to or higher as the arguing party's decision value and are not able to determine the limit of concession willingness of the other party.

Sadly, Matschke and Broesel's functional valuation model is incapable of making better claims regarding valuation, than the very market models they criticise. As Fernandez (2007) pointed out valuation models are made for valuation not for defining or predicting a purchase price. Matschke and Broesel's contribution however is that they show the shortcomings of the market based valuation models and unmask the marketing promises. Furthermore, Matschke and Broesel offer a model, which structures business valuation events according to their main functions. The model is therefore able to take into account a combination of price and non-price factors, which enables it to define an agreement area for negotiations. In other words, the functional valuation model is able to provide an explanation how non-financial facts and goals, if achieved may in theory reduce the actual purchase price of a company.

To sum up the income and market based valuation approaches have a spurious precision and do not factor in non-price facts, but they are industry standard. Other approaches, e.g. the functional valuation model that is able to account for non-price facts have not been tested in completed M&A transactions yet.

2.4.6 Business valuation and M&A activity in the German Mittelstand

So what is actually happening regarding business valuation in the German Mittelstand? In 2019, the German KfW Bank (Credit Institute for Reconstruction) published a research paper focused on the purchase prices paid in the German Mittelstand for succession related business exits. The author Michael Schwartz explains that in Germany there is active governmental support for Mittelstand owners, when they like to sell their business. An online platform called next-change.org sponsored by the federal ministry of economics and regional public banks enables owners to place anonymised sales advertisements. Furthermore, owners can receive consulting advice from their local chambers of commerce regarding succession related business exits. The Mittelstand-panel of KfW Bank 2018 included approximately 15,000 private companies with a turnover below 500 million Euro. It revealed, regarding business valuation, that the reference point for the enterprise valuation still is the turnover. The rule of thumb is that the value of the business is at least equal to one times its annual turnover. The panel did not find evidence for overstated business valuations by Mittelstand owners. This is interesting as Schwartz notes that Mittelstand owners are considered to require a "Herzblutrendite". That means owners in the Mittelstand overstate the value of their business as they expect to receive a special return for the blood, sweat and tears they have invested. Regarding valuation, as such Schwartz points out that due to the overall small size of Mittelstand companies the identification of benchmarks for valuation is difficult. Nonetheless, he included the multiple valuation overview of the business magazine Finance. The magazine lists revenue and EBIT multiples for 16 different industry sectors in the small-cap area, i.e. below 50 million Euro turnover. With these multiples, owners can do a quick asset and income based valuation.

Tao-Schuchardt, Riar and Kammerlander (2023) looked at the valuation of family firms based on a sample of 486 observations of acquisitions in France, Germany, Italy, and Spain from 2011-2019. They found evidence that buyers purchase family firms at a higher valuation than non-family firms. This was however impacted by the targets financial performance and the type of acquirer, e.g. financial vs. strategic, cross-border vs. domestic. Thus, not only the seller but also the buyer influence the outcome of the process. Their dataset did use some scrutiny regarding

the unity of ownership and management, i.e. at least 25% family ownership and one family member with a management function. Thus, while not fully representative for the core Mittelstand their study might shed some light on the prices paid for these businesses.

However, quantitative research regarding M&A transactions in the German Mittelstand is scarce and to no surprise. Again, the KfW bank published research papers regarding M&A-deals in the German Mittelstand in 2018 and 2021 (Gerstenberger, 2021). The analysis was based on Bureau van Dykes' Zephyr database, which contains information regarding M&A, IPO and Private Equity transactions globally. The author Juliane Gerstenberger (2021) states, that more than 1,600 M&A transactions took place in the German Mittelstand in 2018. She confirms that transactions in the German Mittelstand follow the general M&A activity in Germany, which was spurred by low interest rates and an overall encouraging economic environment. In accordance to that, she saw a sharp drop due to the corona crisis in 2020 and a catch-up effect in 2021. Additionally, Gerstenberger found a high degree of relatedness between the business activities of sellers and buyers as 60% of all transactions happened in the same industry sector. Interestingly for the construction industry and technical services, the numbers were quite the opposite and mainly lateral transactions occurred. All of the acquiring companies were to a great extent based in Germany and accounted for 60% of all transactions, while foreign but European buyers represented a quarter of all investors.

Nonetheless, Schwartz and Gerstenberger's studies both have the same shortcomings. They consider SMEs to be synonymous with Mittelstand companies. In addition to that, the insight of the Zephyr database towards M&A transactions in the German Mittelstand is very limited, because the vast majority of these deals is not made public. Hence, only an indirect assessment, e.g. via press releases or reference lists of M&A consulting companies is possible. Regarding his data however, Schwartz relies on the quantitative Mittelstands-Panel, which allows him to include valuation information even for very small private companies ranging from 50k Euro turnover up to 1 million Euro. Since these are very small, private companies there should be at least a high degree of congruence to core Mittelstand companies. In other words, Schwartz's findings regarding valuation for private SMEs in Germany can be considered as accurate for the so called core or classic Mittelstand. Furthermore, it has to be noted that Gerstenberger distinguishes between mergers and acquisitions and partial or complete change of ownership. Hence, the overall tendencies regarding a growing or shrinking number of M&A transactions in the Mittelstand seem to be valid. In comparison the London based IMAA (Institute for Mergers, Acquisitions and Alliances) noted for 2018

a number of 2,228 M&A deals in Germany with an overall value of 157 billion Euro. Although it is not possible to align the raw data of Gerstenberger and the IMMA a substantial amount of German M&A activity seems to be occurring in the wider German Mittelstand.

2.4.7 Summary - M&A literature

After reviewing the literature and the current state of research regarding M&A it is fair to say that scholars struggle to grasp the diverse and complex phenomenon called M&A. Even a clear definition and distinction of mergers and acquisitions or between the various forms of transactions seems to be hard to agree upon spurring some researches to use the easy way out and applying the terms mergers and acquisitions synonymously. In consequence, it is to no surprise that there is still no generally accepted theory to explain M&A. Many of the theoretical concepts used to access M&A activity are borrowed from other areas of management or organisational research. Furthermore, the focus of research remains narrowly tied to post-merger performance of large publicly listed firms. This comes to no surprise, as data for listed companies is easily accessible. The research focus however is limited to a buyer manager perspective and mainly tries to derive advice from post-merger performance regarding target selection. In other words, which target companies will yield beneficial results those in related or unrelated business areas or those with or without strategic fit, based on financial performance after the M&A process. This becomes especially important, when looking at the decision-oriented analysis of M&A – if, when and how M&A is considered favourable during the decision making phase for an organization – is a question that decision makers face not ex post but ex ante. The assumptions and motives of buyers as well as sellers may they be managers or owners remain blurred to a high extent and are only deduced using the principle-agent theorem or applying concepts from the capital market and strategic management school. One of the few agreement areas for researchers is the M&A process model by Hasperlagh and Jamisson (1991) as well as the notion that M&A activities follow the economic cycles in merger waves.

General M&A research				
<i>Author</i>	<i>Topic</i>	<i>Summary/ take away</i>	<i>Data</i>	<i>Method</i>
Hasperlagh & Jamisson, 1991	M&A Management	M&A standard process model	n.a.	Textbook
Coyle, 2000	M&A Management	Clear distinction between types of M&A, performance focus	n.a.	Textbook

Parvinen & Tikkanen, 2007	M&A Theory	Main focus on post-acquisition performance and relatedness	n.a.	Literature review
Vazirani, 2015	M&A Theory	Four schools based on Hasperlagh & Jamisson and merger waves, focus on post-acquisition performance	n.a.	Literature review
Wirtz, 2017	M&A Management	Only borrowed concepts and fragmented research, focus on post-acquisition performance	n.a.	Textbook
Junni & Teerikangas, 2019	State of research	Blurred definitions, no generally accepted theory for M&A, apart from process model, only borrowed concepts	n.a.	Literature review

Table 1 - General M&A research

Source: Author

Family firm related M&A research faces the same shortcomings as the general M&A literature. As usual, the impact of the definition of a family firm as such, is vividly debated not only due to the heterogeneity of family companies but also to enable comparative research, e.g. entrepreneurial vs. trans generational family business or family controlled vs. family managed etc. Furthermore, the literature and research concerning family firms M&A activity is limited. Two recent literature reviews from 2017 and 2019 were able to identify only 23 papers concerning the topic. Even worse, the majority of research is concerned with the family firm as a buyer.

Additionally, there seems to be a lack of studies using qualitative methods, which might reveal the underlying assumptions and attitudes of family firms with regard to M&A that current quantitative studies have not been able to capture. Focusing on the overall goals and motives would shed light on the pre-merger phase, an area in the general mergers and acquisitions literature that is underexplored as noted above. It seems that family firm researchers only agree that family firms are and behave different from non-family firms and that this affects family firm behaviour towards M&A. One approach to explain decision-making which is dissimilar to non-family firms in general and regarding M&A in particular is the importance of non-financial goals. Apart from the ideas concerning non-financial goals, so far there is very little theory building regarding the motives of family firms to engage in M&A activities.

M&A and family business				
<i>Author</i>	<i>Topic</i>	<i>Summary</i>	<i>Data</i>	<i>Method</i>

Worek, 2017	State of research	Still limited research, no insight why families sell and to whom, urge for more qualitative research	20 articles	Literature review
Meglio & King, 2019	State of research	Main difference between family and non-family firms pursuit of non-financial goals and plea for joint M&A family firm research	23 articles	Literature review

Table 2 - M&A and family business

Source: Author

From the 11 papers, I found that are concerned with family firm M&A research towards non-financial goals only three consider the seller's point of view and look at data from actual transactions.

Sabel (2015) conducted the single study I was able to find, which looked at sellers from the wider German Mittelstand. Sadly, Sabel is only interested in the perception of private equity investors as buyers in the German Mittelstand. He has not much to add regarding buyer selection apart from the fact that familiarity with a buyer group seems to be helpful. Additionally, his case studies are limited to interviews with the sellers only. Sabel explicitly stresses that he sees no need in corroborating the provided information with other process stakeholders. Based amongst others on Sabel's case studies, in the second seller focused paper Ahlers et. al. (2017) argue that non-financial goals of family firm owners play a role in private equity buyouts if the potential investor shares these goals. The third paper by Kammerlander (2016) found that Swiss SME owner managers try to find the best successor instead of sales price maximisation. She calls this emotional pricing as owners accepted a price discount in a management buyout based on long-term relation to their successor.

Two additional articles considered perceived valuation impacts of family conflict and family lifecycle and could partially confirm these aspects (Zellweger et. al., 2013; Rousseau et. al., 2013). However, in my view these two articles lack evidence from completed transactions. Another two research papers were concerned with model development regarding retrospective satisfaction of the seller and the valuation impact of SEW (Niedermeyer, 2010; Zellweger 2011). Last but not least Chirico et. al. (2019) argued that family firms try to exit by merger, then dissolution and only as a last option sale. However, Chirico's distinction between merger and sale is at least debatable.

Regarding theory building to explain M&A activity of family firms there is so far just one article based on game theory, where family firm behaviour is considered as a mixed gamble. The SEW theory (Gomez-Mejia et. al, 2007)

and thus the identity between family and firm has to be aligned with the financial goals – money and heart in tandem – to facilitate M&A engagement of family firms (Gomez-Mejia et. al, 2018). Even though this is very appealing to explain the differences between family and non-family firms regarding M&A, it has so far not been used to explain motives of family firm owners selling their business and selecting a potential buyer. Again, the focus of research is on the buyer not the seller even from a family firm point of view.

In addition it has to be noted that SEW faces substantial shortcomings regarding its measurement and towards its definition as such and is therefore again heavily debated. From my point of view that comes to no surprise and is rooted in the unit of analysis – ultra heterogeneous family firms. Approaches to explain the mixed findings of SEW point to a cultural dimension or actually a firm specific importance of SEW. Apart from all criticism SEW is still the mainstay for the explanation of deviant family firm behaviour (Bringham & Payne, 2019; Gomez-Mejia & Herrero, 2022).

An example that combines the seller's perspective with SEW, but in an experimental way was carried out by Kurta et al. (2022). Here the degree of family prominence positively influences the willingness to sell a minority interest in the family firm, while employee orientation and pure family management negatively influences the willingness to sell. Nevertheless, a below-average financial performance weakens these effects. While this study shows, some overlap between organisational rapport and SEW, the hypothetical / experimental sample as well as the minority sale focus limits the importance for a complete business exit.

Overall, the family firm M&A research towards non-financial goals is deficient in theory building, remains buyer focused, lacks evidence from completed transactions, does not take into account all stakeholders and is predominantly using quantitative approaches, e.g. a seller focused Mittelstand M&A research that tries to explain decision-making is nearly inexistent.

Family firm M&A research focused on non-financial goals				
<i>Author</i>	<i>Topic</i>	<i>Summary</i>	<i>Data</i>	<i>Method</i>
Gomez-Mejia et. al, 2007	SEW research	Conceptualisation of socioemotional wealth	1,240 family-owned Spanish oil mills	Quantitative analysis
Niedermeyer, 2010	Family goal formation	Model to explain family satisfaction after sale	n.a.	Model development
Zellweger et. al., 2011	SEW research	SEW reflects company valuation/ sales price	n.a.	Model development
Zellweger et. al., 2013	SEW research	Current family control has no impact, duration has a mixed impact and intention for	219 Swiss family firm and 326 German	Quantitative analysis

		transgenerational control has positive impact on perceived selling price	family firm CEOs	
Rousseau et. al., 2013	SEW research	SE costs/ family conflict can have impact on sales price	149 owner managers of German family firms	Quantitative analysis
Sabel, 2015	Private equity and Mittelstand buy outs in Germany	Acceptance of PE investors is positively related to experience of Mittelstand owners	40 interviews and 8 case studies	Mixed
Kammerlander, 2016	Entrepreneurial exit and emotional pricing	Owner managers try to find the best successor instead of sales price maximisation	1,300 owner managed Swiss SMEs, 455 transactions	Quantitative analysis
Ahlers et. al., 2017	Family firm goal formation in private equity buyouts in Europe	Non-financial factors play a role in buyouts	174 PE deals and 3 case studies	Mixed
Gomez-Mejia et. al, 2018	SEW research	M&A engagement of family firms is a mixed gamble	337 family firms from S&P1500, that acquired	Quantitative analysis
Chirico et. al, 2019	SEW research	Family firms try to exit by merger, then dissolution and only as a last option sale	Longitudinal dataset of 30,000 Swedish family firms	Quantitative analysis
Bringham & Payne, 2019	SEW research	Criticism of SEW concept and call for update	n.a.	Literature review
Gomez-Mejia & Herrero, 2022	SEW research	Partial validation of SEW measuring scales (FIBER) - REI	Sample of 480 Spanish family firms	Quantitative analysis
Kurta et al., 2022	Sale of minority stake in family firm	Degree of family prominence positively influences, employee orientation and pure family management negatively influences willingness to sell. Below-average financial performance weakens these effects.	Dataset of 109 responses of German family firm owners / managers	Vignette studies - quantitative (Behaviour in a hypothetical situation) survey & experiment

Table 3 - Family firm M&A research focused on non-financial goals

Source: Author

Very few non-family firm focused articles are concerned with the seller's side of the M&A story. Still the most prolific of the seller-focused papers is Grabner and Eisenhardt's 2004 article regarding the seller's side of the story. They concluded that start-up owners are focused on the mitigation of strategic growth hurdles via organisational rapport of the buyer and less on purchase price. Hence, they argue that the process is a form of courtship between buyer

and seller. I was able to find only two other articles (Dalziel, 2008; Graebner et. al., 2010) regarding the seller's perspective. Both are rooted in Grabner and Eisenhardt's work. However, one article only repeated that research regarding sellers is still limited, while the other tries to mitigate the problem of financial vs. non-financial goals for sellers. The article simply states that it depends on the seller's process perception. This approach tries to relieve the courtship model from an important shortcoming as funding is of paramount importance especially for start-ups. Apart from the courtship perspective, one important takeaway from Grabner and Eisenhardt's work is acquisition as syndication. This seems to be especially important in the high-tech industry and in the service sector concerning knowledge acquisitions, as the courtship process seems to be important to buy the workforce. The research in this area, while again lacking the seller's perspective at least underlined the importance of organisational rapport (Kreidl & Oberndorfer, 2004; Mawson & Brown, 2017).

Seller focused M&A research and knowledge acquisitions				
<i>Author</i>	<i>Topic</i>	<i>Summary</i>	<i>Data</i>	<i>Method</i>
Grabner & Eisenhardt, 2004	Entrepreneurial firms venture funding	Acquisition as a courtship process initiated by strategic hurdles, mitigated via organisational rapport	Case studies of 12 US high-tech start ups	Qualitative Analysis
Kreidl & Oberndorfer, 2004	Professional service firm M&A activity	Acquisitions among peers, main motive penetration of new service/client markets, staff is critical factor	32 engineering consulting firms of Europe's Top 100	Quantitative analysis
Dalziel, 2008	Seller's perspective on acquisition success	Seller's success, depends on process perception – focus on strategic and social criteria: transaction is a partnership, focus on financial criteria: it is a sale	Interview and survey data for 33 acquisitions in telco industry	Quantitative analysis
Graebner et. al., 2010	Technology acquisitions best practices for sellers and buyers	Seller's point of view still underexplored	n.a.	Literature review
Mawson & Brown, 2017	Entrepreneurial Acquisitions	Key driver for acquisition is desire to exploit technological complementarity	Case studies of 12 UK high growth SMEs	Qualitative Analysis

Table 4 - Seller focused M&A research and knowledge acquisitions

Source: Author

Another area, which remains underexplored is the valuation impact of non-financial goals or factors. There are accepted standard procedures for business valuation and research is focused foremost on the optimal application of these methods not so much on alternatives. Although the market based valuation is critiqued for its spurious precision there seems to be very little scientific debate towards this inherent problem (Damodaran, 2006; Fernandez, 2007; Palepu et. al., 2008). The question remains unanswered how financial and non-financial factors are interrelated. The only paper I was able to find, which is concerned with non-financial factors dates from 2008: Matschke and Broesel (2008) consider financial and non-financial factors to be interchangeable or actually substitutable. In other words, if more non-financial goals are achieved a lower purchase price is acceptable and vice versa, if less non-financial goals are achieved a higher purchase price is required. A test with actual transaction data of Matschke and Broesel's model however has not been conducted yet.

For the German Mittelstand research regarding the number and value of transactions as well as regarding valuation methods is very nearly non-existent. I was only able to find two papers dealing with that topic. However, the authors admit, that they face some shortcomings regarding their data and had to indirectly test their hypotheses. This is related on one side to the general shortcomings regarding Mittelstand and M&A research mentioned before and on the other side, it is simply a consequence of the legal environment, i.e. the lack of publicly available financial data for SMEs in Germany. However, there seems to be enough research to confirm that a multiple based valuation is the method of choice for Mittelstand owners to define the value of their businesses and there seems to be no quantitative evidence for emotionally over or under-pricing. Here the rule of thumb remains one times turnover equals enterprise value. A recent quantitative study by Tao-Schuchardt et al. (2023) again pointed to higher valuations paid for family firms. However, their study did not focus on core Mittelstand, was cross-national and unsurprisingly the evidence was impacted by financial performance of the target and the buyer's motives.

In addition, M&A activity in the Mittelstand seems to follow the overall M&A trends in Germany, but even a distinction between the amount of transactions per year in the Mittelstand vs. non-Mittelstand is lacking (Schwartz, 2019; Gerstenberger, 2021).

M&A research focused on financial goals (valuation)				
<i>Author</i>	<i>Topic</i>	<i>Summary</i>	<i>Data</i>	<i>Method</i>
Damodaran, 2006	Valuation approaches	Overview of standard valuation approaches and best practices	n.a.	Literature review

Fernandez, 2007	Company valuation most common errors	Overview of standard valuation approaches and best practices	n.a.	Literature review
Palepu et. al., 2008	Business Analysis and Valuation	Overview of standard valuation approaches and best practices	n.a.	Textbook
Matschke & Broesel, 2008	Functional business valuation	Critique of standard appraisal approaches, subjective and objective valuation, dependence on occasion	n.a.	Model development
Schwartz, 2019	SME valuation in Germany	No overstated valuations in the SME (Mittelstand), rule of thumb 1x turnover in Germany	KFW panel 15,000 German firms	Quantitative analysis
Gerstenberger, 2021	M&A activity for SMEs in Germany	SMEs (Mittelstand) M&A follows general M&A waves in Germany	1,600 M&A transactions listed in Zephyr	Quantitative analysis
Tao-Schuchardt et al., 2023	Family firm Value in the Acquisition Context	Buyers purchase family firms at a higher valuation than non-family firms. Valuation is impacted by the target's financial performance and the type of acquirer, e.g. financial vs. strategic, cross-border vs. domestic.	Dataset of 486 acquisitions in France, Germany, Italy, and Spain from 2011 to 2019	Quantitative analysis

Table 5 - M&A research focused on financial goals (valuation)

Source: Author

2.5 The Varieties of Capitalism and Corporate Governance

The Varieties of Capitalism (VoC) theory considers the low level of M&A activity or in other words the absence of a Market for Corporate Control in Germany as unique. Therefore, at first it is necessary to assess the VoC, its impact on corporate governance and the Market for Corporate Control (MfCC). In a second step, it is debated how the VoC or in general new institutionalism is able to deal with institutional change in order to account for a possible transformation or the emergence of a proxy.

2.5.1 The Varieties of Capitalism

Two decades ago, Peter Hall and David Soskice wrote their seminal book about the Varieties of Capitalism and the institutional foundations of comparative advantages. This 2001 book spurred an ongoing debate among

researchers in the field of comparative political economy, because it turned the scientific debate away from the idea that a convergence of all business systems into neo-liberal market economies was inevitable. Hall and Soskice argue that different institutional set ups create different national comparative advantages. Furthermore, these institutions may be complementary and thus reinforce each other, leading to stable institutional equilibria. Based on these distinct institutional differences Hall and Soskice divide the economies of the industrialised nations into two groups Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs). Among the group of LME countries, they list the US, UK, Canada, Australia, New Zealand and Ireland and within the group of CMEs they see Germany, Belgium, France, Italy, the Netherlands, the Scandinavian countries, Austria and to some extent Japan. Hall and Soskice put the firm at the centre of their attention and try to explain how companies may be able to generate competitive advantages by making use of the institutional environment they exist in resulting in national comparative advantages (Hancké, 2009).

As Witt and Jackson (2016) state in the LME / CME dichotomy two idiosyncratic and somewhat idealized national economies are contrasted. The USA as the example for a LME and Germany as an example for a CME:

- The institutional setup of the USA as a LME consists of a market driven financial system, the flexible use of external labour markets, a generalist education and training system, low levels of networks and alliances between firms and management driven top down decision-making systems with a shareholder value oriented mode of corporate governance, with an active MfCC.
- The institutional set up of Germany as a CME consists of a bank led financial system providing patient capital, a strong internal labour market with employee protection, codetermination and collective wage bargaining, a skill formation system with vocational training resulting in specialized skills, high networks and alliances among firms and a consensus oriented decision-making between management and employees with a stakeholder oriented mode of corporate governance, without a MfCC.

Now due to the VoC these reinforcing complementary institutions do only exist in the two pure forms, i.e. there are many other national economies, which do not belong to either the LME or the CME type. Due to Hall and Soskice these hybrids or mixed marked economies (MMEs) are unlikely to show the same economic performance as the ideal types (Witt, de Castro, Amaeshi, Mahroum, Bohle & Saez, 2018).

As stated before, Hall and Soskice argue that different institutional set ups create different national comparative advantages. Since the VoC contrasts two distinct forms of national economies, it allocates two forms of innovation

as comparative advantages to these economies. LMEs are believed to be predestined for radical innovation, while CMEs are for incremental innovation.

Hall and Soskice VoC-theory is to this day one of the most influential approaches to comparative analysis. This is not only evident from the amount of citations, but also from the heated debate, which revolves around it. The main criticism regarding the VoC has always been the parsimony of only two main forms of capitalism. Various ideas for different approaches were proposed over time but none gained the same attention or was able to end the debate and enable some sort of evolution (Schroeder, 2019). The original VoC approach seems to hold its explanatory power and parsimony, thus changes to the VoC due to the debate remain minimal, i.e. the CME versus LME dichotomy remains in place for parts of the OECD, but not the rest of the world (Witt et al., 2018).

In my view, the criticism of VoC is rooted in the different approaches of new institutionalism and stems ultimately from the political position of the researcher. The Weltanschauung of researchers ranging from the far right to the far left, from neo-liberal views to a social-democratic position and even Marxism is represented, their idea of how economies really work market based, neoclassical or Keynesian or their perception of human behaviour - culture versus calculus all these topics are angles of attack (Coats, 2005).

2.5.2 Corporate Governance and the Market for Corporate Control

In corporate governance, the ongoing debate of superiority between the market insider or market outsider model or between proponents of the agency theory and later shareholder value and the advocates of the stakeholder theory will probably never come to a halt (Jensen & Meckling, 2004; Freeman & Reed, 1983; Eisenhardt, 1989; Shleifer & Vishny, 1997; Parkinson, 1997; Blair & Stout, 1999). Agency theory addresses the question of how shareholders can assure that once they invest their funds, management will act in their interests (Hoepner & Jackson, 2006). Fundamental for agency theory is Berle and Means' (1932) observation of a separation between ownership and control and in consequence Manne's (1965) idea of a MfCC, which disciplines managers with a quasi-institutionalised threat of hostile takeover. Nonetheless, minority shareholders are owners of the company, they are separated from managerial control as long as they cannot assemble a majority of shares. Following Manne minority shareholders should rather exit a company with bad numbers, than raise their voice, leading to low share prices and the threat of hostile takeover.

Looking at the concept of the MfCC nearly every author starts with Berle and Means' 1932 book 'The modern corporation and private property'. Interestingly most authors draw just one concept from this book the so-called separation of ownership and control, which then again is the reason to employ agency theory and to discuss the principal agent relationship between shareholders as principals and managers as agents, followed by Manne's ideas. Today Manne's 1965 article regarding Mergers and the Market for Corporate Control seems to be an essay from another time. Apart from the impact Manne's article had and continues to have on corporate governance in its time it was first and foremost a plea to change the US anti-trust regulation towards shareholder value. However, in stark contrast to Manne the radical ideas from Berle and Means book are a stakeholder theory of corporate governance. The New Deal inspired set-up of a stakeholder corporate governance in the USA remained in place until the mid-1980s, when neo-liberalism and new shareholder value remerged (Smith, Russel & Tennent, 2018). Manne states, that mergers are a superior alternative to bankruptcies as a method to transfer assets from falling to rising companies. Furthermore, he believes in a positive correlation between share price and managerial performance as for him there seems to be no objective standard to measure managerial efficiency apart from the performance at the stock market. In consequence, he points out that "the lower the stock price, relative to what it could be with more efficient management, the more attractive the takeover becomes to those who believe that they can manage the company more efficiently" (Manne, 1965, p. 113).

Especially where owners are dispersed, lower share prices create incentives for outsiders to accumulate control rights, replace management, and restructure the firm. This is the institutionalized threat of hostile takeovers, which puts market discipline on potential target firms to raise returns (Hoepner & Jackson, 2006).

Manne employs three concepts for takeovers, proxy fights, direct purchase of shares, and mergers. In Manne's view proxy fights and mergers are not really the way an active MfCC should work. Only with direct purchase of shares and the promotion of investment banking – which was illegal in the USA when Manne wrote his article – he imagines his idea of MfCC to be achievable. Therefore, Manne's MfCC is the market where a corporation or implicitly the control over the corporation is traded. In terms of economic evolution besides the market for products, labour and finance the MfCC becomes the fourth type of capitalist markets, because the firm as such is turned into a commodity itself (Windolf, 1994; Hoepner & Jackson, 2006).

The presence or absence of a MfCC reflects a central distinction among national systems of corporate governance (Hoepner & Jackson, 2006). The VoC approach locates specific types of corporate governance in its distinction

between LMEs and CMEs. Germany is clearly considered to follow a stakeholder model of corporate governance. It is bank-based with weak rights for minority shareholders, a lower rate of return for shareholders and a poorly developed MfCC. This coincides with a system of co-determination and centralised wage bargaining (Morck & Steiner, 2005; Aguilera & Jackson, 2003). Nevertheless, there is more to the way in which institutions hinder or enable an active MfCC. In CMEs, banks can partially substitute an active MfCC as financing via the stock market is limited. Banks can exercise scrutiny as the availability of their financing depends on a company's performance. The VoC calls this bank monitoring, especially if banks not only hand out loans but also start to directly invest in companies. Additionally, the legal environment is important, because M&A activity is higher where minority shareholders enjoy strong legal protection via shareholder rights and rigid and transparent financial accounting standards are enforced like in many LMEs. Regarding hostile takeover approaches important factors include mandatory bid rules, board neutrality and the potential for takeover defences. Conversely, high ownership concentration and dense intrafirm networks pose a barrier to an active Market for Corporate Control as well as employment protection laws or participation rights. In addition, the educational background and ideologies of top management are another important factor (Hoepner & Jackson, 2006).

There is an ongoing debate if a convergence in corporate governance is possible at all and furthermore if the result will be an Anglo-Saxon model or a hybrid form. At least Germany now is considered to be a hybrid in terms of corporate governance. There are various reasons for this change. The ownership structure of big German stock market listed companies changed, when the so called Deutschland AG was dissolved and the amount of cross-shareholdings started to diminish. German corporate banks started to move away from their partnership role as the so called Hausbank system made way for a more investment banking oriented business model, e.g. as visible with Deutsche Bank AG. In addition, Germany's corporate law and legal environment changed. Minority ownership rights were strengthened leading to a one share one vote regime. Furthermore, the employment protection and codetermination influence in Germany was reduced by policies like the Agenda 2010 (Guillen, 2000; Hassel & Beyer, 2001; Lane, 2003; Braendle & Noll; Buck & Shahrin, Jackson & Moerke, 2005; Goyer 2006; Luetz & Eberle, 2007; Goergen, Manjon & Renneboog, 2008; Streeck, 2009). Germany's idealised CME institutional complimentary describes a state, which it had around the year 1995, but 25 years later the institutional setup has definitively changed especially due to new and varying government policy. Nonetheless, the same applies to the USA especially in the area of corporate governance. Moving away from shareholder value after the first quarter of the

20th century and then turning away from stakeholder value in the last quarter. The next step was a slight adjustment in corporate governance after the financial crisis. While corporate governance in Germany has become a bit more like in the USA and vice versa – the main differences remain in place (Witt & Jackson, 2016; Witt et al., 2018). Franks et al. (2012) were able to show that in LMEs or countries with strong investor protection, developed financial markets, and active MfCC, family firms evolve into widely held companies as they age. In CMEs however with weak investor protection, less developed financial markets, and inactive MfCCs, family control is very persistent over time. Looking at the descriptive statistics it comes to no surprise that in Germany family firm ownership is a lot more persistent than in the United Kingdom. Furthermore, Franks et al. state that family control in high investor protection countries is concentrated in industries that have low investment opportunities and low M&A activity – it is the opposite in countries that have low investor protection and where the presence of family control in an industry is unrelated to investment opportunities and M&A activity. In accordance with the life cycle view of family firm ownership, firms should evolve over time from closely held family-owned enterprises into managerial controlled widely held corporations (Franks, Mayer, Volpin & Wagner, 2012). Founders generally hope to keep their business in the family and try to establish a transgenerational business. The inability to do so is even considered to result in a loss of SEW (Miller & Miller, 2013). However, usually a family business is only able to exist for 30 years on average and only 10% of all family businesses make it to the fourth generation (Sabel, 2015). In summary, there remains a surprising gap in the VoC-theory and literature. While the VoC acknowledges many traits generally attributed to the German Mittelstand in the institutional set up for CMEs, i.e. long-term orientation, industries based on incremental innovation with a focus on quality production and balanced employee relations etc. the term Mittelstand or family firm ownership is not used or discussed to describe Germany. The VoC simply states that Mittelstand companies are the same as SMEs. Therefore, the Mittelstand seems to be overlooked by the VoC and the related discussion regarding Corporate Governance, where ownership and management is so important again does not take the Mittelstand perspective into account.

2.5.3 Comparative International Management and Institutionalism

The VoC-theory by Hall and Soskice is part of comparative international management and new institutionalism specifically historical institutionalism. From this perspective, the MfCC is an institution. Undoubtedly, there is a lot of M&A activity in the German Mittelstand as quantitative research and many prominent examples show. Maybe

there is another way a MfCC might be active in Germany. Therefore, either the VoC has overlooked this hidden MfCC or some form of proxy so far or some sort of institutional change might have happened. Hence, it needs to be established how institutionalism defines institutions and accounts for their change.

The most proliferated definition of institutions is probably the one of North (1990). He considers institutions as humanly devised constraints that shape human interaction. In consequence, institutions define the limit and the set of choices for each individual. Institutions in North's view are created by formal rules and informal constraints: Formal rules encompass political rules, economic rules and contracts, while informal constraints are social norms, conventions or moral codes (Aoki, 2001).

This duality constrains actors via sets of incentives and disincentives to lead human behaviour in a particular direction. Accordingly stable structures emerge, which promote efficiency in human inter-actions by reducing uncertainty and transaction costs. Actions and expectations of individuals in a society are bound between these invisible guidelines. Therefore interactions can be more efficient as perceptions and understandings are implicit and do not have to be explained or negotiated (Friel, 2017).

As usual in the social sciences, though many scholars acknowledge North's definition of institutions to be at least a good starting point, there are other contesting approaches to define institutions. Especially regarding the persistence of institutions due to their ability to create efficiency, North's definition is seen to be critical. However, due to Friel (2017) there is consensus that institutions do matter strongly as they seem to be an important factor for human behaviour. The disagreement lies in the extent to which institutions shape the people and to which extent people are able to shape institutions. Friel believes that the differences stem from the fact that scholars are studying different institutions at different levels. In consequence, the results must differ because scientists are actually studying different phenomena. The scientific debate over the last century has culminated in new institutionalism (Thelen and Steinmo, 1992). New institutionalism is not one theory as Hall and Taylor (1996) distinguish between three new institutionalisms: rational choice institutionalism, sociological institutionalism and historical institutionalism.

2.5.4 New Institutionalism

Rational Choice institutionalism (RI) focuses on rational actors who pursue their preferences following a 'logic of calculation' within political institutions, defined as structures of incentives (Schmidt, 2010). The main problem with

RI is that it cannot explain anomalies or unexpected actions, which depart from purely interest motivated actions. (Schmidt, 2006).

In contrast sociological institutionalism (SI) concentrates on social agents who act according to a 'logic of appropriateness' within political institutions, defined as socially constituted and culturally framed rules and norms (Schmidt, 2010). SI is often criticized for being too specific and attacked for implicit relativism, because it makes no claims about rationality. Nonetheless, SI allows for a culturally specific, thick description of individual action (Schmidt, 2006).

The third of the three new institutionalisms is historical institutionalism (HI). HI is some sort of middle approach between RI and SI. It combines a calculus-approach with a cultural approach. Another distinctive feature of HI is that it assumes an asymmetrical relation of power: Institutions give some actors better access to the decision making process. Furthermore, HI has a strong focus on path-dependent developments, i.e. to historical developments, which lead to specific outcomes, but HI rejects that the same operative forces will lead to the same results everywhere. Change in HI is bound to turning-points or critical junctures, where historical development takes a new path (Schmidt, 2006; 2010).

HI is criticised for being less universalistic in its generalizations, e.g. by analysing only a specific set of countries during a certain time period. From an SI perspective HI's focus on structures and processes limits its ability to explain social events out of which the structures and processes are constructed. Change in HI happens in bursts with stability in between, which rules out gradual shifts. HI tries to compensate this shortcoming by using mechanisms of change, e.g. layering of new elements on stable institutional frameworks, conversion of institutions by new goals or the incorporation of new groups. The problem is that these mechanisms of change only explain the history of the transformation process, not the change itself. Nonetheless, HI's main problem remains its inability to explain human agency. To solve that void HI turns either to SI to adopt the cultural approach or to RI to adopt a calculus approach (Schmidt, 2006 and 2010).

All three new institutionalisms have one main problem: They can explain continuity or even institutional stability, but when they try to explain institutional change, especially incremental change problems arise. Institutions in RI, SI and HI are more or less static and with each fundamental change of stable systems, e.g. the end of Communism in Eastern Europe, or the fall of the Berlin wall, they are contested. Further problems appear as the rationalist prerogative that neo-liberalism comes at hand with democratic transitions, does not seem to hold (Schmidt 2006).

New institutionalist scholars tried to solve the problem of change by including ideas in their models. This solution ranged from positivist approaches, which saw ideas as reflecting the strategic interests of actors to constructivist approaches which valued them to constitute interests. For some scholars the turn to ideas was only an update of their older new institutionalisms, others believe to have created a new form: This fourth new institutionalism is called discursive institutionalism (DI) and is mainly concerned with ideas and how they are communicated through discourse (Hay, 2006; Schmidt, 2006). DI is an umbrella concept, which tries to incorporate the turn to ideas and interactive processes by which ideas are transmitted and exchanged via 'discourse' into institutionalism (Schmidt, 2010).

2.5.5 Summary Varieties of Capitalism and Corporate Governance

Hall and Soskice VoC-theory is to this day one of the most influential approaches to comparative analysis. This is not only evident from the amount of citations, but also from the debate, which still is spurred by the theorem. The original VoC approach seems to hold its explanatory power and parsimony, thus changes to the VoC due to the debate remain minimal. Nonetheless, as stated before the Mittelstand seems to be overlooked by the VoC and the related discussion regarding Corporate Governance, where ownership and management is so important again does not take the Mittelstand perspective into account.

As established before the VoC is rooted in new institutionalism – particularly historical institutionalism. The concept of the MfCC as an institution itself among other institutions enables the distinction between LMEs and CMEs as one of the institutional complementarities, which form the differences between these two distinct models of economy. For this research, it is especially important to consider how institutional change is perceived by the VoC and HI. Since HI is focused on the institutional equilibria change may only happen as a result of an exogenous shock or in other words turning points and critical junctures where historical developments take a new path. Therefore, HI views change in a logic of path-dependence. This limits HI in its ability to explain incremental change, but HI is at least able to approximate gradual endogenous institutional change due to the layering of new elements on stable institutional frameworks, conversion of institutions by new goals or the incorporation of new groups.

2.5.6 Core findings literature review

In the following, the core findings of each section of the literature review are presented and subsequently set into relation to the research aims and objectives of this study.

1. The Mittelstand is of high importance to the German economy and the term is frequently used. Overall Mittelstand research suffers from the inability to clearly define the companies it tries to assess. Mittelstand is not synonymous with SMEs or family firms, while some researchers base their definition on qualitative traits associated with Mittelstand companies, the distinction is predominantly based on the unity of ownership and management. Thus, for this research, it seems to be advisable to use the approach of Pahnke and Welter (2019) to define Mittelstand companies in order to enable sound comparative research and omit issues that previous studies faced.
2. There is a vast body of literature for M&A professionals aimed at supporting decision making and process optimisation for buyers. Hence, this literature is about lessons learned from past M&A projects looking at financial performance and post-merger integration. All of this research has a strong corporate or managerial perspective or maybe even bias. In consequence, studies that deal with motives to engage in M&A predominantly focus on the buyer manager. In general, M&A research has neglected the seller's point of view and remains focused on quantitative studies of post-merger performance based on inter-firm relatedness.
3. Family firm related M&A research is very limited and faces the same shortcomings as M&A literature in general. As usual, the impact of the definition of a family firm as such, is vividly debated not only due to the heterogeneity of family companies but also to enable comparative research, e.g. entrepreneurial vs. trans generational family business or family controlled vs. family managed. It is generally accepted, that family firms are and behave different from non-family firms not only towards M&A, but also in many other areas. A central approach to explain the perceived difference is the

pursuit of non-financial goals especially in the form of SEW. The same applies to M&A research in the German Mittelstand, while seller focused research is even more scarce.

4. There is only limited theory building regarding M&A decision-making in family firms or the Mittelstand especially towards the importance and interrelation of financial and non-financial goals. Game theory might be an approach to explain why sellers engage in M&A and how they select a certain buyer, as it is able to consider both financial and non-financial goals as a mixed gamble in an acquisition scenario, but it lacks application in a sale situation.
5. The VoC-theory is still one of the most influential approaches to comparative analysis. This is not only evident from the amount of citations, but also from the heated debate, which revolves around it. The main criticism regarding the VoC has always been the parsimony of only two main forms of capitalism. Various ideas for different approaches were proposed over time but none gained the same attention or was able to end the debate and enable some sort of evolution. Contrary to the prediction of the VoC-theory today there seems to be a lot of M&A activity in Germany and especially in the Mittelstand. This implies that an active MfCC exists, due to institutional change or due to new functional equivalent institutions.

Based on the gaps in the literature as identified above this seller focused research tries to gain more insights and establish an explanatory framework to answer the question why core Mittelstand owners / managers engage in M&A activities and become sellers to facilitate a business exit. Furthermore it is assessed what kind of buyers are selected during the process and why. Hence, the three research aims and objectives of this study are:

1. Why do first-generation owners decide to sell their businesses?
2. How and why do they select a particular buyer?
3. What are the implications of the research's findings on the VoC-theory?

In order to do so this qualitative research uses explanatory critical realism case studies of completed M&A projects in the core German Mittelstand, which resulted in the sale of companies by their family owners. The case study's research design follows Easton (2010) and is of the intensive type asking the question what produced change and assesses individual agents from all stakeholder groups in context using interviews and qualitative analysis, to

employ causal groups and to produce causal explanations that are however, limited to the situation studied so that testing is by corroboration. Notwithstanding that, the selection of cases follows a replication logic rather than a sampling logic, (Yin 2003), in that cases are able to support the development of theory and theoretical generalisation, based on demi-regularities (Wynn & Williams, 2012).

3. Methodology & Methods

3.1 Introduction

Since there is no single 'right' way of doing research a researcher has to position himself due to his beliefs. The starting point for this research is Hall and Soskice idea of the VoC, which clearly is part of historical institutionalism. Historical institutionalism fits very well to the ontology of critical realism. Especially the focus on history and some form of path-dependence is in my view essential to understand Germany's post-war economic development and furthermore to understand the Mittelstand decision-making as an institution and the actors, i.e. family firm owners. We do not have direct access to the mechanism that are at work in reality for the decision-making processes of family firm owners in the German Mittelstand. Currently, we lack the means to directly observe or measure how these people take their decisions regarding a sale of their business and the selection of a buyer. However, I am sure that in the future we will develop those means. Until then our knowledge and the way we create knowledge is inherently fallible and therefore we have to conceptualise mechanisms that are able to explain the observable outcomes as good as we possibly can. Notwithstanding that it is my firm believe that there are logically compelling processes at work that follow at least bounded rationality in decision-making for these entrepreneurs. Without such bounded rationality, I consider the economic success these entrepreneurs have enjoyed virtually impossible. As Furlong and Marsh (2002) explain ontology, epistemology and methodology are a skin not a sweater. Therefore, taking a critical realist position is for research based on historical institutionalism towards the determinants for decision-making of first-generation core Mittelstand firms probably the best starting point.

In the following subsections, 3.1.1 and 3.1.2 it is established how the perception of the German Mittelstand as an institution sets the line of approach for the ontology, epistemology and methodology of this research.

3.1.1 The range of Scientific Paradigms, Ontology, Epistemology and Methodology in for Mittelstand as an institution

Taking a look at Thomas Kuhn's book regarding the Structure of Scientific Revolutions, he employs the idea that one scientific 'paradigm' is thrown over by another after repeated refutations. But this 'revolutionary science' is the exception not the rule in the history of science, since long periods of steady refinement or normal science are interrupted by discontinuous jumps from one ruling paradigm to another. In Kuhn's idea a paradigm is even broader than Weltanschauung. A scientific paradigm is the entire constellation of shared beliefs, values, techniques etc. of a community of researchers. This common analytical framework or disciplinary matrix is used in a cumulative process of puzzle solving, until there is a proliferation of theory and the appearance of methodological controversy leading to a jump (Kuhn, 1970; Blaug, 1975).

Now what does this imply for doing research within the Mittelstand? Considering the German Mittelstand itself as an institution a researcher has to decide which type of institutionalism he is inclined to follow in his Weltanschauung. Schmidt essentially described in her 2006 paper, that the four new institutionalisms are at war with each other since the last 30 years: All institutionalisms are centred on institutions, but they differ along a variety of continua. These continua range among others from universalism to particularism, structure to agency, statics to dynamics and most importantly from positivism to constructivism. Nevertheless, Schmidt's hope that peace could be achieved with a new fourth form of new institutionalism the discursive one did not materialize. Thus, we can assume that considering the diachronic relation between paradigms in the social sciences no paradigm shift is foreseeable. Due to David Coats (2005), the academic debate on how and why economic performance differs between varieties of capitalism goes even further and circles around three main areas:

1. Old growth theory versus new growth theory, with growth accounting and economic modelling as the main methodologies, where the theoretical universe stretches from Adam Smith to Joseph Schumpeter.
2. A debate within political science in which comparative institutional analysis and individual case studies are the main methodologies and where the theoretical universe is anchored in new institutionalism.
3. A debate in radical political circles, which uses historical materialism as methodology and where the theoretical framework is Marxism.

David Coats again paraphrases the problems of comparative analysis with a little more emphasis on the political position of the researcher: The Weltanschauung of researchers ranging from the far right to the far left, from neo-

liberal views to a social-democratic position and even Marxism is represented, their idea of how economies really work market based, neoclassical or Keynesian or their perception of human behaviour - culture versus calculus all these topics are mentioned (Coats, 2005).

Actually we do not find anything new in here – essentially the debate is still concerned with the quantitative-qualitative paradigm wars and what lies behind them. This is the reason for Friel (2017) to acknowledge in a somehow blurred but pragmatic way, that scholars are studying different institutions at different levels. What really happens is, that different paradigms lead to varying ontology and epistemology and thus different methodology (Bartenberger, 2012).

Institutionalism	Rational Choice	Historical	Sociological / Discursive
	Positivism	Critical Realism	Interpretivism
			Constructivism
Approach	Context-specific theoretical modelling, qualified parsimony	Agency both historically and institutionally, with logics of path dependence	Agency culturally and institutionally, with logics of appropriate conduct
Assumptions	"Calculus" approach - actors are instrumentally rational	Actors display a combination of "cultural" and "calculus" logics	"Cultural" approach - actors follow norms and conventions
Method	Deductive mathematical modeling (where possible)	Deductive - inductive theoretically-informed: historical narrative	Deductive - inductive often statistical, sometimes narrative
Definition of institutions	"Rules (incentives) of the game" (North)	"Formal and informal procedures, routines, norms and conventions" (Hall)	"Socially constituted and culturally framed rules and norms" (Schmidt)
Institutional change	Exogenous shock, fixed preferences, stable institutions	Exogenous shock, at critical junctures until new punctuated equilibrium arises	Exogenous shock, diffusion of a pre-existing institutional template until again appropriateness arises
Change via ideas	Interest shifts through RI political coalitions or HI	Incremental change through layering, drift, conversion	Change via a discursive process (Merger with Discursive Institutionalism?)

Figure 6 – The ontology of New Institutionalism

Source: Adapted from Hay (2006, pp. 57) and Schmidt (2010, pp. 5, 20)

Again this is the explanation why even the scholars within new institutionalism cannot and do not have to agree on a common definition of ontology. For new institutionalism this implies, that based on the ontology institutions are actually defined in different ways. Definitions range from incentive structures, which promote efficiency (RI /

Positivism) to parity of formal institutions and culture (SI / Interpretivism, Constructivism). Accordingly, Hall (2003) posits that ontology refers to the character of the world as it actually is. On the contrary for Colin Hay ontology should not be defined as 'the world as it actually is' but instead as 'the world as political scientists assume it to be' (Stanley, 2012). Though Hall is by far not a positivist his idea of ontology clearly is, while Hay who actually defines it very interpretist is probably a constructivist. Hall may be seen as a critical realist and his plea for systematic process analysis (2003) is in line with that. The main difference between a positivist and a realist is the realists believe that there are interdependencies between phenomena, which cannot be directly observed, while the positivist with his direct access to reality has no problem observing. Nonetheless, both agree that there exists a reality independent of our knowledge of it, open for causal explanation. Hay who developed the idea of 'constructivist institutionalism' would probably be very critical to the concept of causality, which realism and positivism share. A constructivist is much more interested in how and why preferences are formed and how they relate to strategic aims of powerful interests in society. Now for interpretivism reality is just socially constructed and therefore must be subject to our interpretation that makes an objective analysis impossible, as knowledge is theory laden. Due to continued interpretivist criticism a new form of realism called critical realism has formed: For critical realism outcomes are affected by their social interpretation/understanding, nonetheless social phenomena exist independent of human interpretation. Therefore, structures do not determine, but they constrain and facilitate, which allows for reflexive agents who interpret and can change structures. Nevertheless, researchers knowledge of the world is fallible and theory laden, which requires to both understand the external reality and the social construction of that reality to explain relations between social phenomena (Furlong & Marsh, 2002).

Apparently, Schmidt had revised her paper on new institutionalism in 2010 reconsidering the insurmountable differences. She realizes that scholars actually use their particular approach as part of a discursive strategy to propound their own particular normative views of capitalism:

The dialectical position that uses the easiest way out of all the misery is SI simply because, if national forms of capitalism are culturally embedded and if culture differs between nations they are therefore incomparable. This is a normative discursive strategy to counter attack any kind of internationalised order on national economies. In an RI view of capitalism a convergence into a single neo-liberal model is inevitable, because the structure of economic incentives favours utility maximization based on rational choices by all economic actors as *homines oeconomici*. Now based on that RI scholars in favour or against neo-liberalism can start a normative discursive strategy aimed

on convincing people to accept it or to criticize it. For HI Schmidt (2010) goes even further and sees it especially when combined with RI, using a calculus approach, as inexorable. This in her view especially accounts for the VoC approach of Hall and Soskice, because it employs a divergence into two systems based on the differing path-dependent logics of coordination in LMEs and CMEs. Scholars who argue that there is place in capitalism for something apart from a liberal market are by nature opposed to pure neo-liberal capitalism. They are engaged in a normative discursive strategy aimed at convincing people to accept the possibility of at least two models of capitalism.

For research towards the Mittelstand's family firms, I especially like the idea of historical institutionalism to combine the logic of culture and calculus that the actors show. This in my view is nothing else than the combination of financial and non-financial goals or SEW. Here SEW may be informed by the path-dependent development of the German Mittelstand through history in the form of formal and informal procedures routines norms and conventions, that for Hall (2003) represent an institution.

3.1.2 Applied research for historical institutionalism

For research in the area of historical institutionalism Hall described in his 2003 paper the development of historical comparative analysis (HCA) and suggest not to follow the current fashion of science in this area, but to use a method called systematic process analysis (SPA). Though Hall wrote a paper (2006) on how and when to use systematic process analysis he somewhat stays broad when it comes to advice regarding the practical enactment of this method. He envisions a four step process: 1. theory formation, 2. deriving predictions, 3. observation and finally conclusion. Judgement is not only based on comparing the observation against one theory but against its principal rival as well. As an example for SPA he uses Owen's 1994 work on democratic peace. A historical sociology based case study, which analyses why democratic states tend not to go to war with other democratic states. Apart from the problem of how to tackle small-n research, which basically is the question how to conduct research, if the sample size is too small to allow for statistical testing, Hall acknowledges that SPA has high affinities with critical realism. In addition, the whole school of historical institutionalism is ontologically very near to critical realism. Therefore, in the following section it is assessed how critical realism influences methodology regarding case study research.

3.2 Critical Realism

Over the past four decades, critical realism has become a popular framework for research in the social sciences. As a way out of the positivist/ constructivist paradigm wars of the 1980ies critical realism uses the best from the two worlds to create a distinct scientific philosophy of its own – essentially becoming a new paradigm itself. At present, the literature regarding critical realism can be divided into two categories, the first being high-level philosophy of science. This is the starting point from which the concept developed beginning with the works of Bhaskar in 1975 and amongst other being further developed by Collier, Danermark and Sayer. The second category of literature deals with empirical research meant to explain social problems or inform policy, and that therefore does not focus on a detailed description of the methods used (Fletcher, 2017). Due to Fletcher, the main problem with critical realist literature at present is the lack of applied critical realism case research, especially when it comes to the process of data coding. Therefore, in the following section the ideas of Easton and Wynn and Williams will be analysed on how to conduct critical realism based case study research. First, the ontological and epistemological assumptions of critical realism are described in subsection 3.2.1 and the critical realist explanatory framework is presented in subsection 3.2.2. This shall enable the evaluation of critical realism's methodological impact, which is discussed in subsection 3.2.3 and the approaches for critical realism informed case study research, which are presented in subsection 3.2.4. The last two subsections deal with the challenges of applied case study research based on critical realism as it is used in historical institutionalism 3.2.5 and a very compelling solution to the afore presented challenges in subsection 3.2.6.

3.2.1 The Ontology and Epistemology of critical realism

According to Wynn and Williams (2012) there are four main ontological assumptions in critical realism: 1. There exists an independent reality apart from our knowledge of it, 2. Reality is stratified into three ontological dimensions the real, the actual and the empirical, within these dimensions mechanisms, events and experiences can be found, 3. Emergent powers depend upon but are not reducible to lower level powers and 4. Reality is an open system. Easton (2010) actually employs eight basic assumptions of critical realism. In addition to Wynn and Williams he incorporates the epistemological dimension within the basic assumptions. As Furlong and Marsh (2002) explain,

for critical realism researchers knowledge of the world is fallible and theory-laden, which requires one to both understand the external reality and the social construction of that reality to explain relations between social phenomena. In addition, Easton already employs the critical realism framework of objects/ entities, structures and concepts. For critical realism outcomes are affected by their social interpretation/understanding, nonetheless social phenomena exist independent of human interpretation. Therefore, structures do not determine, but they constrain and facilitate, which allows for reflexive agents who interpret and can change structures (Furlong & Marsh, 2002).

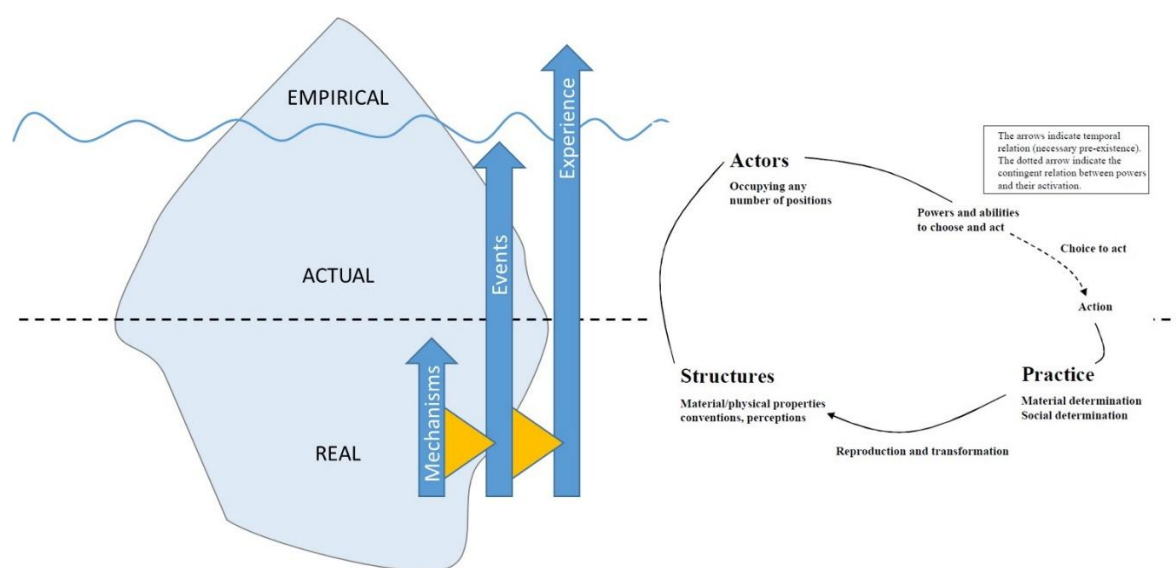


Figure 7 – Stratified reality and critical realist framework

Source: Adapted from Bhaskar (1975, p. 13) and Aastrup (2000, p. 8)

The stratified ontology of critical realism dictates that in the domain of the real mechanisms are at work, which lead to events in the domain of the actual and are observable in the empirical domain by a researcher. Therefore, towards causation the researcher wants to identify or theorize the underlying mechanisms accountable for a certain event to happen. Apart from the instability of the circle between agents, practices and structure made up of objects/entities with their powers and liabilities it is clear that mechanisms are not observable. Now the issue with the unobservability of mechanisms is that to prove a certain mechanism's influence is with the current means not possible. Therefore, researchers should be ready to accept that critical realism's causation based on mechanisms leads to multifinality or equifinality. In consequence, the explanatory power of hypothesised mechanisms needs to be ranked via judgemental rationality to select the best possible explanation (Aastrup, 2000; Wynn & Williams, 2012).

Due to the focus on mechanisms, critical realism faces issues linked to the very basis of its ontological assumptions when it comes to generalization or even prediction. While explication of a certain set of the mechanisms, which generated a certain event is possible prediction is rather difficult. This stems from the idea that structures are subject to constant change and only a partial reproduction or invariance is possible. A way out of this misery are so called demi-regularities. Demi-regularities are the repeated realization of causal mechanisms, based on rather invariant tendencies in a specific region of time and space. Due to Wynn and Williams demi-regs can be used by researchers for explanation in two ways. A phenomenon which regularly occurs in a comparable contextual setting is not the starting point for prediction, but the researcher is able to analyse the existence and activation of a mechanism in a given setting. In contrast, if in a comparable contextual setting an expected phenomenon does not occur and environmental factors lead the researcher to expect a manifestation of mechanisms, these contrastive demi-regs may change the view of causal mechanisms at work. Thus, demi-regs offer a way of limited generalization and explanation of causality. Another important assumption of critical realism is that our knowledge of the world is fallible and theory-laden. This leads to the idea of mediated knowledge. Due to the stratified ontology of critical realism our knowledge of the world is split into a transitive and intransitive dimension. The intransitive dimension is the domain of the real where mechanisms are at work. The transitive dimension includes researcher's observations and their theories. A perfect match between theories and reality is unlikely, but over time, this should improve. Reality or the intransitive entities of the world will not change, but the transitive dimension – our knowledge of the world will (Wynn & Williams, 2012).

3.2.2 The critical realist framework

According to Easton (2010) objects or in a broader sense entities are the theoretical building blocks for critical realism explanation. Basically objects / entities are everything we encounter, may it be human, social or material, e.g. people, relationships, attitudes, inventions and ideas etc. Within their nature, entities possess an array of powers and liabilities, which may or may not be enacted in a given context to generate the events manifested as empirical experience. Entities can be internally linked which turns them into structures. The interaction between different entities within a structure results in certain characteristics and tendencies, but these features cannot be reduced to entities/objects they consist of – as the whole is more than the sum of its parts. Social structures feature several characteristics, which make them unique. They can limit and enable social activities, which again can be

reproduced or transformed by these activities. Most importantly, social structures cannot exist independently of agents' interpretation, since agents need a certain understanding to legitimize their own actions and to understand actions of other agents. Mechanisms therefore are at the centre of causal explanation: Structured entities by means of their powers and liabilities act and cause particular events. Easton (2010) sees the term mechanism as problematic, because in his view it implies clear structure and invariance in operation. He prefers the term deep processes or generative mechanisms (Easton, 2010; Wynn & Williams, 2012). Properties of a given structure emerge from the interactions between the components and their causal powers and liabilities, but do not enable the structure to be defined by itself. For Easton emergence of events must always incorporate some element of connectedness, as understanding of the social world is not possible by focussing on a single individual in isolation. In addition, reality in a critical realism perspective is an open system. Unlike in the natural sciences we cannot turn reality into a closed system, whereas in an experiment external influences can fully be controlled for. Now the basis for stability and change of structures or, in the words of critical realism, reproduction or transformation are necessary and contingent relations between entities. Actors with their interpretation of social structures, which are a necessary condition for all intention and therefore need to pre-exist, have in a contingent relation the powers and abilities to choose and act. But while actors are not able to create social structure they are able to transform or reproduce them, by activating certain practices, which again are subject to social interpretation as they feature a material and social duality. To sum up, it needs existing structures in which actors perform behaviours which may lead to reproduction or transformation. In Easton's view, the theoretical frameworks selected by the researcher govern the difference between necessary and contingent relations. For him all events need to be explained by a combination of necessary and contingent relations, because if all relations were contingent then each explanation would be unique and incapable of contributing towards anything by way of generalisation. Invariance and reproduction of structure, nonetheless the structures are subject to some transformation, is critical, because theory building and progress only then become possible (Aastrup, 2000; Easton 2010; Wynn & Williams, 2012).

3.2.3 Methodological Principles obtained from critical realism

While Easton does not provide a lot of advice on how the ontology and epistemology of critical realism influence methodology, Wynn and Williams present a rather elaborate handbook on how to evaluate and conduct critical realism as a methodological principle based on their assessment of various critical realism case studies in

information systems. They propose five methodological principles, which should be employed in explanatory case studies. Their methodological principles are not intended to be used in a certain order, but in a dynamic and iterative process: 1. Explication of events, 2. Study of structure and context, 3. Retroduction, 4. Triangulation/Multiple methods and 5. Empirical corroboration.

The last two methodological principles act more like checks and balances towards explication of events, structure and retroduction. The explication of events should be supported via triangulation and the use of multiple methods, while retroduction should be subject to scrutiny via empirical corroboration. For the explication of events it is important to perform an abstraction of experiences. This means that in an orderly way elements of physical and social structure, agency, and the contextual environment, relevant for causality, need to be identified. All key actions and outcomes together with the structural components involved need to be presented. This includes the chronology of events and its interdependence with change. This is the reason why thick description is so popular in case studies based on critical realism. To assess structure and context it is necessary to deal with the powers and liabilities of the multiple structures, which is probably very complex, keeping their theoretical instability in mind. As a solution Wynn and Williams advice to focus on areas most relevant for the given research objectives. They employ examples like the relevant time horizon and appropriate boundaries for the inquiry, e.g. department or firm. Retroduction is at the heart of critical realism, because it is the process of conceptualising the hypothetical mechanisms. Here the motivations and beliefs of the actors, which lead to a certain action can be included, whether they were stated or inferred. The scientific gain behind this can be the degree to which these beliefs may be out of phase with the real nature of the structures in which the actions occur. Retroduction will lead to the identification of multiple causal mechanisms. The way to get to a selection of a most likely theory or in other words the evaluation which causal mechanisms do have a superior explanatory power is the concept of empirical corroboration. Therefore, the mechanisms are challenged with the empirical evidence available in the case. Wynn and Williams practical advice for empirical corroboration is longitudinal research. Triangulation and the use of multiple methods is again something in the way of a proof of concept. As Wynn and Williams describe it the idea is not repeated confirmations of event, structure, or context specifics, but improved abstraction via multiple data sources and ways of analysis, e.g. interviews, archival data, documentation, observation, or physical artefacts (Wynn & Williams, 2012).

3.2.4 Approaches to conduct case studies

Easton (2010) provides case study-specific advice, nonetheless he states that critical realism as such is open to a wide variety of research methods. The choice of a specific method depends on the objects to be studied and is the researcher's prerogative. Based on Sayer (1992) he employs the distinction between extensive and intensive research, which for him is not identical to the survey analysis/case study or ethnography distinction. Interestingly though maybe not identical, this distinction describes the difference between intensive and extensive very well. Easton advises a five-step approach, for intensive research to conduct critical realism based case studies: 1. Decide on the phenomenon (or phenomena) that are the focus of study: clearly bounded but complex phenomena, e.g. organizations, intra-organizational relationships or nets of connected organisations are well-suited to case studies. Less suited is the study of individual behaviour, but still possible. 2. Identify the nature of the research question. The research question always needs to be focused on the search for what caused the events associated with the phenomenon to occur. Only recording and analysing the events as the result of actors' behaviours allows one to understand the social phenomena. 3. Define entities/objects. According to Easton it is critical for researchers to deal with structures right from the start, even though the conceptualization may change over time as the definition of entities/objects is an iterative and dynamic evolution during the whole research process. 4. Collect data: Easton takes the easy way out and just advises one to focus on the areas which the researcher considers necessary to hypothesize causal mechanisms. The last step is interpretation: Easton stresses the double hermeneutic problem and advises researchers to at least be aware of it. He emphasises that data collection should be carried out until epistemological closure, including deductive and inductive cycles of data collection. Thus for him, retrodution is basically the repeated use of deduction and induction, to pave the way for the identification of the underlying mechanisms. Regarding the problem of multiple possible mechanisms, which may cause the events he proposes to use judgemental rationality to evaluate them, by comparatively assessing existing arguments in order to advance nearer to the true nature of reality.

For Wynn and Williams, apart from their assessment concerning the impact of methodological principles, three aspects of case study research are especially important for critical realism. 1. The Research question needs to focus on underlying mechanisms, leading to the how and why questions typical for explanatory case studies. This demands a retrospective research approach, because the events must have already occurred or are ongoing. 2. Case selection is based on the explanatory powers regarding the underlying mechanisms and not focused on

generalizability. The dominant approach are ideographic case studies with an intensive examination of events occurring in a single structure. 3. For Wynn and Williams, generalization derived from critical realism case studies is generalization through theory. In critical realism, generalization is not statistical inference from a sample to a broader population, because it is highly unlikely to identify similar outcomes by replicating a study in a different environment. Generalization for critical realism is an answer through theory as to how mechanisms may lead to a similar or different outcome in different settings.

In essence, the approaches of Easton and Wynn and Williams are quite similar, though Wynn's and Williams's principles provide a more structured framework. Perhaps looking for advice regarding the main object of analysis, which often is an organization, Vincent and Wapshott (2014) focused their work on how critical realism can be leveraged for organizational case studies. Based on Elder-Vass (2010) they developed a framework on how to manage causal mechanisms, which may be at work in organizations. Due to the framework, causal powers of different levels within an organization interact. Therefore, it is required to differentiate between upwards causation and downwards causation, in addition to the way one entity affects others at the same level. Furthermore, there are distinct causal influences related to norms and rules (normative powers and potentials) and organizational configurations (configurational powers and potentials) on the other. The archetypical example for organizational configurations is Adam Smith's division of labour. In a less rigid idea, it is the specific combination of efforts rather than the power of an individual employee. Thus, four forms of causal processes are common in organizations:

1. Downwards normative causal explanation: Descriptive analyses and theories combined to explain how normative expectations within context (cultures, laws, ideas, strategies, etc.) influence the causal properties of institutional mechanism analysed.
2. Upwards normative causal explanation: Descriptive analyses and theories combined to explain the ways in which normative practices within the organization influence the causal properties of the institutional mechanism studied.
3. Downwards configurational causal explanation. Descriptive analyses and theories combined to explain how the properties of broader organizational systems (possibly at multiple levels) interact to influence the causal properties of the institutional mechanism studied.
4. Upwards configurational causal explanations: Descriptive analyses and theories combined to explain how subunits are formed to influence the causal properties of the institutional mechanism studied.

Based on the forms of causation the researcher should conduct a four step process for a case study as envisioned by Vincent and Wapshott: 1. Configurational analysis, i.e. how actors and groups are articulated and positioned, 2. Normative analysis, i.e. how the people tend to respond to their situations, 3. Field analysis, i.e. how broader contextual conditions manifest themselves within the case and 4. Institutional explanation, i.e. combination of the first three steps to explain the origins of causal powers and potentials of the emergent institutional mechanism. In addition, Vincent and Wapshott employ a distinction between exploratory, exceptional and qualifying case studies.

In exploratory case studies, the aim is to discover the result, at a certain level, of a certain organizational development. These can either be known changes within the context (governance structures, legal regulations, strategic positions) or constituents (internal structures, normative practices). The key point is that the researcher is aware of a change that has occurred or is occurring with the case study being undertaken to see what happens as a result of the change. Exceptional case studies have the analytical purpose of working through the combination of forces, within and beyond the organization that provides a more adequate account of why the case does not do what the researcher might have expected. The qualifying case just means to qualify theory in relation to particular circumstances (Vincent & Wapshott, 2014).

Not surprisingly, Vincent and Wapshott's work may help to logically structure causal mechanisms, but again it does not provide much new methodological insight on how to get from data to mechanisms.

3.2.5 Critical realism and comparative historical analysis

Saka-Helmhout (2011) wrote that cross-national studies on organizational phenomena, e.g. multinational enterprises, international management, etc. are faced with complex patterns of interaction. Therefore, issues arise on how to compare cases and how to determine the causal connections between the multiplicity of causes and variations amongst others related to culture and history. Comparative historical analysis (CHA) is an approach often used in political science and historical sociology to deal with the issue explained above. CHA dates back to Mill's ([1843]/1967) methods of logical induction and combines detailed case studies with systematic comparison, thus cases must be theoretically sampled and comparable. The cases need to resemble each other in many respects except in the phenomenon of interest, so that unwanted causal inferences can be controlled for. This systematic comparison allows for significant theoretical leverage towards generalization. As usual, CHA cannot assist the case

researcher in managing qualitative data in the absence of systematic methods. CHA's goal is not to describe rich data but to seek control for comparability and generalizability (Saka-Helmhout, 2011).

CHA uses the method of agreement and the method of difference for systematic matching and contrasting of cases to reach common causal relationships by eliminating all other possibilities. The method of agreement seeks to eliminate all similarities reducing them to one or more combinations of conditions. The assumption of this positive comparative method is that, where more than one outcome across cases are common, there will be similarities in bundles of conditions, which are at least partially accountable for the outcome. When all of the possible causal conditions hold in the first case, then the method of agreement requires the researcher to analyse other cases of institutional change to try to eliminate some of the explanatory conditions. The elimination process continues until the researcher reaches a cause or a set of causes. If all cases agree on all of the conditions, these conditions would be taken as significant. However, because this method does not establish a cause and effect loop it cannot be used in isolation. Therefore, the method of agreement needs to be combined with the method of difference to control for false positives. The method of difference compares cases with different outcomes. It seeks the absence of a common cause or effect, even if all other circumstances are identical. It demands that cases where the phenomenon is absent are also included in the comparisons. Combined they enable the identification of bundles of conditions that account for variation in outcome. Charles Ragin (1987) extended Mill's method and developed qualitative comparative analysis (QCA). The logic behind Mill's method and Ragin's QCA is the same, but Mill's method is not open to equifinality, i.e. the possibility of different causal patterns leading to similar outcomes across cases. Equifinality is in opposition to Mill's assumption that similar outcomes in several cases must have a common cause that remains to be discovered. QCA allows for equifinality it applies the Boolean technique converting data into binary values, to identify causal regularities that are parsimonious as they can be expressed with the fewest possible conditions within the whole set of conditions that are contemplated in the analysis. For QCA there must be a minimum of five cases and the number of variables needs to be significantly lower than the number of cases. Both analytical methods create a typology of differing cases accounting for the same phenomenon, describe the state of multiple conditions at the occurrence or non-occurrence of a phenomenon, test different existing theories to empirical observations and enable building middle-range theory via the use of logical cases. CHA and QCA need to deal with another topic, i.e. in which conditions or combination of conditions are necessary or sufficient to result in a certain outcome. A condition is necessary for a certain outcome, if it is always present when the outcome

occurs and the outcome cannot occur without it. A condition is sufficient for a certain outcome, if the outcome occurs when the condition is present but it can occur without it or result from other conditions. To identify necessary and sufficient causes typological theory can be used. Thus theoretical types are constructed, which are systematically matched to decide whether cases follow patterns of correspondence consistent with necessary or sufficient causation. According to Saka-Helmhout, CHA is a deductive as well as an inductive method. It is deductive because it uses theory as a guideline in the search for similarities and differences between cases. CHA is inductive because the researcher decides which of the commonalities and differences are operative by examining empirical cases (Saka-Helmhout, 2011).

Saka-Helmhout's paper on CHA in international management research dates back to 2011 and does not mention or present any link to critical realism. In 2014 she wrote another paper combining critical realism with her take on QCA. Her main argument was that CHA can be used as a method to conduct case studies based on critical realism, because with CHA and QCA the causal mechanisms or deep generative processes and structures of phenomena observable in case studies can be inferred and most importantly the method allows for equifinality. In line with her previous paper and research, she argues that patterns of constant association can be identified with the combination of methods of agreement and disagreement. This allows the identification of a plausible set of causes for a given outcome based on a set of theoretically sampled cases. The idea behind equifinality in CHA is its openness to non-deterministic causation, i.e. a similar outcome across cases can be explained by a varying constellation of conditions. This is, in Saka-Helmhout's view, in accordance with Sayer's (1992) view that according to prevailing conditions, the same mechanism may sometimes produce different events, and conversely the same type of event may have different causes. Therefore, she sees CHA in line with critical realism - as a method where the development of causality follows an open systems approach with continuous cycles of data collection and reflection, plus a continuous exchange between data and theoretical ideas. In addition, she stresses the fact that CHA has a high leverage for generalization, if adequately applied to a small number of cases, e.g. four to eight. It is noteworthy for Saka-Helmhout that CHA enables a controlled examination of cases. All this leads to her final conclusion that with help from the critical realism perspective the traditional view that explanatory claims based on qualitative research have low validity can now be challenged.

	SPA (Hall, 2003, 2006)	CR Case Study (Easton, 2010)	CR Case Study in Information Systems (Wynn & Williams, 2012)	Organizational CR Case Study (Vincent & Wapshott)	Applied CR (Fletcher, 2017))	CHA (Saka-Helmhout 2011, 2014;
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						Bennet & Elman, 2007)
Case Selection	Researchers decision	Researchers decision, but intensive exploratory case well suited	Researchers decision geographic case study	Researchers decision, but open for exploratory, exceptional and qualifying case studies	Researchers decision	Theoretically sampled and comparable. For QCA minimum of five cases
Research process	1. Theory formation 2. Deriving predictions 3. Observation 4. Conclusion	1. Decision on the phenomenon 2. Identification of research question 3. Definition of entities/objects 4. Collection of data 5. Interpretation of data	1. Explication of events 2. Study of structure and context 3. Retrodution, 4. Triangulation/Multiple methods 5. Empirical corroboration.	1. Configurational analysis 2. Normative analysis 3. Field analysis 4. Institutional explanation	1. Definition of research question 2. Data Collection 3. Coding and Identification of Demi-Regs 4. Analysis Retrodution/Abduction	1. Systematic matching and contrasting of cases, by the method of agreement and difference 2. Application of QCA 3. Identification of necessary and sufficient conditions for causation
Inference method	Deductive	Inductive/Deductive cycles	Retrodution as a mix of induction/deduction	Inductive/Deductive	Retrodution is very similar to abduction	Inductive/Deductive

Table 6 - Summary of Case study approaches

Source: Author

Geoff Easton has probably written one of the most cited methodological papers on how to conduct case studies based on critical realism. Interestingly the main focus of his paper is not a clear method focused advice on how to conduct case study research, but to explain and translate the philosophical critical realism approach so that it can be used as an ontological and epistemological basis for case study research. The paper of Wynn and Williams tries a lot harder to structure critical realism in order to gain insight on how this paradigm may influence methodology. Still even if their approach at a first glance may seem a lot more straightforward, it does not differ from the advice given by Easton. Vincent and Wapshott have focused their work especially on the organizational case study and again how it may be impacted by critical realism. Their novel insight is based mainly on a way to clearly structure hypothesized mechanisms in organizations. This can be very helpful for researchers in order to structure their thoughts while envisioning potential mechanisms for organizational case studies during retrodution. What it again does not provide is help regarding qualitative data processing and coding; Fletcher (2017) is quite right when she highlights that problem. She argues that, if a researcher is not going in the direction of grounded theory and thick description as a method for a critical realism-based case study, there is the need for the researcher to find his or her own solution for a method. Fletcher used a primary deductive but flexible coding process based on existing theory and literature for qualitative research. Saka-Helmhout agrees with Fletcher, because she points out that CHA cannot assist the researcher in managing qualitative data in the absence of systematic methods. Nonetheless, the state of the art approach to conduct critical realism informed case study research in the area of historical institutionalism is probably CHA. What is somehow worrying is the fact that many assumptions of CHA/ QCA are focused on creating a more thorough method for generalization and controlled examination of cases. While the openness for equifinality aligns CHA with critical realism its approach towards controlled examination and

generalization does not really fit to critical realism. This may be the reason why Hall does not want to use CHA/QCA and lobbies for SPA, because the way he describes SPA puts it more into the area of classic qualitative research. In other words, SPA's blurred definition allows for more methodological leeway, which suits many qualitative researchers as they consider data analysis an art that is performed by the experienced researcher in a way that is hardly communicable (Saka-Helmhout, 2011). In summary after evaluating, the various approaches the best option for research regarding the Mittelstand as an institution, i.e. historical institutionalism and is systematic process analysis based on critical realism using explanatory case studies. Therefore, this research uses this approach and follows Fletcher's (2017) example.

3.2.6 Solution to carry out retroduction based on pragmatism

The main problem remains that there is a lack of applied case study research in critical realism and, in particular, a clear explanation on how to carry out retroduction is missing. Systematic process analysis, as the best option for research regarding historical institutionalism, however does not offer a solution on how to carry out retroduction. Nonetheless, in information system research there is a promising solution for this problem and in my view the only one that provides logical insight and does not remain blurred as a secret of the experienced qualitative researcher. For Deepak Saxena (2019), retroductive analysis is considered an iterative process within critical realist research. He describes the various views of retroduction in critical realist research citing Peirce, Chiasson (2005) and Danermark's (2002) ideas, which actually changed over time at least for Peirce: In the beginning retroduction was used interchangeably with abduction by Charles Peirce. Later, Peirce changed his stance and saw retroduction as a mode of inference on par with induction and deduction. For Chiasson, retroduction literally means following a hunch on underlying mechanisms, while for Dannemark the key element of retroduction is redescription and recontextualisation of structure and events. Accordingly, if abduction is viewed like this retroduction becomes a recursive application of abduction, induction and deduction. Hence, retroduction is for Saxena more iterative and creative as the researcher is constantly moving back and forth between data and explanation. Furthermore, for Saxena, retroduction is considered to involve transfactual thinking. The researcher has to think beyond the observable and factual events and theorise on underlying mechanisms. Only with an iterative process the researcher improves the understanding of the mechanisms, while fulfilling the need to advance from the empirical to a conceptualisation, and importantly a contextualisation, of the conditions that produce those events.

Saxena furthermore employs specific guidelines for coding towards retroduction based on pragmatism. He acknowledges that there is a lack of clear advice regarding methods for critical realist retroduction as for critical realists that might hamper the creative and intuitive process (Wynn & Williams, 2012). However, Saxena employs some advice based on the work of Tsang (2014). Tsang uses the work of Bertilsson (2004) regarding the elementary forms of pragmatism for his advice on how to conduct critical realist cases studies for information system research. Bertilsson explains that Charles Sanders Peirce is generally regarded as the most removed from practical application. Instead, Peirce is seen as the most scientific of the classical pragmatists. Umberto Eco took one of the key concepts of Peirce, i.e. abduction and has shown that abduction is as equally central in the writing of detective stories as it is in the making of science. Furthermore Bertilsson states, that recently, abduction has gained a renewed interest in different versions of critical realism. In this case, abduction gains interest as a mode of theoretical inference.

So what does this actually mean? Bellucci (2018) explains regarding Eco's stance on abduction in his 1988 work: 'Horns, hooves, insteps: Some hypotheses on three types of abduction', different approaches to abduction and interestingly Eco uses abduction in his novels as well. The monks William of Baskerville and Adso of Melk we all know from Eco's novel the 'Name of the Rose' perform abductive reasoning regarding the outward appearance of a horse called Brunellus, that escaped his keepers. The reasoning starts with a hypothesis that is suggested by abduction from data as signs, and is subsequently explicated by deduction and verified by induction. Umberto Eco based his story of the lost horse Brunellus on Voltaire's Zadig. In the third chapter Zadig abduces some of the features of another lost horse. Here the king's horse got lost and is searched by the royal officials. Eco analyses Zadig's abduction in his 1988 paper and establishes that there are various types of abduction. In both stories, the investigators are able to deduce the features of the horse by the trail it left. In Zadig the marks of the horse's shoes are imprints, but because the imprints of the shoes are all an equal length apart they serve as a sign (a clue) that the horse has a perfect gallop. Furthermore, dust upon the trees is brushed off on both sides of the road to a distance of three and a half feet from the middle of the road. This is a sign (a symptom) that the horse has a tail of said length. Leaves fallen from the boughs are a sign (a symptom) that the height of the horse is five feet. The touchstone has spots of gold on it and this is a sign (a clue) that the horse has bosses of twenty-three carat gold. Last but not least, the silver on the pebbles is a sign (a clue) that the shoes of the horses are shod with silver of a certain quality. All together, these signs form the image of a horse with certain characteristics. The signs by

themselves are indices (clues, symptoms, and imprints), but collectively they depict a horse, and are therefore the icon of a horse.

The inference of the horse Brunellus by William runs along the same lines: The imprints make William aware of the fact that a horse had passed the road, and the direction of the imprints is a sign (a clue) of the horse heading to the right. The form of the hoofs is a sign (a clue) of the horse's nature and again the equal length between the imprints is a sign (a clue) that the horse has a perfect gallop. Broken twigs alongside the road are a sign (a symptom) that the horse is five feet tall. The black hair left on the blackberry bushes is a sign (a symptom) that the horse is of that colour. Finally yet importantly, the fact that the cellarer of the monastery is leading the search party is a sign (a clue) that the horse is regarded to be the finest of the abbey.

In the same way, Zadig is able to infer the royal horse's appearance before grasping that in fact the king's horse is missing, William can infer the horse's shape before knowing what the search party is actually looking for. However, differing from Zadig for whom the dialog with the official is the verification of the horse hypothesis, William offers his Brunellus hypothesis to the monks before they even have the chance to tell him what is going on. The difference between the two abductions regarding the lost and, to the investigator, unknown horse is that Zadig's imagination of the King's horse is bound to the physical evidence, while William's description of the abbot's horse encompasses a creative abduction. That creative abduction is based on William's knowledge of the way various authorities describe the ideal horse and additionally on William's conviction that monks rely more on authority than on the evidence of their own senses (Bellucci, 2018).

Based on the ideas of pragmatism described above and thus according to Saxena or Eco there are four types of retrodution: 1. overcoded, 2. undercoded, 3. creative, and finally 4. meta-retrodution. In overcoded retrodution, the mechanisms directly stem from the literature, while it is the researcher's task to identify the appropriate mechanisms and to describe and contextualise the events using those mechanisms. In undercoded retrodution, the state of research in the area of interest offers multiple potential mechanisms and the researcher has to rank among the multiple possible explanations. In the end, the mechanism is chosen based on its explanatory power. In creative retrodution, research in the area of interest does not offer mechanisms able to explain the events under investigation. Therefore, the researcher has to create new mechanisms that fit the events. Ultimately, in meta-retrodution the empirical evidence does not fit the current scientific paradigms and thus the researcher has to consider a paradigm change.

3.3 Research Design

3.3.1 Rationale of Case Design and Case Selection

This research uses explanatory critical realism case studies (Wynn & Williams, 2012) of completed M&A projects in the core German Mittelstand, which resulted in the sale of companies by their family owner managers. While critical realism is open for a multitude of methods, case studies are best suited to develop causal explanations of complex events due to the unit of analysis being organisations and relationships. The research question looks for the underlying mechanisms that caused the events associated with the phenomenon to occur (Easton, 2010; Wynn & Williams, 2012).

The case study's research design follows Easton (2010) and is of the intensive type asking the question what produced change and assesses individual agents in context using interviews and qualitative analysis, to employ causal groups and to produce causal explanations that are however, limited to the situation studied so that testing is by corroboration. Notwithstanding that, the selection of cases follows a replication logic rather than a sampling logic, (Yin 2003), in that cases are able to support the development of theory and theoretical generalisation, based on demi-regularities. The quality of research is based on ontological plausibility, empirical adequacy and practical utility (Ronkainen & Wiltshire, 2021).

A case is defined as a single completed M&A project: It begins with the decision of a first-generation family firm owner manager to start the business exit process via the sale of his firm. The reason for the sale of the company is not bankruptcy, i.e. so called distressed M&A, but can be succession due to owner's age as this is especially for Mittelstand firms one of the main reasons to engage in M&A activities (Schwartz, 2019). The M&A project ends with the complete transfer of ownership to the buyer. In consequence, all cases are based on M&A projects in the form of acquisitions carried out legally as share-deals, i.e. with signing and closing of the sale and purchase agreement 100% of the ownership shares are transferred to the buyer. Thus, for the case studies the focus is on the pre-merger phase since during that period the buyer selection takes place, while the post-merger-integration phase is not in the scope of the research. For critical realism case studies, case selection follows the explanatory powers regarding underlying mechanisms as envisioned by the researcher and is not focused on generalisability (Wynn & Williams, 2012). Nonetheless, based on the review of the existing literature, the current state of research regarding family firm M&A and the German Mittelstand there are some critical decisions, which need to be addressed

regarding case design and selection. First, it is very important to select and explore cases from a consistent and comparable part of the German Mittelstand. In other words due to the heterogeneity of family firms and especially Mittelstand firms a clear definition is required to avoid comparing apples and oranges (Worek, 2017). Therefore, all cases stem from the same part of the German Mittelstand. All companies are part of the core or classic Mittelstand as defined by Pahnke and Welter (2019), i.e. the companies are independent, fully family-owned and most importantly, family managed. Second, following the replication logic all case studies focus on the same industry, i.e. the companies are engineering consulting firms in the construction branch of the German economy. Finally, the case studies explore companies, which are at a comparable state of the family firm life cycle, i.e. all companies are first-generation family firms and the owner-entrepreneur is still managing the company.

The IfM's 2018 study by Kay et al. expect for the period from 2018 until 2022 a number of approx. 150,000 enterprises with some 2.4 million employees in search of new owners. Usually a family business is only able to exist for 30 years on average and only 10% of all family businesses make it to the fourth generation (Sabel, 2015). The IfM study does not specify if all owners looking for a buyer are founders, however I think at least the majority will stem from that stage of the company life cycle. Therefore, it makes sense to focus at this area of the Mittelstand. Problematic for case selection and data generation is besides the absence of a generally accepted definition for Mittelstand companies their small size. Although the number of family-owned small and medium sized enterprises is high, due to their size they are not legally required to disclose financial information, nor information about a change in ownership (Venohr, Fear & Witt, 2015). Here the accessibility of data comes into play. The most important driver for case selection was comparability. Lack of comparability was one of the biggest criticisms of family firm research I found in the literature review. Thus, I wanted to ensure that my small sample of cases has as much homogeneity as possible. The definition and boundaries of the case are exemplified in figure 8. The information I was able to acquire was based on my personal network and therefore the access to the cases influenced their selection and composition. Therefore, the cases stem from my personal network of previous and current work. Especially cases drawn from my current workplace in the M&A department will lead to interviews with co-workers. Thus, both interviewee and researcher bias needs to be addressed. It is impossible to control for bias in qualitative research, the concern instead is a transparent process and a reflection on the influence of the researcher on the data. This includes a consideration of how the interviewee may have introduced bias to the results (Anderson, 2010; Galdas, 2017). The relation between the researcher and the respondents is detailed in the next section.

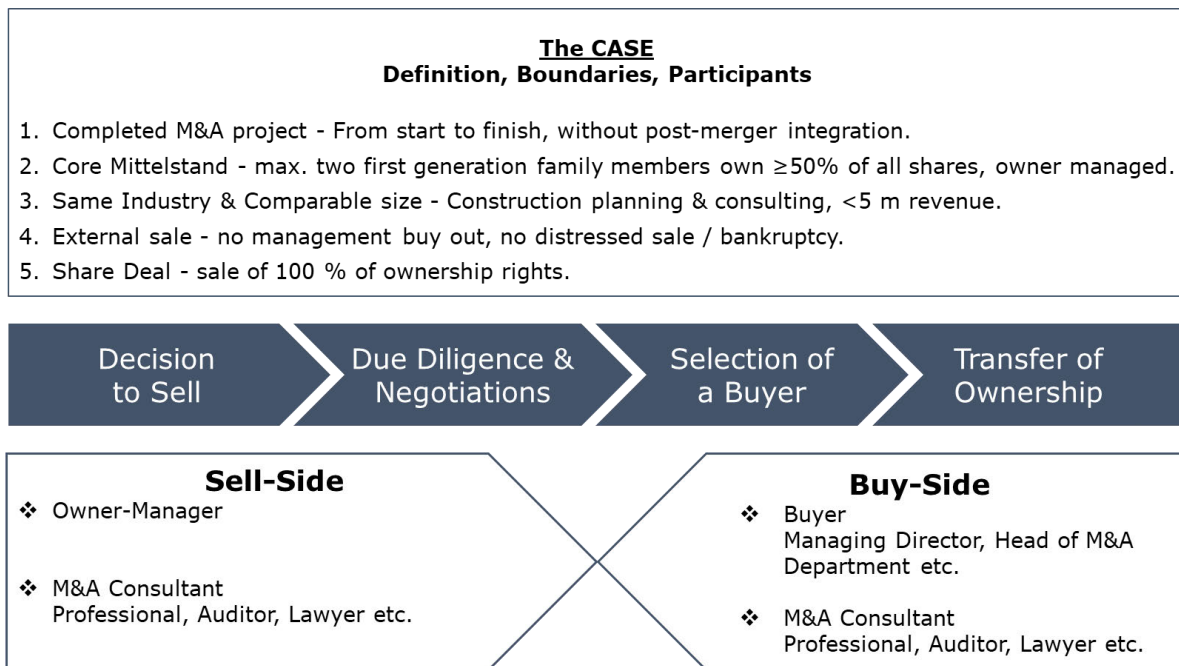


Figure 8 – The case
Source: Author

3.3.2 Method of Data Generation

This research employs evidence from three explanatory case studies of business exits via acquisitions in German core Mittelstand family firms. The main method of data generation were semi-structured interviews to generate qualitative data for the case studies. The development of the semi-structured interview questions and sequence followed the advice of Kallio, Pietilä, Johnson and Kangasniemi (2016). Their review of more than 2,700 research endeavours using semi-structured interviews led to the following advice: 1) Identify the prerequisites for using semi-structured interviews, 2) Retrieve and use previous knowledge, 3) Formulate the preliminary semi-structured interview guide, 4) Pilot test the interview guide and refine the guide.

For critical realism informed case studies, the focus lies on the individual perception of reality and how the actors make sense of their actions. However, it is important to corroborate and triangulate the data and gain insight from multiple sources, which was ensured by interviewing members of all stakeholder groups in an M&A project and trying to incorporate as much archival data into the cases as possible.

In total, I conducted 16 interviews with 15 individuals over a period of one year. For each of the three case studies I conducted five interviews. As advised by Parvinen and Tikkanen (2007) to reduce complexity a researcher may

use four simplified stakeholder groups involved in any M&A process, which are owners, managers, employees, and professionals. Based on the stakeholder groups for every case study I tried to conduct interviews with members of every stakeholder group. For the sell-side, I conducted interviews with all owners / sellers and some of their employees and professionals supporting them during the process. In addition to that, for every case study I conducted interviews with the buy-side, i.e. the management of the buyer, employees and professionals supporting the buyer during the process, i.e. M&A consultants. The only precondition for all interviewees was that they were involved in the pre-merger phase of the M&A project.

At first, I asked the respondent to tell the story of their involvement in the M&A process from start to end. In addition, I used some guiding questions to focus the interviews towards buyer selection - especially purchase price and its importance in comparison to other criteria for buyer selection, potential deal breakers and important stakeholders for decision-making. With the use of guiding questions, it is inevitable to engage in a dialog, which then again enables a deeper understanding of the interviewee's story. However, I only employed a guiding question out of my 16 guiding questions, if the interviewee did not mention the topic in his war story. In consequence, during the interviews only five to ten questions were asked. I constructed the set of guiding questions beforehand. The set was the same for all respondents, just amended to their own perspective according to their role in the M&A process. I created the set starting with the seller and amended it slightly for the sell-side consultant, then for the buyer and the buy-side consultant.

I started the data collection with a pilot case KNIGHT and refined the guiding questions during that process. After the pilot case I repeated the process for the second case CASTLE and third case study BISHOP. All respondents stemmed from my personal network as an M&A professional. Although two of the respondents were former direct co-workers at the time of the interviews both had already retired. I tried to create a forth case study KING, however after the first interview with the owner it turned out that the transfer of ownership did not happen by external sale but by a management buyout.

The interviews for the three case studies were sequenced in a comparable order. I always started with the seller, followed by the sell-side consultants and or employees. After that, I conducted the interviews with the buyer and the buy-side consultants and employees. However, I was not always able to conduct the interviews with the consultants and employees in that order, but I ensured that the sell-side was always interviewed first. All interviews were conducted in German and audio recorded. Before, during and after the interviews I took notes as well since

during the small talk the interviewees mentioned additional relevant information. Based on the audio recordings and my notes I transcribed the interviews first in German and afterwards translated the interview transcripts into English.

Interviews	Knight	Castle	King	Bishop	
Owner / Seller	1	3	1	1	6
Sell-side M&A consultant	1	1	n.a.	1	3
Sell-side lawyer			n.a.	1	1
Buyer managing director	1	1	n.a.	1	3
Buyer director M&A	1		n.a.		1
Buy-side M&A consultant	1		n.a.		1
Buy-side lawyer			n.a.	1	1
Interviews per case	5	5	1	5	
Interviews total					16
	<i>Former co-workers</i>				

Case and position	Fictitious name
Knight	
Owner / Seller	Frank
Buyer Managing Director	Werner
Buyer Head of M&A	Sven
Buy-side M&A Consultant	Martin
Sell-side M&A Consultant	Michael
Castle	
Finance Manager Owner / Seller	Uwe
Sales Manager Owner / Seller	Peter
Operations Manager Owner / Seller	Bernd
Buyer Managing Director	Holger
Sell-side M&A Consultant	Oliver
Bishop	
Owner / Seller	Stefan
Buyer Managing Director	Walter
Sell-side M&A Consultant	Jan
Buy-side M&A Lawyer	Dirk
Sell-side M&A Lawyer	Ralf

Table 7 - Overview of interviews and interviewees per case
Source: Author

In addition to the data gathered via the semi-structured interviews, further primary archival data was collected. I was able especially for the pilot case KNIGHT and for the third case BISHOP to access Emails, memos, meeting reports, contractual agreements, management files and external Due Diligence reports. Here different versions of documents were of special importance, e.g. the changes made to the sale and purchase agreements over time did not only represent the development of the negotiations but the changes of perception during the process.

Archival data	Knight	Castle	Bishop
Sales info package: Teaser, info memorandum / fact book, process letter, financial overview, budget, customers etc. provided to all potential buyers	X	X	X
Non-disclosure agreement	X	X	X
Letter of intent / indicative offer	(X)	(X)	(X)
Due Diligence reports financial, tax and legal	X		X
Sale and purchase agreement	X		X
Emails, memos, meeting reports	X	(X)	X
Press releases	X	X	X
<i>(x) partially accessible</i>			

Table 8 - Archival data

Source: Author

In two case studies (Knight and Bishop) I interviewed two former direct colleagues both of whom had been my superiors in the past. However, when I conducted the interviews both of them were retired or in the process of retiring. As an M&A professional, I was involved in one of the cases (Bishop) on the buy-side. Thus, intentionally I conducted the interviews after the transitional tenure period ended. Regarding one case (Castle) I had no previous connection to the interviewees. To control for bias as far as possible I used multiple sources of data and tried to corroborate the data gained from the interviews with all stakeholders and the archival data I was able to access.

3.4 Data Analysis

Data analysis followed the approach of Fletcher (2017) as well as Saxena and McDonagh (2020), but I adjusted and customized their way of implementation to my needs. Fletcher advises not to use grounded theory to conduct critical realist case studies. Her reasoning is that grounded theory avoids active engagement with existing theory during the analysis process, because inductive coding line by line to gradually develop higher-level codes that are grounded in the data avoids theory. However, critical realism requires active thought experimentation before research even begins, as its goal is to find the best explanation of reality through engagement with existing and

due to Bhaskar fallible theories about that reality. Hence, Amber Fletcher suggest a deductive but flexible coding process based on existing theories. Her second problem with grounded theory is that the inference process is inductive, while critical realism requires abduction and retroduction. Nonetheless, Fletcher acknowledges that grounded theory has become more flexible and is now able to accept theory in a less empiricist process. Likewise, Saxena (2019) used an analysis process that as such was not grounded theory but is based on it for his critical realist case study. He explains that, because he moved back and forth between data and theory his method was not classical grounded theory anymore. However, Saxena (2019) calls this approach not grounded theory but grounded inquiry or grounded theorizing.

Fletcher started in her case study with provisional topic-based codes and codes drawn from the literature. She changed, eliminated and supplemented these codes until every piece of text was coded. Afterwards she reduced the codes to a conceptual map and added critical realist informed nested codes like structure and agency as a parent coding structure. After repeated coding cycles, she was able to identify demi-regularities from the most dominant codes. In the next step she employed abduction to theoretically redescribe the demi-regularities and to identify the underlining mechanisms. Finally, she applied retroduction to identify the necessary contextual condition for a particular mechanism to take effect and to result in the empirical trends observed.

Saxena (2019) used a three-stage coding and analysis process to identify causal mechanisms. He employed induction to generate first order codes as advised by grounded theory. Furthermore, Saxena (2019) underlines that data collection needs to be multilevel to search for mechanisms operating across multiple levels. This multi-level approach enabled Saxena to employ nested codes to account for different levels, e.g. micro, meso and macro. For the second order codes, Saxena (2019) used deduction as the majority of the second order codes he employed were drawn from the literature. The final stage of his approach was to retroduce the mechanisms and build explanation. For this final stage of abduction he started with overcoded retroduction based on Eco (1983) and Tsang (2014) and moved to undercoded retroduction in his search for mechanisms in the literature with higher explanatory power.

Both Saxena and McDonagh (2020) as well as Fletcher (2017) used a single case design for their critical realist case studies. They emphasise that the data set has to be longitudinal to enable pattern matching across processes and they both employ nested coding, though Fletcher's approach is less rigid. Interestingly Saxena never uses the term demi-regularity. Not in his case study with McDonagh (2020) nor in his 2019 in depth reflections on how to

carry out retroductive analysis in a multilevel critical realist case study. However, in my view demi-regularities are a cornerstone of critical realism as they are the repeated realization of causal mechanisms, based on rather invariant tendencies in a specific region of time and space (Wynn & Williams, 2012). Therefore, I used Fletcher's idea towards demi-regularities. Demi-regularities in my case studies are basically the second order codes, while the third order codes are the underlying mechanisms. Towards nested coding, I took a different stance. Like Fletcher who employed critical realism informed nested codes like structure and agency, I did not try to force a three level nested coding structure on my data as proposed by Saxena. Notwithstanding that, I used the two levels already present in M&A literature regarding family firms, i.e. the division between the personal and business sphere of a family firm owner as a two level nested code. The narrative case reports follow Saxena's approach as well as retroduction, while Fletcher's tactic was used to conceptualise the mechanisms with a mind map.

3.4.1 Data collection and preparation

Following the approach of Saxena and McDonagh (2020) based on the interview transcripts and the additional archival data, I wrote a case report for each case study in the form of a descriptive narrative. The case report focuses on explaining the events, structure and context and enables the sought after thick description and interconnection of the process. Saxena (2019) advises researchers to provide pure description and refrain from analysis in the case report. According to this, the case reports for Knight, Castle and Bishop try to provide as much context as possible to contain and convey the richness of information stemming from the data, but avoid a premature analysis and introduction of theory. In accordance with Saxena's approach the case report was written as soon as possible after the interviews were conducted. For the transcripts that meant that, I already rearranged the audio recordings during transcription. Therefore, the written transcripts provide the chronological order of the events, which unfolded during each case. This was necessary as the interviewees were encouraged to tell their story of the M&A process and they provided anecdotes and events, which they thought to be of special importance and or which had made a lasting impression on them. Hence, unsurprisingly the interviewees did not always provide their narrative in a chronological order. Out of the five interviews per case and the archival data, I created the case report for each of the three case studies. The case narrative was constantly updated and improved as more interviews were conducted and as I gained access to additional archival data. I structured the case reports based on the generic pre-merger phases of Haspeslagh and Jemison (1991): (1) M&A strategy development; (2) Market

Search and Screening; (3) Strategic Evaluation; (4) Financial evaluation or Due Diligence; (5) Negotiation and (6) Contractual agreement. I added to the pre-merger phases a short history of the companies for sale to provide additional context. As the companies under investigation are rather small, a formalised strategy process did not exist. Therefore, I considered the first phase to represent the seller's strategic objectives. Furthermore, I added a preliminary buyer selection phase as the strategic evaluation and Due Diligence due to the size of the companies for sale required a pre-selection in all three case studies. Finally, I combined the third and fourth phase as they usually run in parallel.

In addition to the pre-merger phases, I added a time table with the most important process mile stones based foremost on the legal documents prepared and signed by the parties for further context and especially to connect the archival data to the case reports. I did this as Saxena underlines based on Langley (1999) that temporal bracketing is important during that stage. Temporal bracketing due to Langley is the decomposition of data into periods that do not have any particular theoretical significance. It enables the construction of comparative units of analysis for the exploration and replication of theoretical ideas. Therefore, it is useful if multidirectional causality will be incorporated into the theorization as required by critical realism. However, I consider my case reports a mixture of temporal bracketing and narrative strategy in the sense of Langley. The next step of the analysis following Saxena was the identification of mechanisms using retroductive analysis. However, I focused first on the identification of demi-regularities as proposed by Fletcher. To prepare the data for coding all interview transcripts were uploaded to QSR NVIVO.

3.4.2 Data coding

As proposed by Saxena (2019) I used induction to generate first order codes. Therefore, I assigned descriptive codes directly to a chunk of data. Saxena explains in accordance to Miles, Huberman and Saldaña (2013) that against the orthodox reading of grounded theory a researcher can assign codes to bits of text with varying length. Thus, I refrained from the microanalysis using line-by-line or even word-by-word coding and coded chunks. All interview transcripts were uploaded to QSR NVIVO and the subsequent coding happened using this software. As explained beforehand the first order codes are based only on the data and not on theory. In order to do so I summarised a part of text and assigned a word or a short phrase to it. For coding, I followed the same sequence as I did for the preparation of the case reports. Hence, I started with coding all interviews for Knight followed by

Castle and finally Bishop. Furthermore, the coding happened at first for the sell-side followed by the buy-side. Based on this approach I created 55 individual first-order codes. During the process, I created many more provisional codes but eliminated duplications and repetitions over time. As advised by Fletcher and Saxena I employed an additional nested code based on the personal and business level of the data. This nested code stems from the M&A literature regarding the motives of sellers to engage in M&A activities and seems to be generally accepted as described by Sabel (2015) and Wirtz (2017).

Text block	First order codes	Level
"The most important criterion was the purchase price - there was a 30% difference between the offers."	Importance of purchase price	Personal
"I also didn't want to degenerate into an extended workbench for a general contractor, which would not have been an option either."	Loss of independence	Personal
"I would not say I was on the verge of burn-out, but at some point it just became too much for me."	Work load	Personal
"In my view...there is a clear trend towards concentration in this market...and the question is simply whether we, as a small office, could have survived in this market environment on the long term."	Market concentration	Business
"... more freedom for employee development and training and therefore it simply needed such a potent partner."	Strong partner as buyer	Business
"...it turned out that the seller had taken in several large projects before the sale, which were very profitable during the initial stages of the project, but turned out to be loss-making...."	Project trouble	Business

Table 9 - Example first order codes

Source: Author

To create the second order codes I used deduction. Again, I followed the approach of Saxena (2019) and thus grouped the first order codes based on their underlying similarity. The second order codes were mainly derived from existing literature and therefore are inferred deductively. The nested codes regarding the level was continued as well. However, different from Saxena and in line with Fletcher I consider my second order codes to be demi-regularities as these tendencies showed up in all three case studies.

First order codes	Demi-regularities	Level
Purchase price most important for buyer selection	Optimal purchase price	Personal
Purchase price tax optimisation		
Purchase price vs. chemistry between buyer and seller		
Window dressing for purchase price optimisation		
Negotiate in parallel to get better purchase price		
Intimidating Due Diligence with external audit companies		
Tough contract negotiations		
Change of contact persons and loss of trust	Trust between seller and buyer	Personal
Chemistry and sympathy between seller and buyer		
Decision to sell based partially on gut feeling and persuasiveness of buyer		
Leave the company in good hands	Work environment for employees	Personal
Long-term future of the company		
Responsibility for employees		
Joint growth strategy with buyer	Business complementarity	Business
Strategic fit		
Succession planning and new strategy		
Synergies with potential buyers		

Seller as a walking asset	Transitional tenure period	Business
Seller to remain with the company after the sale		

Table 10 - Example second order codes or demi-regularities

Source: Author

3.4.3 Data analysis and interpretation

After identifying the demi-regularities, the next step in this research is interpretation or in critical realist terminology retrodution. Retrodution is the core process of critical realism, because the underlying mechanisms are conceptualised. In practical terms, this is carried out via abduction or theoretical redescription, where the theory laden fallible concepts of the researcher are challenged (Fletcher, 2017). However, there is no generally accepted standard procedure for retrodution, multiple cycles of inductive and deductive inference can be used as well (Easton, 2010). For this research, I used abduction based on the pragmatist approach of Saxena (2019) that is informed by Tsang (2014) and Eco (1983) as the method of inference. The result of the retrodution process are various possible mechanisms, which can explain the events in the M&A case studies. Critical realist mechanism based causation always leads to multifinality or equifinality (Wynn & Williams, 2012). Therefore, the last step is to rank the explanatory power of the hypothesised mechanisms via judgemental rationality or empirical corroboration to select the best possible explanation (Easton, 2010).

Based on the descriptive narrative and the second order codes or in critical realist terms the demi-regularities I created a causal explanation of explicit theoretical form as proposed by Saxena (2019). In order to do so I started with a mind-map like Fletcher (2017). With the mind-map I intended to create a critical realist framework as proposed by Aastrup (2000). In order to create the framework I arranged the pre-coded information, i.e. the demi-regularities and the nested code, i.e. business or personal level into a chronological order based on the descriptive narrative and the broader context. In accordance with the temporal bracketing, it became clear that the sales process was marked by a clear distinction between two main phases. The first phase encompassed the timeframe during which the owners made up their mind in order to come up with a strategy that led to the decision to sell their business. The second phase deals with the selection of the best possible buyer. I arranged the demi-regularities due to their explanatory power regarding the decisions taken by the owners and kept them sorted by the nested code. In consequence, I was able to assign four demi-regularities to the first phase: Succession issues, market change, financial and project struggle and work life imbalance. For the second phase that led to the selection of a buyer I was able to assign nine demi-regularities: Optimal purchase price, business complementarity, trust between

seller and buyer, financial and organisational rapport, avoidance of integration, transitional tenure period, entrepreneurial freedom, preservation of name and identity and work environment for employees. Furthermore, the importance of the demi-regularities for the decision making is represented by their ranking, i.e. succession issues were the most important demi-regularity for the decision to sell the business and the optimal purchase price was the most important demi-regularity for buyer selection.

As mentioned before demi-regularities are the repeated realization of causal mechanisms, based on rather invariant tendencies in a specific region of time and space (Wynn & Williams, 2012). Now the basis for stability and change of structures or in the words of critical realism the demi-regularities, i.e reproduction or transformation, are necessary and contingent relations between entities. Actors with their interpretation of social structures, which are a necessary condition for all intention and therefore need to pre-exist, have in a contingent relation the powers and abilities to choose and act. Nevertheless, while actors are not able to create social structure they are able to transform or reproduce them, by activating certain practices, which again are subject to social interpretation as they feature a material and social duality. Thus, it needs existing structures in which actors perform practises, which may lead to reproduction or transformation. In Easton's view, the theoretical frameworks selected by the researcher govern the difference between necessary and contingent relations (Easton, 2010). This is exactly what is happening in my critical realist framework based on the empirical evidence from the three case studies. The actors owner / sellers and buyers and to a limited amount their consultants have in a contingent relation the powers and abilities to choose and act in the structures and practices of an M&A project, which leads to the repeated realization of the demi-regularities, which are observable in all three case studies.

Starting with my mind-map, I applied various concepts from the literature to the demi-regularities in order to derive the underlying mechanisms. The mechanisms applied need to offer the most complete and logically compelling explanation of the events observed given the specific conditions of the contextual environment as Saxena (2019) explained based on (Wynn & Williams, 2012). I faced the same challenges that Saxena mentioned because the theoretical validity and generalisation via theory has to be assured when conceptualising the framework's mechanisms, thus the mechanisms have to be logically consistent, based on the demi-regularities and supported by the literature. I started with overcoded retroduction applying mechanisms that directly stemmed from the literature. However, I had to move to creative retroduction as none of the mechanisms available from the literature was able to fully fit without alterations and still explain the events. The mechanisms identified are based on existing

M&A literature regarding the engagement of family firms in M&A activities, but as mentioned before I had to amend, adjust and to combine them in a way of creative retrodution to make them fit to the case studies. In 2018 Gomez-Mejia, Patel and Zellweger applied the SEW concept to family firm acquisitions. They tried to solve the dilemma stemming from the trade-off between financial and non-financial goals. Apparently, the model of Gomez-Mejia, Patel and Zellweger to explain the acquisition activities of family firms is a very appealing path towards explanation, but as usual, it leaves the family firm as a target or as the seller out of the picture. Notwithstanding that, I applied the model of Gomez-Mejia, Patel and Zellweger, that was conceptualised for an acquisition situation to the three case studies of Knight, Castle and Bishop where a business exit happens via sale. Different from the situation conceptualised by Gomez-Mejia, Patel and Zellweger where a family firm buys another firm in a sale situation the mechanism works inversely. The hoped for financial gains are relatively certain, while the loss of SEW is uncertain. Similar to the findings of Gomez-Mejia, Patel and Zellweger however vulnerability seems to act as a booster in a sale situation as well.

The second mechanism, which enables to explain the actions of the sellers in the three case studies, is utility. Again, I based the mechanism on existing M&A literature. In 2010 Niedermeyer, Jaskiewicz and Klein evaluated the sale of family businesses from the family perspective. In their view, seller's satisfaction is based on utility, which again is a function of financial and non-financial factors. Their model assumes that the fairness of the decision-making process within the family to sell the business and the degree of freedom to sell the business are positively related to retrospective satisfaction of the seller. The same applies for the goal alignment between seller and buyer as well as the adequacy of the purchase price. However, I focussed foremost on their conceptualisation of utility for family firm owners in a sales process. Therefore, the two underlying mechanisms are seller's perceived vulnerability and perceived utility. Vulnerability is conceptualised as the absence of resource slack and / or below aspiration performance, that leads to M&A engagement in family firms. Utility means that the family firm owner is achieving the financial goals, while maintaining socioemotional wealth. In other words adapted from Gomez-Mejia, Patel and Zellweger that means money and heart act together, but money comes first.

Conceptualisation of underlying Mechanisms		
Second order codes / demi regularities	Third order codes	Mechanisms
Optimal purchase price	Achieving financial goals	Utility
Avoidance of integration & dissolution	Maintaining SEW	
Entrepreneurial freedom		
Preservation of name and identity		

Succession issues		
Trust between seller and buyer		
Work environment for employees		
Work life imbalance		
Business complementarity	Absence of resource slack	Vulnerability
Transitional period		
Financial and organisational rapport		
Market change	Below aspiration performance	
Financial and project struggle		

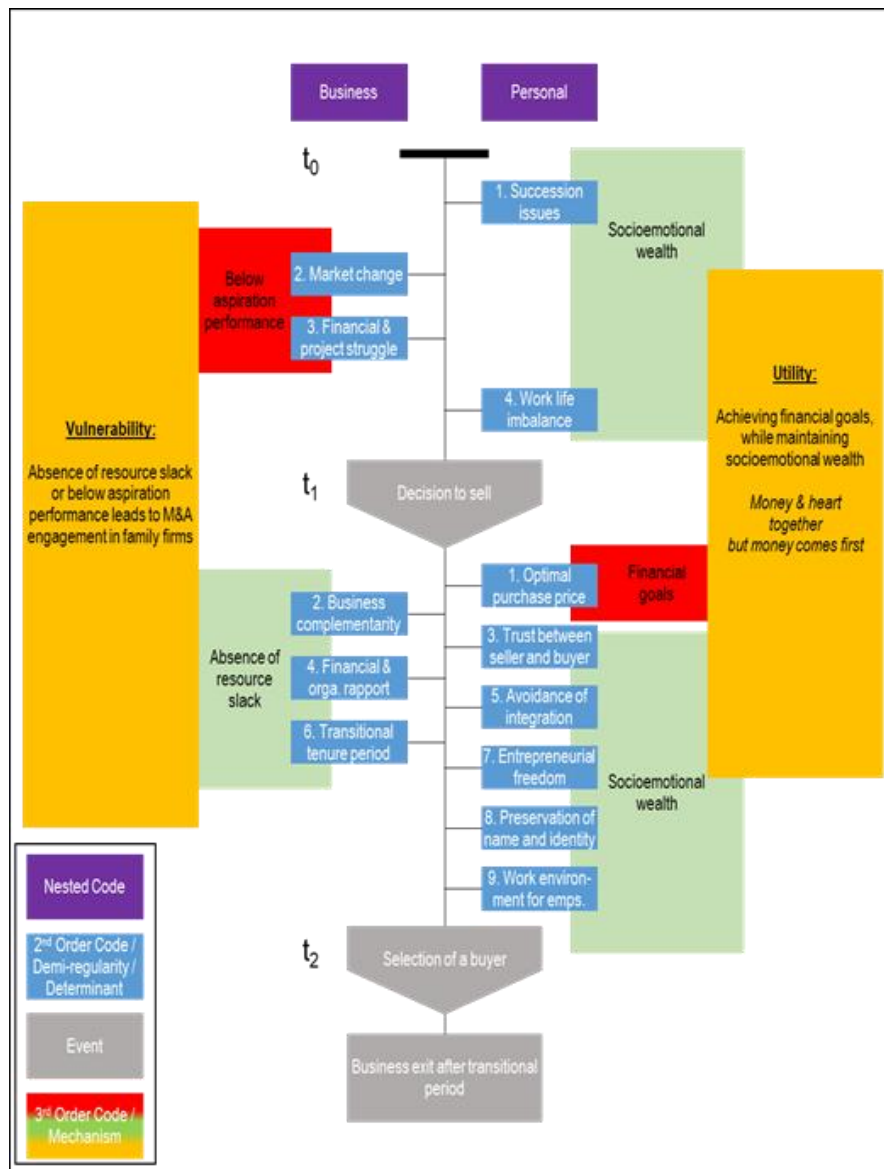


Table 11 - Conceptualisation of underlying mechanisms / Critical realist framework
Source: Author

3.4.4 Data Presentation

The data presentation starts with the case narrative of each case in the order they were constructed. In chapter four first, the case study for Knight, second the case study for Castle and finally the case study narrative of Bishop is employed. The case narrative includes quotations from the interviews of the respondents. As described before the narrative provides context, follows the pre-merger M&A phases and includes temporal bracketing as well as the most important process milestones. In the following chapter five, the acquired data is analysed. An explanatory critical realist framework is employed that presents the identified determinants for buyer selection during the M&A process and their interrelation. The final chapter six presents the conclusions drawn from the research project. Here, the answers to the research questions are presented, contextualised in the literature and critically discussed, as is the development of the derived explanatory mechanisms following retroduction, empirical corroboration and triangulation. The key contributions to knowledge generated by the research are in turn presented and critically discussed, as are the limitations of this research and potential areas for future research and theory development in the field.

3.4.5 Quality of research

Scholars agree that qualitative research is a 'messy', non-linear and often unpredictable endeavour, therefore it cannot be presented as the result of a linear, predictable research process, thus wrongly suggesting deductive reasoning (Sinkovics & Alfoldi, 2012). In consequence, the quality of research in terms of trustworthiness (validity) as well as transparency of the research process needs to be assessed. In the following subsections my research's trustworthiness, transparency and the impact of my research paradigm are discussed.

3.4.5.1 Trustworthiness

Trustworthiness is a well-established approach to the evaluation of the quality or credibility of interpretive qualitative research. Lincoln and Guba (1985) proposed one of the most popular and generally accepted sets of criteria for the trustworthiness of qualitative research. In their view, four concepts improve trustworthiness: first demonstrating that researchers understand their context and data (credibility), second showing consistency and lack of bias in data analysis (confirmability), third providing enough detail for possible replication (dependability), and fourth

allowing for assessment of a study's outcomes in relation to other contexts (transferability) (O'Kane, Smith & Lerman, 2021; Haq, Rasheed, Rashid & Akhter, 2023).

Trust-worthiness	Credibility	Applicability / Transferability	Dependability	Neutrality / Conformability
Definition	Credibility shows the truth of data respondents' views and their interpretation.	Applicability offers the degree of application of the research findings in the exact nature of context, people, groups, and settings.	Dependability is the consistency of data over similar contexts. If the findings of one study are replicated in a similar population, condition, or context.	Neutrality is the degree of fairness of results, which consists of the purity of original responses of the study participants and free from every kind of biases
Strategies for improvement	Prolong Engagement at Site	Theoretical, purposive sampling	Overlap Methods (Triangulation)	Triangulation
	Persistent Observation	Thick descriptive data	Stepwise replication	Parecacing Reflexivity
	Peer Debriefing	Thick description	Audit trail	
	Triangulation		Audit process	
	Collection of Referential Adequacy Material		Coding record	
	Member checks		Triangulation	
	Structural corroboration or coherence		Expert opinions	
Strategies used to improve trustworthiness in this study are highlighted in green				

Table 12 – Quality of research – Strategies to improve trustworthiness
Source: Adapted from Haq et al. (2023, p. 160)

I used various strategies to improve the trustworthiness of my study as highlighted in green colour in table 12. The explication of structure, context and events providing as much detail as possible in the case reports (without premature analysis) supports in my view the assessment of outcomes in relation to other contexts. Furthermore, I used triangulation, as I collected data from semi-structured interviews and corroborated multiple respondents' views regarding the events looking at the sale process from different stakeholder perspectives. In addition to that, I used another data collection method, as I was able to access archival data of each sale process. The archival data together with the interviews enabled temporal bracketing, as I was able to follow the changing developments during the sale process, e.g. amendments to indicative offers or changing guarantees in sale and purchase agreements as well as press releases. I did not carry out longitudinal research as data was not collected over an extended period of time. Notwithstanding that, the archival data provides further triangulation, as it supports the empirical corroboration of the events. Concerning neutrality, the potential areas for bias were acknowledged and presented. Three of the respondents are former co-workers but they retired before I conducted the interviews or their transitional tenure period had already ended (see table 7, p.85). It has to be noted that I am not and cannot be free

of researcher's bias. I have a work background in M&A consulting and have conducted more projects on the buy-side than on the sell-side. However, using multiple sources for data generation (i.e. triangulation) also provides a degree of control for researcher's bias.

3.4.5.2 Transparency

A concern for transparency can enable the strengthening of credibility of a qualitative study, as it requires the asking and answering of questions about the congruence between methodology, the data analysis and the findings. This can only be carried out if there is firstly a clear, traceable and comprehensible audit trail of data creation and secondly, concerning the analysis, a clear description of the iteration between theory and data. Sinkovics & Alfoldi (2012) and O'Kane et al. (2021) advise the use of Computer-Assisted Qualitative Data Analysis Software as a tool to improve the transparency of the research process. For this research, I used QSR NVIVO and uploaded all interview transcripts to NVIVO, where they were subsequently coded. The complete code book is exhibited in the appendices (p. 227).

In the analysis (Chapter 5), I employ a clear trail from raw data (semi-structured interviews & archival data) to analysis in the form of a two-staged coding process together with another two nested codes. I include 13 tables (tables 16 – 28, at the end of each subsection 5.2.1-5.2.5 & 5.3.1-5.3.10) that show how a chunk of data was coded into one of the 55 1st- order-codes and how these codes were translated into the 13 2nd-order codes (demi-regularities). Furthermore, numerous direct quotes from the interviews or citations of archival data are employed in this chapter to support the analysis, following the advice of Discua and Hamilton (2022). There are multiple examples for the link of all codes for each of the three case studies to the findings connecting the case narrative and the timeline of events with the demi-regularities (see figure 10, p.156 and figure 11, p. 195). Concerning the creation of demi-regularities I followed established concepts from the literature (see figure 3, p. 35) and drew upon the seminal work of Graebner and Eisenhardt (2004), for example for organizational rapport and business complementarity. Furthermore, following Cloutier and Ravasi (2021) the use of tables is generally considered to enhance transparency as well as trustworthiness. Hence, the figures and tables I employed within this research follow their advice on how to establish a comprehensible audit trail.

In the conclusion chapter (Chapter 6) I explain how retroduction in the form of theoretical redescription allowed for the creation of the 3rd-order-codes that are the explanatory mechanisms (perceived vulnerability and utility) to answer the research questions posed in this study (see figure 12, p.198 and figure 13, p. 200 as well as figure 14,

p. 205). The links between the 2nd-order codes and the 3rd-order-codes are presented in the form of a figure (see critical realist framework table 11, p. 94 and figure 15, p.218).

3.4.5.3 *Critical realist perspective on validity or trustworthiness*

Joseph Maxwell (2017) explains that a realist understanding of validity leads to a very different approach to issues of quality, credibility, or trustworthiness than those usually employed in qualitative as well as quantitative research. This comes to no surprise as Lincoln and Guba (1985) stated that the traditional scientific quality criteria of internal validity, external validity, reliability and objectivity already have issues when dealing with qualitative research. However that does not mean that anything goes and validity does not matter for critical realism (Ronkainen & Wiltshire, 2021). While internal validity is desirable and achievable from a realist perspective as a study is required to be logically sound, external validity or in other words generalisation comes through theory building and thus requires construct validity. Reliability if it is understood as precautions for a research process that is logical, traceable and documented is compatible with realism, while a replication logic of an experiment is not. Objectivity or the accurate representation of reality however is completely incompatible with critical realism due to its stratified perception of reality (Yin, 2003; Wigren, 2007).

For Maxwell a realist stance on quality of research however is not concerned with designs or procedures but with the credibility of the interpretations and conclusions drawn from the research. In other words realist validity is ontological plausibility (Harré, 2012, as cited in Ronkainen & Wiltshire, 2021), i.e. how the researcher sets up the study's design, methods, and data to generate and test these interpretations and how possible alternatives are taken into consideration. At the core of validity for Maxwell is the context and purpose of the methods and approaches. Therefore, to ensure quality their appropriateness regarding the context needs to be assessed. Thus, there cannot be context-independent criteria for quality as the real quality is to obtain evidence that can deal with plausible threats to the validity of the interpretations and conclusions made by research (Maxwell, 2017).

Based on Maxwell, Noora Ronkainen and Gareth Wiltshire (2021) offer a realist suggestion for qualitative research focussed on ontological plausibility, empirical adequacy and practical utility. They argue that research with greater ontological plausibility can empirically and practically show that the observations more accurately reflect the events of the real-world (descriptive validity), the interpretations more accurately reflect the perceptions and experiences of respondents (interpretive validity) and the theorising can more coherently explain the events of the real-world and respondents' experiences of them (theoretical validity).

Hence, the first question is towards empirical adequacy. Therefore, descriptive validity needs to be assured, which means the factual accuracy of the qualitative research account. In addition, interpretative validity needs to be accounted for and the transient meanings held by respondents as well as contested perceptions of the same event need to be represented. The second question is concerned with ontological plausibility or in other words theoretical validity. Here the applied theory needs to show legitimacy in explaining the phenomenon, and how well it endures and stands the test against different forms of evidence and alternative, rival theories. The third question towards practical utility is linked to the sport and exercise research area of Ronkainen and Wiltshire. However, they cite Sawyer (1992) who considers research with the ability for doing things in the world to have a better validity than research that cannot.

In consequence, I assess the quality of my research based on the three quality questions proposed by Ronkainen and Wiltshire (2021). I have used the advice of Wynn and Williams (2012) on how to assure explanatory power:

How empirically adequate is the research account?

- (1) I tried to safeguard the descriptive validity of my research as I ensured a coherent explication of events combined with an explication of structure and context: Based on the interview transcripts and the additional archival data, I wrote a case report for each case study in the form of a descriptive narrative with temporal bracketing. The case report focuses on explaining the events, structure and context and enables the sought after thick description and interconnection of the process but provides pure description and refrains from premature analysis.
- (2) The inevitable limitations of my data collection techniques I tried to reduce by data triangulation. I combined various data sources in using semi-structured interviews and corroborating as well as enriching the findings with archival data. The focus was to capture respondents' meanings and perception of reality looking at the M&A process from various stances of all stakeholders to safeguard interpretative validity.

How ontologically plausible is the research account?

This question is concerned with the conceptualisation of the underlying mechanisms and their explanatory power. The process of retrodution in my analysis was a three-stage approach of induction, deduction and finally abduction, where I conceptualised the mechanisms via overcoded and creative abduction. Based on the coding cycle and the theory I created the critical realist framework going back and forth between

the narrative case reports and my tentative conceptualisation of mechanisms until I reached epistemological closure. Therefore, the mechanisms accommodate context and complexity and are based on existing yet amended theory. This safeguarding approach in critical realism is empirical corroboration. However, because I had to use creative abduction as no existing theory was able to explain the demi-regularities a ranking of various mechanisms due to their explanatory power, while reading through an alternative theoretical lens was limited, as in my view the competing alternative explanations of the evidence are very limited.

How much practical utility does the research account have?

Although this quality question is in my view more helpful in applied research. I consider the insights of my critical realist framework for buyer selection in the German Mittelstand and towards the motivation of owners to engage into M&A to be helpful for professionals working in that area. If M&A consultants better understand the motivation of their customers and buyers are better equipped to fulfil the selection criteria the process as a whole might be demystified, less cumbersome, faster and completed with higher satisfaction.

3.4.6 Ethical considerations

The research followed the University of Gloucestershire's Research Ethics Handbook. All interviewees were asked to participate in an interview that took 45 to 90 minutes. The interviews were conducted in person, via phone or by video call. All respondents were informed about the research effort in advance and agreed to participate. Before the interviews were conducted all interviewees received a consent form. The consent forms were signed by all respondents and the contents of the form were explained to them before the interview started. All respondents were able to withdraw at any time during the data generation. Regarding confidentiality and anonymity, identifiable markers, such as company name, or location, were changed or anonymised. Likewise, names of respondents were also changed or anonymised. The researcher as well as the respondents are and were not able to gain personal advantage from study related information.

4. Case Studies

4.1 CASE 1 - KNIGHT

4.1.1 Company history

The founder of Knight, a construction engineer who had just graduated from University created his own business after only one year of employment at a construction engineering company near to his hometown. Knight started operations in the mid-1990ies in East Germany and over time developed into a professional provider of engineering planning services all over Germany. The construction boom in Germany after the reunification in 1990 had spurred the founder's idea to create his own business. Twenty years after the beginning of operations the company had grown to more than 4 m EUR in revenue with 36 employees who planed and monitored projects in the field of technical building services, including MEP (Mechanical Engineering Plumbing) as well as a scope of special applications and general planning services for industrial and office buildings. Construction engineering services in Germany were until recently, when the European Court of Justice deemed this unlawful, a market with regulated prices as the Official Scale of Fees for Services by Architects and Engineers (HOAI) determined the maximum and minimum fees related to the amount of construction costs and complexity of the building project (Schwenker & Wessel, 2021). Additionally, independent engineers due to German law were not required to incorporate their business, therefore Knight had incorporated only five years before the sales process started.

After continued growth of Knight, the owner started a second location near to his home town a medium-sized city in Western Germany. Over time, the western site outgrew the first office and became the head quarter of Knight. In a phase of increased building activity in Germany, the owner had invested in another company to serve a different market area, i.e. luxury chalets. That meant the owner was entangled in the operations of three sites and two companies with over 50 employees.

4.1.2 Decision to sell the company – Seller's Strategic objectives

The owner's responsibilities encompassed sales, project management, technical supervision and constant internal as well as external trouble shooting. Regarding administrative support the owner's wife and an external tax adviser, who prepared the yearly financial statements, supported the operations. Nonetheless, the owner still prepared each invoice himself and controlled the productive hours for every employee over the weekend. In this environment, the

German construction boom began as interest rates started to dwindle down and brick and mortar investments gained a lot of attraction. Hence, Knight received three new big construction-planning contracts at the same time, which put the company and the owner under a lot of pressure as not everything went as planned: "In all of the three new projects we had some trouble and problems, which is not uncommon, but these were big projects and all at the same time ... I do not want to say that I had a burn-out syndrome, but during that time it simply was too much". During this phase in the company life cycle of Knight the owner was approached by a friend who knew someone who had recently sold his construction business to a German technical inspection and certification association. At first the owner was unsure, but agreed to have a meeting: "I told him that I did not know if I want to engage in such a process and he just said that we should meet in person and after this meeting I had tasted blood". Therefore, at an age of 52 and after 20 years of self-employment the owner decided to engage in an M&A process to sell his business. Before he started the process, the owner had asked his three children, if one of them might like to take over the business one day: "At that time my oldest one was 18 years. None of my three children wanted to study engineering and they told me that they had no interest to take over the company. Which I can understand as they had told me numerous times that they did not like my work-related moodiness. But what shall I say having your own business is hard." Regarding his motives to ultimately engage in the process the owner was quite clear: "I wanted to cash in, put the money away, continue to work for some more years and be done with it". In order to sell his company the owner of Knight engaged an M&A consultant to help him with the sale of his business. The sell-side consultant confirmed the reasoning behind the business exit of Knight's owner: "The motivation to sell the business was a mixture of early succession planning, cash out combined with the intention to put the money behind a safe firewall and last but not least to make Knight ready for the future. It was a mixture of personal reorientation as well as business reorientation".

Furthermore, the sell-side consultant related the sale to increased project complexity, growing workload and the need to split the management attention between different locations. In addition, the consultant underlined that the German construction market environment had changed: "The German market for technical building services especially planning and supervision of MEP already was at this time and still is under a lot of strain. We are amidst a construction boom - projects and requirements are getting bigger and more complex ... The quality of planning is continuously decreasing starting with the lack of attention by architects, an ongoing brain drain as many experienced architects and planners are reaching the edge of retirement and a lack of junior talents to fill the gaps."

Regarding the value of his company, the seller clearly explained his emotional relation towards his company: "The company is my baby. I would like to put that in good hands." Furthermore, he underlined the emotional connection to his employees and the special family like spirit within the team: "I also want to have the feeling that people are attached to me too. Knight has always been my baby. We do not just hire and fire employees. The people that work here have to fit to us." Connected to this emotional value is the story of company, i.e. Knight's history. The seller pointed out several times how he started his business from scratch and that he already had done this twice, as the company now had two sites in East and in West Germany: "I started with an employee in the East. Five years later here now at the main site, I started again from scratch. The first location was working at that time, but opening up the second one I had to do it all over again. Starting with one employee in a small ground floor office in the middle of nowhere." Furthermore, the seller explained how important the choice of the right buyer was for him: "Watch out who you are selling to. As a seller you have to consider how you end up afterwards, because you sell something special - the heart and soul of what is in the company is a part of yourself." Furthermore, the seller stressed that for him it makes a difference if a company is inherited and the heir sells the business or if the founder sells it. For him the founder of a company seems to have a better right or title to sell the business: "It is my office. I did not inherit the office. I built it myself. I think there is a very clear difference between inheriting a company and building it up yourself. I built it myself, so I can sell it myself. I know family entrepreneurs for whom the inherited family business is sacrosanct, they don't take any money out of it either." Furthermore, the seller explained that time was of the essence. He somehow regretted not to have sold his business a little later, because the construction industry continued to develop in a positive way.

4.1.3 Searching and screening

The sell-side consultant began the process by conducting a workshop with the seller. The workshop resulted in a definition for the areas potential investors or buyers for Knight should or could be found and more importantly, which investors or buyers the seller might prefer. The seller stated that he had no objections regarding any particular group of investors apart from direct competitors of the same size. Notwithstanding that, the sell-side consultant pointed out that the seller had some concerns regarding general contractors. In two recent M&A deals German general contractors had bought companies like Knight and the companies were used as extended workbenches, which led to a high employee fluctuation. In the end, three types of investors for Knight were identified in the

workshop: Strategic investors, i.e. comparable companies or even competitors ranging from companies slightly bigger up to international engineering consulting companies. Further strategic investors were identified as integrated construction companies like general planners or general contractors or even project developers, which intended to vertically integrate upstream or downstream in the value chain. Apart from the strategic investors financial investors, i.e. private equity or family offices and investment holdings were considered as well. Based on that scope the sell-side M&A consultant started to contact potential buyers by sending out a short teaser email regarding the investment opportunity. The consultant used his personal network as well as databases to contact investors.

After the first contact to potential buyers, the sell-side consultant could rule out international investors. For these group Knight was simply too small and lacked a bigger regional presence all over Germany. In the end, five potential buyers signed a non-disclosure agreement and requested a more detailed information memorandum about Knight. Therefore, the sell side consultant provided the interested parties with a fact book about Knight. The forty page English fact book contained information regarding Knight's profile, the organisational structure and staff, a market outlook, reference projects, order backlog and project pipeline as well as key financials. On page six of the fact book the seller's transaction rationale is elaborated upon: "In order to manage further growth opportunities and to strategically position the company for the future, the owner has decided to join forces with a strategic partner by selling his interest in Knight." On page five, this urge to find a growth partner is underlined as well: "Notable potential for further growth based on an even stronger sales performance by integrating the company into a larger unit with organizational and administrative capacity as well as a potential to further develop future markets both nationally and internationally by offering broader services." Here some of the statements the seller as well as the sell-side consultant made about the reasons to sell Knight are mentioned again, as for further growth Knight clearly lacked organizational and administrative capacity. Furthermore, page six of the fact book gives more detail regarding the deal structure as the seller envisioned it: "The transaction will be structured as a share deal. It is intended to sell all shares in Knight depending on the strategic interest of the seller. Interested parties will participate in a management presentation and will be invited to submit a letter of interest in accordance with the terms of the process letter circulated, i.e. an indicative offer." This statement may be perceived as evidence for a structured M&A process approach and the intention to get the best offer in a bidding process. However, regarding the process approach the sell-side consultant stated: "For M&A in the service segment, especially regarding demanding

engineering services for the construction industry, a special process approach is necessary. It is a different form of resource allocation in this process, we have addressed a large number of potential interested parties with the information memo, but in contrast to a bidding process, where discussions between the seller and potential buyers or a management presentation only take place after an indicative offer has been submitted, in this case it is necessary to get in touch at an early stage, e.g. with telephone calls and an appointment to get to know each other.” Furthermore, page six stated that: “The seller will take an active part in the integration process and will support the future development of the company as part of a larger entity for the long term.” Hence, potential buyers already knew from the fact book as well as the initial teaser, which contained a similar information that the seller intended to stay in the company after the sale. This commitment was very important as the sell-side consultant underlined: “The owner is a walking asset, so it is of course important for the buyer to keep the seller in the company for a transition period. Therefore, it is simply important to clarify these things as early as possible so that you can then tackle them in the process.” In addition, the fact book stated that the seller was also prepared to sell his 50% shareholdings in his two other companies.

4.1.4 Preliminary buyer selection

The searching and screening phase of Knight’s M&A process led to five indicative offers by interested parties. With all of these potential buyers, the sell-side, i.e. the seller and his consultant conducted meetings and so called management presentations. These management presentations were intended to familiarize potential buyers with the target and first and foremost with the seller. As the sell-side consultant pointed out in the service sector where the seller himself and his employees are walking assets it is important to have an initial personal conversation with potential buyers as early as possible in the process. This conversation helps to enable a better understanding of the information exchanged in advance (teaser, information memorandum, etc.), but much more importantly as the sell-side consultant underlined it serves to find out how a potential investor fits together with the company.

This fit does not focus on the strategic complementarity of the business models, but it concerns trust. Almost all interviewees stressed this important aspect: The seller pointed out that personal sympathy and antipathy sometimes help him to make decisions and that he liked the buyer’s team from the beginning. The sell-side consultant argued that the question: “... how the personal chemistry fits together, especially against the background that the seller would like to stay with the company needs to be answered.” The managing director of the buyer

stated that already in the first meeting of the people engaged in the process it was clear that the chemistry worked. The buyer's M&A director pointed out that the seller's personality: "...modest, low profile, no-nonsense just a rather humble way of life was a perfect fit with the company culture of the buyer."

The seller stated that all five indicative offers for Knight were in the same ballpark regarding the purchase prices or indicative enterprise valuation. Hence, a comparable company valuation or a comparable indicative purchase price was for the seller a precondition for the preliminary buyer selection. On the other hand, the seller pointed out that already during the preliminary buyer selection he had a clear picture regarding no go's or so called deal breakers for the process: First, the seller did not want a full integration of Knight into a buyer's organization. Second, the seller intended to keep the companies name and avoid any dissolution of Knight for the long-term future. Third, the seller did not want his company to degenerate into an extended workbench for a general contractor and in addition, he wanted the potential buyers to outline a clear future growth perspective for Knight.

The seller revealed that among the group of potential buyers, which provided an indicative offer, were two German technical inspection and certification associations (TIC) and three bigger German construction companies with a presence in every German federal state. Yet only two out of the five bidders, who made indicative offers to buy Knight were ready to engage into a Due Diligence. The seller described that after the management presentations with the three other bidders he felt that the chemistry between the parties was not working. In consequence the seller ruled these bidders out: "There was a third bidder I considered - a construction company a so called general contractor - but after two meetings and some further discussions I had the feeling that they just didn't trust my numbers and kept questioning everything so I ruled them out." With the same reasoning, the seller ended talks with the fourth bidder: "I also had a conversation with another large construction company focused on infrastructure, but they weren't ready yet to be able to imagine a company with my business model in their group." The fifth bidder, which submitted an indicative offer, was a construction company focused on housing. The seller liked this potential buyer, because the company had already acquired a small construction planning office: "...this company had a better understanding of my business model because they had already acquired a small construction planning office." But in the end the seller and the housing company could not agree to enter the Due Diligence. The seller pointed out that the decision of the housing company was related to the niche character of his business model: "It's just a niche topic and the buyer has to weigh up whether it fits into his portfolio".

For the preliminary buyer selection, the seller's M&A consultant summarized this phase quite well, when he said: "We held in-depth discussions with around 5 interested parties. In retrospect, there were two interested parties from the TIC environment with whom we went through the Due Diligence process."

4.1.5 Strategic and Financial evaluation – Due Diligence and Negotiations

After receiving the indicative offers and conducting the management presentations, a data room was opened. Access to this online data room was granted to the two TIC-companies, which were the preferred partners for the deal of the seller. The data room contained mainly financial information regarding prior period annual reports, i.e. balance sheets and profit and loss accounts of the last three to five years, as well as a more detailed budget for the next five years. In addition, an overview regarding the top customers and their projects was accessible. Furthermore, legal information regarding contracts, employees and the chain of title concerning the ownership of the company by the seller was provided.

The buyer had contracted one of the big four audit companies to provide support for the external Due Diligence regarding finance, tax and legal matters as well as to support the M&A team of the buyer during the preparation and negotiation of a sale and purchase agreement. Apart from the external auditors the buy-side team for the M&A project to acquire Knight included the buyer's managing director, the buyer's M&A director and members of the finance and accounting department. After roughly two weeks, the auditors prepared an initial draft financial Due Diligence report, but it took them about three more month to finalize the report. During this period, many meetings and telephone conferences took place to answer the questions that came up while the data provided was analysed and validated. Among these meetings were site visits where the Due Diligence team of the buyer met with the seller and his team at Knight's office.

For the managing director of the buyer a somewhat concerning question during the transaction process remained the motivation for the seller to engage in the business exit process: "During the Due Diligence phase but also during our preliminary discussions we wondered why the owner of Knight wanted to sell his business. At the beginning of the negotiations, the owner was 52 years old so more than ten years away from the regular age of retirement in Germany." Therefore, the managing director of the buyer said that he and his team constantly wondered: "...if there was some sort of problem or hidden obstacle which was driving the process to sell". This strange sense of urgency was further strengthened by the way the process was managed by the sell-side. Nonetheless, Knight was not sold

in an auction or bidding process there were many time restrictions enforced by the sell-side, e.g. access to the data room was only possible for a certain short period of time. Hence, the buy-side team even wondered, if the seller might be seriously ill and in accordance to this, provisions were made in the sale and purchase agreement.

The managing director of the buyer pointed out that after the M&A process during the post-merger integration phase the probable reason for the sale as well as the reason to conduct the M&A process as fast as possible became clear: "Knight had started three big new projects, which were simply too big and too complex at least subconsciously the seller knew this and without fresh cash from us the company would not have been able to survive". Furthermore, the managing director of the seller explained that during the early - mainly technical planning - phases of these three big projects very attractive margins were achievable. This would change during the later phases, which required construction supervision and a lot of trouble shooting: "During the Due Diligence phase we were not able to understand that profit shifting completely from the data provided and in addition construction planning was a new area for us." The managing director of the buyer did even speculate that the seller and his advisor used this to optimize Knight for the planned sale. However, the seller pointed out, that he was not an M&A professional and did not know how to tune his annual financial statements in order to get a better valuation.

Regarding the seller's motives for the business exit and the subsequent M&A process the managing director of the buyer was able to confirm the statements of the seller and his advisor. The managing director of the buyer said that during the process the seller stated several times that the business exit was succession related and that none of his children wanted to take over. Furthermore, the managing director of the buyer stressed that the seller was very price sensitive: "For the seller there were certain fixed limits regarding the valuation, which could not be touched - even though we agreed upon an Earn-Out and coupled a part of the purchase price to the profit of the next three years at a very early stage in the process". To underline this notion the managing director of the buyer referred to alterations, which had to be included in the indicative offer to enable the seller to pay less taxes. During the Due Diligence process, it became clear that the seller could benefit from a partial tax exemption of the purchase price under German tax law. This particular exemption is granted for entrepreneurs to subsidise succession related business exits in the German Mittelstand. Originally, this stimulus should lead to more management buyouts and reduce the number of retirement related business closures, but legally it could not be limited to management buyouts. The tax saving the seller was able to achieve by structuring the sale accordingly was substantial. A seller may reduce the tax rate for extraordinary earnings, which stem from the sale of a business by more than 50 %, if

he sells after reaching the age of 55. The income, which is tax exempt under this regulation amounts to 5 m EUR. Hence, when the seller realized he had this opportunity he wanted to structure the sale in a way, that entitled him to benefit from the tax saving.

The managing director of the buyer as stated before was already suspicious regarding the time constraints put to the process by the sell-side. When the managing director of the buyer asked the seller why he wanted to sell now and not simply wait for two more years the seller only told him that he had made up his mind and did not want to change his decision. As the tax optimization mentioned above turned out to be a deal breaker for the sell-side the term sheet or letter of intent was amended accordingly by the buyer. The managing director of the buyer underlined that this made the sale and purchase agreement far more complicated and the deal as such a lot more complex. Nevertheless, enabling tax optimisation should only be one of the numerous obstacles the parties faced during the Due Diligence and negotiation phase. As the M&A director of the buyer explained because of the good initial fit, the Due Diligence process was started with one of the four major auditing firms and a financial as well as legal Due Diligence and the preparation of the sale and purchase agreement was contracted. This meant a substantial financial engagement of the buyer as the costs for an external Due Diligence with top tier auditors can easily reach several hundred thousand euros. However, when after about three months, the financial Due Diligence came to a close things got complicated. As the M&A director of the buyer said: "...the result of the financial Due Diligence was anything but positive, i.e. in particular the accounting was simply not appropriate to the size of the company. It was downright bumbling and actually did not meet the requirements of the German GAAP."

The buyer had expected the finance and accounting department of Knight to be below industry standard, because the seller had built up the company from scratch with a few engineers. As the M&A director of the buyer analysed: "...the structures did not grow with the company or became more professional over time... and since the seller had started his own business early on in his professional life, i.e. he was not employed for long, he also lacked access or experience in this area". The extent of the problems, revealed by the financial Due Diligence put the buyer into doubt as the M&A director underlined: "At first we hesitated, whether we should continue the project, but we were informed by the seller that there were other interested parties and that we now had to make a decision. That is why we decided to implement the legal Due Diligence. There were also some minor findings in the legal Due Diligence, but they were far less serious than the financial issue." The reaction of the buyer towards the findings of the financial Due Diligence was to negotiate for a higher part of the purchase price to be coupled to future results. As mentioned

before by the managing director of the buyer, for the seller there were very clear and strict limits to the purchase price as such and the variable part of it, hence the leeway to react on the negative findings of the Due Diligence was limited. The M&A director of the buyer underlined the notion of profit shifting to increase the purchase price: "...we trusted the planning figures, which predicted exponential growth, but which from my point of view were inflated by the sell-side advisor too much." The project manager of the external audit company engaged by the buyer to conduct the Due Diligence confirmed most of the statements made by the managing director and the M&A director of the buyer. First of all the auditor pointed out that, the buyer was one of his more conservative and risk averse customers. Hence, in his view the cautious buyer conducted a very extensive and thorough Due Diligence process, with a target company: "...actually not prepared especially towards finance and accounting" for it. In his view, the whole Due Diligence process was a continuous "question and answer game with the seller", which resulted in a lengthy and somewhat frustrating process. He emphasized that apart from the task to check several companies belonging to the seller, the main problem was the project business. This forced the auditors to make many complex delimitations: "Our colleagues from Transaction Services had to muddle for a long time in order to create a congruent set of figures". Interestingly the auditor made the remark that in his view one of the accounting employees of the buyer was almost "half busy" integrating Knight into the reporting processes of the buyer during the Due Diligence phase. This very employee and her effort in pre-integration was stressed by the seller as crucial for building trust towards the buyer and helping him in his decision-making. Furthermore, the auditor stressed that in his point of view the seller was not advised very well during the process. As the legal branch of the audit company also prepared the sale and purchase agreement he was very closely involved in the negotiations. In the auditor's view the sell-side lawyers and the sell-side consultant lacked M&A experience, which led to lengthy discussions and negotiations regarding topics with less relevance. The seller confirmed this notion as he voiced his growing discontent with his M&A advisor during the Due Diligence process. The seller pointed out that his M&A consultant in the end was not helpful anymore and just "prated". The reason for the seller to criticize his M&A consultant may stem from the problems and workload he faced during the Due Diligence. Nonetheless, the M&A director of the buyer considered the findings of the legal Due Diligence to be less concerning, the seller had a different opinion. The seller described that he had to change all contracts of Knight's employees over night due to findings of the legal Due Diligence: "When I incorporated my business some years ago, the employees' contracts were not changed accordingly. That came out during the Due Diligence. Then I had to change all contracts with an

overnighter in two days.” The M&A director of the buyer pointed out that the atmosphere during the Due Diligence and during the negotiations was always pleasant and the behaviour trustful and respectful. How tough the Due Diligence and the negotiations actually were can be seen from emails sent between the parties. The seller’s tax advisor wrote in an email to the buy-side team that the buyer should change his behaviour, as the parties are “not at war with each other”. The seller pointed out that he was by all means no expert for M&A and that he had to rely on his M&A advisor. The buyer’s M&A director did go so far as to say that the M&A advisor partially controlled or at least steered the seller through the process. From this perspective, it is understandable that the seller was frustrated by the outcome of the Due Diligence process, as an only partially satisfactory Due Diligence normally results in a reduction of purchase price.

Apart from the mixed results of the financial Due Diligence another topic, which was debated intensively between the parties during the Due Diligence and the negotiations was the seller’s future employment contract. As the managing director said: “The seller told us that he would like to stay with the company as managing director for a maximum of three years after the sale. It was extremely difficult for us in the negotiations to convince him to sign a five-year contract.” The seller clearly stated his intentions after the sale, when he said: “The first thing I did when I sold, when the money was in my bank account, was to check how long the money would last - whether it would last until the end of my life.” The seller mentioned this but nonetheless, knew that he was “too young to quit”. He pointed out that from the beginning of the process it was clear for him that he would need to stay with the company for a certain period of time. The seller described what he sold as a cluster of construction engineers with himself being the sales head. Furthermore, the seller explained that the employees trusted him and wanted him to stay. On the other hand, the employees stayed with the company because of the seller and in addition, the customers were attached to seller. Therefore, the seller pointed out that it was clear for him that he had to stay with the company: “If you sell, you can only sell if you stay with the company”. As usual with family companies and Knight was no exception to that rule some business customs were not in line with corporate compliance requirements. Starting with the remuneration of the seller as managing director of Knight, his business car or other family related costs that were run via Knight. These topics were identified during the Due Diligence as well and needed a solution. This was another reason why the negotiation of the employment contract for the seller took so long. In the end, it was agreed between the parties that the seller would receive an overall comparable remuneration, but that the

variable part of that would be higher than before. Furthermore, the seller was allowed to continue to lease a sports car as his business car and for a transitional period of time family cost could run via the business.

4.1.6 Decision for negotiation exclusivity

The seller conducted the Due Diligence with two interested parties at the same time. The bigger TIC-company and the smaller TIC-company, which in the end became the buyer. In addition, during the Due Diligence phase, the seller remained in loose contact with three other construction companies. After the two potential buyers had more or less finished their Due Diligence, it became clear that the seller had to decide with which potential buyer he would move towards contract negotiations. This decision was important as it meant that a legally binding negotiation exclusivity agreement had to be signed between the seller and the potential buyer. With this agreement, the seller not only agreed to negotiate in good faith, but also guaranteed to refrain from negotiations with any other party. Hence, the decision towards negotiation exclusivity was the third and for Knight the final time the seller selected between potential buyers.

When the seller ranked the criteria for the buyer selection, he put the human part of the deal and the human fit between buyer and seller at the top. He pointed out that the future of his company after his business exit could only be prosperous on the long-term, if the chemistry worked: "I always wanted to leave the company in good hands, which is why the human component is important to me ... the price is certainly important, but not the topmost criterion." As stated before trust and personal chemistry were very important for the seller. He described that he was able to reach that level of confidence and trust with two potential buyers and pointed out that during the Due Diligence phase he decided that he was ready to sell his company to one of the TIC-companies: "During the Due Diligence I decided that I would do it with both of the TIC-companies."

Comparing the two TIC-companies, the seller stressed that he preferred the corporate culture of the bigger TIC-company: "If the framework had been better, I would have preferred to end up with the bigger TIC-company. The people I spoke to and negotiated with from the bigger TIC-company I considered to be more relaxed. The whole company culture seemed to be a better fit and less old-fashioned, but it was a big corporate firm. In my perception, the smaller TIC-company, i.e. the company which in the end of the process would turn out to be the buyer, was actually always more formal and more rigid. However, I had to find out that three month into the Due Diligence with the bigger TIC-company none of the people I had talked to in the beginning was working there anymore." Therefore,

the relationship of the seller to the bigger TIC-company received a massive blow as the contact person changed and after several meetings, only an asset deal was offered: "Suddenly only an asset deal was possible and the potential buyer only wanted to get people or individual projects and the 'scrap' should stay with me." The sell-side consultant confirmed the attraction of the seller to the bigger TIC-company but linked it to the joint market potential: "...that company certainly had the charm that Knight would have been integrated into an organization that already had experience in the market segment - through existing subsidiaries in a similar area." However, another deal breaker for the seller that came into play, was related to Knight's company name or brand: "The bigger TIC-company simply wanted to kill my company name. The name should be changed into Real Advisors. I never understood that. I then had a telephone conference with someone from Singapore who told me how important it was for the international business that a new name was implemented and used."

The seller contrasted this with the behaviour of the smaller TIC-company, which finally bought Knight: "...the smaller TIC-company has always promised me independence. I think they played with relatively open cards – they said we just want to buy your business and then get our investment back over time." The sellers M&A consultant coined this "have the cake and eat it", i.e. selling the company without relinquishing operational control, or actually going through a complete integration with the corresponding consequences for the employees as well. The M&A director of the buyer explained that it was clear for the smaller TIC-company from the start that there would be no change to the company name since it was introduced, nor would the location of the company be changed or influenced by the transaction. Though, the M&A director of the buyer saw the advantage in promising the seller not to change Knight's name, he stressed that this topic was not even discussed intensively during the negotiations.

Comparing the two TIC-companies the seller again underlined how important the personal fit between the people during the process was: "At the smaller TIC-company there was one employee, who I found very engaging during the process - it always has something to do with personal sympathy and antipathy. Why do you choose certain things – sometimes it is just the better sales guy - in this case the more charming or engaging employee of the buyer." The seller remembered an anecdote from the process. One of the employees of the buyer told him that if he joined the smaller TIC-company he would be really well off. The seller stressed that these: "...little personal things are important too, besides the rational decision-making". Hence, the seller underlined that his overall decision-making was only partially rational: "In the end I can say that 50% of it is definitely a gut decision and that

the human component counts in particular. It is important to gain the confidence that you could work successfully with the other party in the future.”

Another important aspect of the decision for one of the TIC-companies were the proposed future opportunities for the seller in the buyer’s organization. The larger TIC-company was already active in the construction planning and consulting business and therefore offered the seller to lead and grow a network with several engineering offices all over Germany. The smaller TIC-company was not engaged in construction engineering and planning. During the discussions with the seller, it was agreed that the potential acquisition of Knight should be the beginning of a buy and build strategy for the smaller TIC-company to start a construction business unit. The seller underlined that this was a very important topic for him and that the smaller TIC-company promised him to acquire more companies in the construction area. The seller should participate from the planned acquisitions by managing the acquired companies. Furthermore, the seller was offered to participate financially with every new M&A deal, which should grow the new business unit. This was also formalized in his employment contract. The seller openly stated regarding the buy and build strategy: “For an entrepreneurial person it is of course also important to get more and more money out of something like this”. Apart from the money he could gain by supporting future M&A activities of the smaller TIC-company the seller explained that his daily business was not overly attractive to him anymore and that he wanted to “expand, break new ground and take risks” as he considers himself to be “someone who always wants to develop, who wants to move forward.” The buyer’s M&A director pointed out that early on in the process the smaller TIC-company presented the buy and build strategy. He further stressed that the seller showed great interest in this idea for his future especially when it became clear that the buyer would allow the seller to participate financially. The sell-side auditor underlined that during the negotiations the creation of regional branches was discussed several times with the focus on a buy and build approach. Furthermore, all buy-side interviewees confirmed that an important advantage of the smaller TIC-company was the entrepreneurial freedom granted to the seller. The buyer’s managing director pointed out that: “... it was crucial for us that we clearly stated that the seller could continue to run the company with a high degree of entrepreneurial freedom, but that we also assured him to provide support when things get difficult”. The buyer’s M&A director stressed that apart from the purchase price the entrepreneurial freedom was crucial for the seller. True to the motto: “I have sold my company, but operationally I am still the boss in the house”. The sell-side auditor saw the seller as someone who had enjoyed a great deal of

entrepreneurial freedom due to having his own business and who needed a lot of entrepreneurial freedom to work successfully.

In the end, the seller had to decide with which interested party he would go into negotiation exclusivity. Both TIC-companies offered a comparable purchase price and current or future synergies, but the larger TIC-company required a clear integration and less entrepreneurial freedom. The integration requirements of the larger TIC-company, which included a foreseeable loss of the company name, the merger into an existing structure and the refusal of a share deal, were the reasons the seller decided to continue the negotiations with the smaller TIC-company. The seller pointed out that he was open to sell his business to both TIC-companies, but he clearly described this changed because the larger TIC-company wanted an asset deal. The asset deal was less favourable to the seller due to various reasons – but simplified an asset deal would reduce the purchase price dramatically and would leave the seller liable for most of the risks from the project business. The seller described that the personal relationship with the larger TIC-company deteriorated as the people he had spoken to and negotiated with were replaced. Nevertheless, this does not seem to be the only reason the larger TIC-company changed their offer. The seller described that the smaller TIC-company due to the mixed results of the Due Diligence and in particular because of unexpectedly low year-end results started to question the deal. Hence, the seller had to accept a higher earn-out: “...the year-end financial statement was no longer so good for me, and something went wrong with the smaller TIC-company. I then had to accept an earn-out.” Around the same time, the seller had to disclose the unpleasant financial figures, the larger TIC-company changed the offer to an asset deal. That sudden change in deal structure was probably related to the financial performance and the Due Diligence results of the larger TIC-company as the sell-side consultant assumed. Nonetheless, the seller explained that he negotiated with the two potential buyers as long as possible in parallel and in the end opted for the smaller TIC-company because he did not want an asset deal and the smaller TIC-company offered him to participate financially in further acquisitions. The buyer’s M&A director had the opinion that for the seller only the purchase price was important: “From my point of view, the price was very important to the seller. He did everything in the process to achieve the highest possible sales price”. The buyer’s managing director explained that after the closing of the deal the seller told him that: “...he could simply sleep better after the sale because he no longer had to think about the cash situation of his company.” Furthermore, the seller underlined that he might have refrained from selling the business if he had had the commercial support he has today before the sale.

4.1.7 Closing of the transaction

The seller pointed out that several people who were close to him supported during the business exit process and helped him to take decisions. He discussed the sale with his wife, his brother in law and his tax advisor. His wife and his brother-in-law, who had a finance and accounting background, were able to support the seller to some degree. Interestingly the seller's tax advisor told the seller to refrain from selling his business at all. Regarding the final decision-making the seller insisted that he was not guided or influenced and took the decision on his own: "I did not let my friends or family guide me, I have always been very careful with something like that." Furthermore, the seller underlined that he is rather quick in his decision making and when he has made up his mind, he sticks to his decision: "I think that is just a question of type. I am someone who decides on everything relatively quickly". Therefore, after intense contract negotiations the seller decided to sell his business to the smaller TIC-company.

Process Milestones – KNIGHT	
Date	Item
Early September	Start of M&A process
17 th of September	Non-disclosure agreement with buyer
2 nd of October	Indicative offer by buyer
24 th of October	Management presentation for buyer
October – November	Preliminary buyer selection by seller
2 nd – 15 th of December	Data room access for buyer
4 th of December	Start of Due Diligence by buyer with external auditor
17 th of December	Initial draft of Due Diligence report by external auditor
8 th of January	On site Due Diligence at Knight's office space
23 rd of January	2 nd indicative offer by buyer
30 th of January	First draft Term sheet
14 th of March	Updated Due Diligence report by external auditor
24 th of March (duration 22 days)	Negotiation exclusivity agreement between seller and buyer
4 th of April	Amendment to Term sheet
24 th of April	First draft of sale and purchase agreement
15 th of May	Negotiation exclusivity agreement prolonged till end of June

17 th of June	Sale and purchase agreement gets finalized
25 th of June	Sale and purchase agreement is signed in front of notary

Table 13 – Process Milestones Knight

Source: Author

4.2 CASE 2 - CASTLE

4.2.1 Company history

A university graduate of engineering founded Castle in 1992. The founder wanted to start-up a construction planning business with two of his friends. When Castle was established in a basement two-room office, the founder's two friends were still employees of a bigger general construction planning company and joined the business when Castle received the first planning contract. In the beginning, the founder and one of his friends owned Castle equally, but after ten years, the third friend became a shareholder as well and received 25% of Castle's shares. Over time, the three owners divided the operations of Castle in the following way: One owner was preliminary occupied with Sales, one was responsible for Finance, Administration and HR and the third one oversaw the project planning business. In other words, one owner became the sales manager; one became the finance manager and one the operations manager. Nonetheless, due to the company's size the three owners had to share tasks and foremost planning projects as well. All of the three owners were managing directors of Castle. In 2002, two employees joined the management but received no shares. When the three owners made the decision to sell their company, the sales manager and the finance manager were both 55 years old and the operations manager already 57. The sales manager owner received the offer to become a professor for construction engineering at a university of applied sciences two years before the sale of Castle. He accepted the offer and reduced his presence at Castle to one day per week. At that point in time Castle had grown from its humble beginnings as a part time planning office with two engineers to a company with 40 full time employees turning over 3.5 m EUR per year.

4.2.2 Decision to sell the company – Seller's Strategic objectives

The sales manager owner explained that he and his partners already contemplated about the business exit for about 6-7 years. For him the trigger to sell Castle was the moment it became clear that there was no successor. All three owners had no family members who wanted to take over the business. Hence, they had hoped that two employees might take over their business via a buyout in the near future as all three owners were only five to eight

years away from the age of retirement. The finance manager owner pointed out that he even considered handing over his shares for free: "...we would even have been prepared to give the company to the employees - in other words, monetary considerations played an absolutely subordinate role here". The operations manager owner underlined the succession related motive of the business exit: "We then realized that at some point we would be so old that our colleagues would laugh behind our backs because we were too stupid to plan any projects sensibly. Then we said that we do not want the company to be in shambles at some point, so that the employees simply will not feel comfortable with us anymore and then, at age 65, we will not know what to do next and lose control ... so it was the timely approach to a succession". Although, the owners had promoted two of their best employees to managing directors it became clear for the sales manager owner that there would be no management buyout: "We have spoken several times with some employees, but nobody wanted to take the entrepreneurial risk.... We absolutely trusted a young employee to take over the company. She was strong both professionally and technically as well as in sales, but she shied away from the entrepreneurial risk." The finance manager owner explained the reasons the employees did not want to take over Castle: "However, the two did not want to do this under any circumstances, on the one hand because they had also seen with us what self-employment meant, and on the other hand also because they did not have enough assets to obtain a bank guarantee for the loan to pay the purchase price, i.e. they had no real estate that could have been pledged as collateral."

All three owners acknowledged that the motives to engage in the business exit process differed slightly between them though all three spoke about succession other motives were stressed as well. Hence, the sales manager owner pointed out: "My main motivation was to secure jobs in the long term. With my co-partners it was rather the further preservation and entrepreneurial freedom as managing director, which was in the focus." The sales manager owner foresaw a change in the market environment for construction planning in Germany. In his view, the construction planning market in Germany was and still is consolidating and moving towards a stronger footprint of larger and more capable players, which will increase competition for smaller players: "In my view...there is a clear trend towards concentration in this market. In the future, there will be a number of large planning companies, and the question is simply whether we, as a small office, could have survived in this market environment in the long term." The sales manager director feared that with him leaving the company and pursuing a university career and a possible change in the market environment, Castle might be endangered. Therefore, the sale of Castle was a relief for the sales manager owner: "When we initiated the sale, I was already a professor and was only in the office

one day a week. Consequently, when we managed to sell the company the burden was lifted from my shoulders. I'll say this carefully - I was responsible for acquisition, so I was not unhappy that others took over - where the orders then came in on their own."

The finance manager owner pointed out that the workload for him had grown to an unbearable level. He stated that this situation not only due to his age could not continue especially as the sales manager owner was practically already leaving the business and working as a professor: "We then added two more good employees to the management team, but when my partner accepted a professorship, it simply became too much for me in terms of workload. I was responsible for the finances, for the personnel and later also for the acquisition of new orders." The finance manager owner elaborated on his workload that he had weeks with 60-70 work hours for the last thirty years and even times when he worked several month in a row during weekends. He pointed out that it was worth it because success was addictive for him and he had the feeling that without his overtime Castle might have gone bankrupt. However, with growing age the finance manager owner was not able to continue this kind of work life balance: "However, with increasing age, i.e. after 50, it becomes more and more difficult and you ask yourself whether that is all there is to life."

The finance manager owner related his high workload to substantial operational and management problems of the company: "One problem was certainly the project structure. We had a lot of great projects by famous architects that everyone knew about, but they were very complex and involved a lot of work and they were not that lucrative." The finance manager called these problematic projects 'disaster star architect projects' and explained that he had to cross-finance the bad projects with less complicated planning projects, e.g. hospitals and data centres that yielded higher margins. In the last few years before the sale of the company, the ratio between bread and butter projects and disaster star architect projects tipped over toward disaster projects. Furthermore, the finance manager pointed out that the bread and butter projects were not easy business as well. He explained that most of these projects came from the public sector, which led to price competition in tenders and since the government is involved, decision-making during the projects is slow and there is a tendency to avoid taking responsibility: "If you look at public construction projects, it immediately becomes clear that they are getting more and more expensive and are never finished, and payment morale is poor." Furthermore, the finance manager owner insisted that apart from the project mix the management and organisational structure did not grow with the company: "... a service company with around 50 employees has to be managed differently than a company with 10 colleagues - at such a size,

everything is still largely under control and communication in particular is still relatively simple. However, the larger the company, the more difficult it gets.”

For the finance manager owner it became clear that something had to change after the two internal succession candidates made it clear that they were not willing to take over the company. The finance manager owner said that he was at the brink of quitting his job: “After that was clear, I had an exchange with my founding partner and said that it could not go on like that and that I would give up my management activities and effectively quit.” For the finance manager owner, the only alternative to a sale of Castle was to shirk the company. However, in the discussions with his partners it became clear that a capacity reduction would be no feasible option: “For me, it would also have been an approach to reduce the size of the company, i.e. reduce staff and no longer accept new projects. The only problem is that although this is theoretically possible, it is not possible in practice. If you have a lot of large, long-running and prestigious projects, it is difficult to say that you are stopping.” Consequently, the three owners decided in one of their regular meetings to try to sell Castle to a third party. The sales manager owner explained: “At some point we said we would contact one of the M&A consultancies that regularly sent us their advertising letters and that was the start of the process. We did not do this because we were desperate, but because we wanted to try it out.”

The three owners went into the business exit process with clear plans for their personal future. While the sales manager owner wanted to leave the company after the sale completely, his two partners intended to stay at least for an intermediate period of time. As the operations manager owner pointed out: “...my co-partner had already taken up his professorship and wanted to continue doing that, I wanted to continue working in the company for a certain time and not disappear from the store immediately.”

4.2.3 Searching and screening

The M&A consulting company commissioned with the sale of Castle follows a structured and formalised procedure. The sell-side consultant explained that the sales department of the consulting firm handles the initial contact with the target. Usually the first step is to evaluate, if the target is marketable, i.e. if the company can be sold. After that, the owners receive a first tentative company valuation combined with a consulting contract. The contract has a fixed duration of twelve month with a small monthly expense allowance for the M&A consultant. The real incentive for the consulting firm is the sales commission, which ranges from 5 to 15 % of the purchase price, when the deal

is closed. After the consulting contract was signed, the sell-side consultant started the process with a workshop to identify potential buyers for Castle. During the workshop, the consultant completed a questionnaire with the sellers. The questionnaire contains approximately 50 questions and is used to identify whom the consultant should approach in the search for a buyer and whether there is a blacklist of potential buyers not to be approached. Based on the information obtained in the workshop the consultant created a search profile. With the search profile, the sell-side consultant was able to come up with a shortlist of around 50 potential buyers by screening various databases. The sell-side consultant explained that the sellers were open to contact all of these potential buyers: "There were no reservations about the potential buyers among the sellers. We approached everyone from private equity firms to competitors, although it has to be said that the business model is actually too niche for classic private equity, so it was good that we also focused on construction service providers. The response was very good, even direct competitors were interested." The sell-side consultant explained that the owners from his point of view were easy to work with, as they had no reservations in relation to potential buyers. The operations manager owner confirmed this when he explained that the owners were open to all potential buyers: "We had no preconceived idea of what a buyer should look like - we were completely unprejudiced in this respect."

Thus, roughly four weeks after the workshop and after clearance from the owners, the consultant started approaching potential buyers: "We then contacted the potential buyers by mailing and telephone with a short profile and financial information." The short company profile though anonymised stated about the reason to sell Castle: "The company is for sale due to early retirement planning and new personal projects of the owners. The continued participation of one of the owners is possible." The sell-side consultant further stated that the circle of potential buyers that responded positively to the approach ranged from direct competitors to construction companies, private investors and a TIC-company. Thus, the sell-side consultant was proud to be able to present the owners with such a range of potential buyers. Every potential buyer had to sign a non-disclosure agreement that was sent out together with the company profile by the consultant. Regarding the process the sell-side consultant further explained, that he presented each potential buyer to the owners and after their clearance, an initial meeting was scheduled.

The consultant underlined that the most important aspect during that phase is that trust is created between the parties and that the chemistry fits: "This takes time ... it is important that the chemistry fits." The sell-side consultant underlined that the fit and trust level with all interested buyers, i.e. those potential buyers who signed a non-

disclosure agreement, took part in the management presentation and presented the owners with an indicative offer, was good. Hence, the sell side-consultant stated that the sellers actually were able to choose from a group of potential buyers: "The basic chemistry was right with all the bidders. Therefore, I was able to ask the sellers which bidder they would feel most comfortable with. This is very important, especially in medium-sized businesses because these people usually sell a company only once in a lifetime and they have put a lot of heart and soul into the company. So the psychological aspects play a role here and that's why it's very important that there is trust and that the chemistry fits between the parties."

The owners had contacted the consulting firm only based on continued advertising letters. Hence, the owners questioned the initial valuation of Castle prepared by the consultant and even more so were not sure if a planning business could actually be sold. For the operations manager at the start of the M&A process for Castle, it was a proof of concept: "For us, it was simply important to know at the beginning, is such a sale possible at all and what are the conditions." The sales manager owner explained that he and his partners were not sure about their consultant and actually somewhat suspicious: "At the beginning we doubted the seriousness of the M&A consultant. The valuations and ideas that came from the consultant seemed very high from our point of view and we naturally suspected that they wanted to lure us and set the sales chances high in order to get into the business."

Notwithstanding the doubts of the three owners, the consultant was able to generate five serious potential buyers for Castle that were willing to have talks with the owners. Among the five potential buyers were three construction companies: a project developing company, a general contracting company and a project management company. The two other bidders were not from the construction industry one was a private investor and the other a technical inspection and certification company. The sales manager owner explained that the market environment for selling a construction planning business was quite favourable and thus it took not long until the offers came in: "Because the market was simply good ... we had some interested parties very quickly." The operations manager owner summarized the resulting array of bidders: "The sales consultant brought us five interested parties. After a thorough examination, the group of bidders was then reduced to three. A private investor, a construction company, i.e. a general contracting company and a TIC-company."

4.2.4 Preliminary buyer selection

The M&A process for Castle was less structured as the sell-side consultant explained. There was no process letter with strict deadlines for potential buyers to hand in purchase offers nor was there a vendor Due Diligence prepared by the M&A consulting firm. Furthermore, there was no formal online data room with which several potential buyers could perform a Due Diligence at the same time. Due to this more hands-on approach, there was no Due Diligence period with several potential buyers in parallel. Instead, the decision to start a Due Diligence with one of the potential buyers directly lead to negotiation exclusivity. In other words, the preliminary buyer selection meant selecting the preferred partner for starting a Due Diligence and engaging into contract negotiations.

The sales manager owner explained that the three owners together with their consultant conducted many intensive talks with the potential buyers. These talks narrowed down the group of buyers to three. All of these bidders offered a more or less comparable purchase price, though the sales manager owner stressed that the TIC-company offered the lowest price. He underlined how important the purchase price was in selecting the buyer: "The most important criterion was the purchase price - there was a 30% difference between the offers. We then decided in favour of the bidder who, on the one hand, made the most attractive financial offer and, on the other, the bidder with whom we felt the company had a long-term future. If the offers had been equal in price, I would still have tended to the buyer because of the sales issue. The most important soft factor for me was the no longer necessary sales task."

The finance manager owner confirmed that all five offers were financially interesting for the owners. The operations manager owner simply stated: "Of course, we then decided in favour of the bidder who made the highest offer". However, the finance manager owner pointed out that since the offers were all relatively close to each other the price was not the decisive factor for the preliminary buyer selection. The finance manager owner further explained that as he predominantly wanted to reduce workload he favoured the potential buyers from the construction sector, i.e. the buyers with market and process knowledge: "However, my preference was clearly with the construction companies because I wanted to have to work less after a sale and no longer be responsible for everything." The finance manager explained this reasoning even in more detail. He explained that the market concentration in the construction planning area especially with MEP planning (Mechanical Engineering and Plumbing) is related to growing complexity and increasing costs: "The potential buyers I preferred were three medium-sized construction companies. These companies had all realised that building services now account for 30% of construction costs and that it was becoming increasingly difficult to find good people in this area." In consequence, Castle became an

interesting target for these buyers, as they were able to purchase knowledge by acquiring Castle. Furthermore, the finance manager owner hoped that with a bigger partner and relieved from day to day burdens he would be able to have more time for standardising and optimising processes as well as training the employees: "Therefore, these companies needed know-how from us. Furthermore, the general contractors have continuous business, so we were relieved of the acquisition and it also allows to develop standards and thus reduce the burden on employees. This should also make it possible to have more freedom for employee development and training and therefore it simply needed such a potent partner." Both the finance manager owner as well as the sales manager owner agreed that a pure financial investor as well as the TIC-company had allowed them to continue their business with a high degree of entrepreneurial freedom. Nonetheless, entrepreneurial freedom was not what the owners wanted. The sales manager owner even said that a financial investor in his opinion would lack the required patience to integrate and run a business like Castle. Consequently, the sales manager owner explained why he and his partners ruled out the private investor: "We had a private investor who had inherited a lot of money and who wanted to take over our company, but of course had no idea about the business...he was looking for a hobby... That would not have worked out either - neither our employees nor our customers would have been happy with such a buyer, and I don't think this buyer would have been happy in the end either."

The sell side consultant explained that the decisive factor for buyer selection was the monetary package offered by the buyers. Furthermore, he underlined how important the near future of the company was for the sellers. In his view the sellers had to consider how the company would look like after the sale and for how long they would have to stay in the business after the sale, especially as the second management level was in no way able to take over the day to day operations. The sell side consultant explained that the first potential buyer who had to leave the process was the private investor. "The sellers said that the purchase price was simply far too low and that the potential buyer actually had no understanding of the business model and the industry. The sellers were just worried that with someone completely unfamiliar with the industry, the company would no longer be able to continue." The next bidder out was the TIC-company as the consultant stated: "This was due on the one hand to the purchase price offered and on the other hand to the fact that the sellers had different opinions about how the cooperation with the planning office already existing at the TIC-company would work out." The operations manager owner confirmed this unwillingness to join forces with the planning office of the TIC-company: "With the TIC-company, we would have ended up with their existing planning office and that would have been a no-go for me." The consultant

furthermore stated that the project developer was not a matching buyer as well: "Next to be eliminated was the project developer. Here the valuation was ok but the chemistry was not right. The CEO of the project developer was extremely number driven and the three owners simply did not want to work in such an environment."

The operations manager owner explained that the second bidder from the construction industry was out because of different opinions regarding integration: "With one of the contractors, the approach to a future together just didn't fit."

Therefore, the preliminary buyer selection led the owners to continue the process with the remaining bidder from the construction industry - a family-owned third generation general construction contracting company with a turnover just shy of 1 billion euros. The negotiations of the general contracting company, which would turn out to be the buyer in the end, were led by the technical managing director. The buyer's non-family managing director had a MEP planning background himself and understood the market in the same way Castle's owners did: "...it was clear that the share of MEP in construction projects would become larger and larger and more and more complex. In the past, the ballpark figure for building services would account for just under 20% of construction costs, but today it is more like 30%." The managing director of the buyer explained that the knowledge and competence of his company was limited in the MEP area. He did even go so far as to say that he doubted, if his engineers were actually planning MEP or just cost calculating with guesstimates. Furthermore, MEP is often a bottleneck in construction projects when it comes to achieving legal approval due to industry code and by the customers. For the managing director of the buyer this coincides with an overall decline in planning quality in the German construction industry: "It's a big issue in the general contractor business that planning has gotten worse and worse in terms of quality over the last years." The buyer's managing director explained that he had tried to improve the situation with a preferred supplier strategy for MEP planning and even going into strategic partnerships with MEP planning companies with the aim to create planning standards. Although the buyer had put a lot of effort into improving MEP the results were not sufficient, so they started to hire MEP engineers and began to set up their own MEP planning department. The problem was that the construction boom in Germany led to an accelerated growth and the small in-house MEP department of the buyer was not able to keep up with the increasing workload and more demanding and complex projects. Due to this, the managing director of the buyer explained that the idea behind the acquisition of Castle was to buy knowledge and competence for his company: "From these

considerations, the idea was born ... that we needed our own strong MEP planning office. We then began to search the market intensively and came into contact with Castle via an M&A consultant.”

The managing director of the buyer explained that at first he was reluctant to engage in the M&A process due to the size of Castle. The in-house MEP department of the buyer had 5 employees and Castle about 40 at the start of the process. However, the managing director explained that his feelings changed after the initial talks as he saw that the sellers’ and his view of the market were congruent: “The conversations were very open and we were thinking along the same lines for the planning and for the general contractor.” For the managing director of the buyer it was decisive to win over the sellers, that he communicated the plan for Castle from the beginning of the talks very openly: “Here I think it was very important that we talked openly about our joint plan. We absolutely did not make any promises that we would come in and everything would stay the same. Instead, I showed quite transparently and openly that we had an existing MEP planning and that this had to be looked after. We then also discussed that we would quickly dissolve our MEP department at our HQ and merge it with Castle at their site. We communicated clearly, that the company would be our MEP competence centre at its location. With the acquisition of Castle, we then brought the appropriate MEP competence into the house.”

Furthermore, the managing director of the buyer underlined how important the buyer’s strategy as a general planner was for the strategic fit with Castle. “This fitted very well with our concept of interdisciplinary planning, the planning of planning, our planning map and our path towards building information modelling (BIM) and 3D planning. That means short and crisp planning and then scaling the business model together with our operational product unit.” The managing director of the buyer further elaborated on his strategy to standardize and optimize planning processes, which led to a stronger focus on MEP planning: “We then built up product divisions. In particular, we have strengthened the logistics and social real estate division. Productification in this field runs through standardization and optimization. This then also means that in the value chain some trades lose and others are strengthened.”

The managing director of the buyer had a clear idea for the integration of Castle as this was a strategic acquisition vertically integrating the buyer upstream the value chain. Thus, Castle should take over the MEP planning of the buyer branch by branch: “In the first step with our social construction division, then in logistics and then into industrial construction. The goal was for 100% of Castle’s capacity utilization to come from us in a period of two to four years.”

The managing director of the buyer explained that all of the above required an investor for Castle who was willing and able to provide the capital needed to invest in training, standardisation and digital transformation. The buyer's managing director stressed that all of this was already discussed in the first meeting with the owners: "These ideas, that we invest in employees, who get the time for development and who will stay with the company, that it is an investment in the future, we have already discussed all of this in the first conversation and that fell on fertile ground." In addition to that, the managing director of the buyer explained that his company cared for the individual employee and for the workforce as a whole. Accordingly, he explained to the sellers that his company would invest heavily in education and training of Castle's employees: "It was also important that the sellers had recognized that you need capital strength for the challenges of the future, especially digitization and building information modelling. We are entering a new world here, so we need a completely different landscape with a different infrastructure in the planning offices with further education and training measures." Furthermore, the managing director of the buyer explained that Castle's people would be eligible to the favourable construction payment tariff of the buyer: "Castle should be attached to the construction tariff pretty quickly. We said there were no first- or second-class employees here, but we said we were investing extremely in the future and in the employees."

The managing director of the buyer explained that the reason he was able to win over the buyers were his clear ideas for Castle's future. He underlined that this was not only related to the short term but also to the long-term future of the company. It was clear that the joined operations of Castle together with the general contractor meant the transformation of Castle into a centre of planning excellence. For the buyer that included investments in digital transformation and planning. The buyers managing director even pointed out that in the meetings with the sellers he made the statement: "In the future, the heart of our MEP planning will be in Castle." Hence, for the buyer's managing director the sale of Castle: "was not just a pure exit and maximization of the purchase price, but it was also important that there was a long term perspective and that we also relieved the owners of the sales task."

4.2.5 Strategic and Financial evaluation – Due Diligence and Negotiations

The operations manager owner explained that the sell-side consultant prepared the owners for the Due Diligence process: "He then explained to us the requirements during the sales process, e.g. auditing, preparing documents for the Due Diligence, financial data, etc. We then put these things together."

The buyer conducted the Due Diligence with one of the big four audit companies, which led to an in depth financial analysis of Castle's projects. The managing director of the buyer explained that during the Due Diligence the problems of Castle surfaced quite fast: "Castle was very active in architecture contests and it has to be said that these projects were not really commercially attractive." In addition the managing director of the buyer explained that it became clear during the Due Diligence, that Castle needed financial support for the future: "...if you look at a lighthouse project like this in terms of overall costs, it was negative, e.g. a public museum project. It was clear from the outset that we had to help here - we then also supported Castle financially after the acquisition."

On the other hand, the buyer did not want to say that Castle needed restructuring, he was of the opinion that the assets of Castle outweigh the financial risks: "We did not see a restructuring case, but rather the value of the employees and the competence that we acquired here...". Nevertheless, the managing director of the buyer was very clear that there was no real future for Castle on its own: "The financial strength was simply not there for these investments and they would have continued to lose market share over the years and the architecture contest projects were very difficult." For the buyer a deal breaker was the wish of the sellers to continue the architecture contest projects. The owners wanted to keep up the skills of the staff with these complex projects, but since such projects were not commercially attractive the buyer's managing director did not concur with this idea: "For us, one hurdle was that the shareholders wanted to continue to participate in architecture contest projects with about 20% of the turnover in order to maintain and promote the competence of the planners. This would also have been a deal breaker for us economically."

In consequence, due to the mixed results of the Due Diligence the buyer started the contract negotiations with the seller by adjusting the offer. An Earn-Out period was introduced to the sellers so that the potential risk was more equally shared between seller and buyer. The Earn-Out amounted to approximately 30% of the purchase price, was coupled to Castle's profit and had a duration of three years: "Based on the results of the Due Diligence, we then requested an Earn-Out. So I had the feeling that we made a very good financial offer... and this offer was then only modified via the earn-out."

The sell-side consultant was less enthusiastic when he spoke about the Due Diligence and the subsequent negotiations: "Of course, the negotiations with the buyer after the completion of the Due Diligence were not easy either." The sell-side consultant described a pivotal moment of the M&A process for Castle. When the buyer had finished the Due Diligence and the problematic projects surfaced, the parties had a meeting in which the buyer

required to reduce the overall purchase price due to the findings of the Due Diligence. The sell-side consultant advised the sellers not to falter and to remind the buyer that an overall amount for the purchase price had been agreed. Apparently this strategy worked: “There came a point when the head of finance said these are the findings of the Due Diligence and therefore we have to reduce the price. I then went out of the room with the three sellers and we clearly stated that we would terminate the process if the buy-side did not adhere to the previously agreed key points of the LOI – take it or leave it.”

The finance manager owner brought up another topic with which the buyer tried to mitigate the risks identified by the Due Diligence. He explained that the buyer wanted the owners to accept additional guarantees for liabilities stemming from past projects: “After the Due Diligence in the contract negotiations, an issue came up that almost caused the sale to fail. The buyer wanted us to assume special liability for risks from old projects. The liability for damages from old projects was to last for eternity and be unlimited. Of course, we could not accept this. After tough negotiations, we then agreed to a total amount of less than 500k euros shared equally by us three owners, for planning errors from old projects. This liability was then limited to three years.”

The operations manager owner described that apart from the Financial Due Diligence the buyer carried out an Operational Due Diligence as well. In order to assess the quality of the owners / sellers who would stay with Castle, employees of the buyer’s MEP department carried out interviews with the operations manager owner and the finance manager owner. Although, these interviews had a reassuring effect for the buyer the effect on the sellers was less positive as the operations manager owner explained: “Before signing the contract, we were interviewed by the MEP employees of the buyer with the utmost secrecy. We then found out how differently the MEP planning runs with a general construction contractor, we had already thought that before, but that was then extreme. That was a bitter pill we had to swallow.” The sell-side consultant summarized the negotiations that started after the Due Diligence in a positive way: “The two shareholders were to stay on board for three more years - this was even a condition in the purchase agreement. In addition, an earn-out was agreed upon, which was tied to clear financial targets according to the planning, but according to the finance manager owner, it was clear that these targets should be easy to achieve.” Furthermore, the consultant pointed out that the sellers were able to reach their goal of a long-term safe haven for the employees: “It was very important for the three sellers that the jobs for the employees were preserved, so the social responsibility of the sellers can absolutely not be denied.”

4.2.6 Closing of the transaction

After the Due Diligence and intense contract negotiations, the three owners decided to sell Castle to the general construction contracting company.

The sales manager owner summarized that the advantages of the deal with the buyer outweighed the downsides, e.g. of the amendments related to the findings of the Due Diligence. Most importantly, the buyer still offered the best financial package and in addition, his other wishes were fulfilled as well: “I got everything I wanted. I'm out of the operating business, I'm now a full-time professor at the university and I've started up a small consulting company again.” Furthermore, for the sales manager owner the long-term future of Castle seems to be guaranteed, as there is no need for external sales activities: “The buyer has taken over the sales task and today our company is only an internal service provider.” Interestingly the sales manager owner was not sure, if his two partners have the same opinion regarding their soft requirements related to the sale. Along that line, the finance manager owner pointed out he accepted the deal in the end, but did not get everything he wanted: “What I did not like at all about the buyer was that we had to stay in the company for three years after the sale, although we actually wanted to stay for a maximum of two years.”

Notwithstanding that, the operations manager owner clearly stated that the general contractor was the perfect buyer for him in the end as well: “Furthermore, it was important to us that our private interests could be realized as much as possible and that we have a financially strong partner for the future. With the eventual buyer, the fit and vision for the future was just perfect.” Regarding the closing of the deal the operations manager owner underlined again that the clear vision for the future of the buyer was decisive: “What we also liked was that a clear announcement was made by both sides. You should not be worse off than before, but we expect the following things from you for the future.” The managing director corroborated this by explaining that there had been a clear thread running through the whole process to acquire Castle: “It was clear from the beginning that two of the shareholders would remain in the company for a while. It was also clear that the sales manager owner would leave. It was also clear that the finance manager owner was more or less in charge of the management and that the operations manager owner was actually the MEP expert, but we wanted to merge that with our planning approach.”

Process Milestones – CASTLE	
Date	Item
June	First contact to M&A consultant

July	Workshop with M&A consultant
Mid of August	Sellers approve contact to potential buyers via Mailing by M&A firm
October	First responses from potential buyers
Mid of October till January	Management presentations
December till April	Indicative offers
May	Letter of Intent with buyer
May till June	Due Diligence phase with negotiation exclusivity
July	Interviews with MEP experts of the buyer
June till Mid of July year two	Contract Negotiations

Table 14 – Process Milestones Castle
Source: Author

4.3 CASE 3 - BISHOP

4.3.1 Company history

The owner founded Bishop together with a partner in the early 1990ies in West Germany. The owner and his business partner had previously worked for more than ten years as construction engineers and later managing directors for the German branch of a global property investment company based in London. The founders saw the opportunity to start up their own construction project management office due to the construction boom in Germany after the reunification. The construction and project management company the two founders created helped builders and property investors alike to asses existing buildings foremost in the commercial construction area. First via consulting and a technical Due Diligence process, Bishop evaluates property investment cases. Bishop offers a similar consulting service for new building undertakings as well. However, the initial project assessment only marks the start of the services provided by Bishop. During the whole construction process, Bishop's construction engineers manage the project and represent their client. These services encompass amongst others the negotiation of rental agreements, liaison with local authorities to obtain construction permits, the selection of suppliers, i.e. architects, planning and construction companies, overall contract, cost and time management as well as construction supervision. After twenty years of successful project management, the owner took over the shares of his partner. His partner, at that time nearly seventy years old, simply retired from his board position but stayed with the company as a building surveyor and external consultant. Nearly a decade later Bishop had carried out project

management services for more than one hundred construction projects and had grown to more than 2 million Euro turnover per year with 15 employees.

4.3.2 Decision to sell the company – Seller's Strategic objectives

The now sole owner of Bishop had been thinking about selling his company for some time. However, when his founding partner left the company he still felt too young to step back, as his partner was fifteen years his senior. The owner's children had no interest in taking over the family business as they had followed careers outside of the building industry. The owner would have loved to hand over the business to the daughter of his second wife. In his opinion, she was the ideal candidate – both a construction engineer and since her early teens an employee of Bishop as she had spent most of her free time helping in the office. For the owner the family succession option fell out of favour, when he realised that his stepdaughter wanted to have a better work-life balance than her dad and valued her own family over continuing to keep Bishop as a family business. Thus, when the owner was about five years away from retirement age he started to consider selling Bishop. The owner explained that one of his entrepreneur friends was his role model: "...he handed over shares in his company to his best employee and then pulled out of the company bit by bit. He has a phased retirement, only half days in the office." Since, the owner liked that model he talked to his best employee, but to no avail. After revealing his intentions to his employee, the owner found out that his employee did not consider Bishop the centre of his life at the time. The employee had just had children and bought a house, so it simply was not the right time for him to do a management buyout. The owner underlined that even with a lot of effort to convince his employee he would not have been able to make a smooth transition or even find a way to leave the company via a management buyout in such circumstances. Hence, the owner considered two possibilities: Either to stop taking in new long-term projects, i.e. three to four year project management contracts and to just focus on technical Due Diligences that take six to nine month to be able to close down operations within five years or to sell Bishop to an interested external investor. The owner decided to become a potential seller and hence to pursue the latter option as he could always close down his company, if a sale might fail. The owner had received several advertisement letters from a local Mergers & Acquisitions consulting company over the years highlighting the financial attractiveness of a sale and decided to use that contact to pursue a sale of his company.

4.3.3 Searching and screening

The sell-side M&A consultant explained that he regularly sends out offer letters to family firm owners to promote his services. As he explained these letters find their final resting place for five or six times in the bin, but the seventh letter often leads to a response and hence a project. For the sale of Bishop, it was quite the same. The sell-side consulting company, which assisted in Bishop's sale, does mostly sell-side M&A consulting with 80-90% of the projects related to retirement and succession. The sell-side consultant explained regarding seller's motivation: "The entrepreneur then asks himself the question: What do I do with my company now? Do I close it down or can I perhaps sell the company and still get a benefit from it for myself? Can I still get a purchase price that will sweeten my retirement?" For the sell-side consultant the same applied for Bishop's owner. Regarding the very streamlined M&A process of the consulting firm, the sell-side consultant explained that after an owner responds to an approach via a letter or more modern ways of communication, a dedicated sales team takes over. In a standardised way, it is assessed, usually with several phone calls, if the company can actually be sold. In this way a sales meeting is prepared, that takes several hours. In this meeting, the goal for the M&A consulting company is to get a consulting contract. The usual contract has a duration of twelve month with monthly fees and a sales commission. The sell-side consultant explained that the signing of the consulting contract is confirming the seriousness of the seller's intention to actually sell his business: "...because nobody spends money if he or she does not really want to sell." Furthermore, the sell-side consultant made it very clear that he and his consulting company want to close a deal, as they cannot live from the monthly fees only, but need the sales commission to have a profitable project at the end of the day.

The next step in the process is to start the searching and screening for potential buyers and to contact them. The sell-side consultant explained that it is very important for him to understand the business model of the company he assists in selling and to understand the seller and his motivation as well. Thus, with a better understanding of seller and target, the marketing strategy and the market approach for the sale is more successful. For the sell-side consultant it was quite clear that the reason for the sale was the retirement of the owner and the lack of a family member or employee, who wanted to take over the business as the seller had always been very open and transparent about his reasoning. For the sell-side consultant transparency during an M&A process is of special importance. That does not only mean that towards potential buyers the sell-side behaves in an open and transparent way, but also that the consultant is very transparent towards his client. Most of the sellers have never

sold a company and will probably only do so once in their lives, subsequently there can be uncertainty and even fear especially regarding the M&A terminology, which is mainly English. Hence, the sell-side consultant stressed that during the process: "...the sellers have to be taken by the hand and have to be babysat".

The seller explained that together with the sell-side consultant they created a profile of potential buyers that would come into question or conversely, which buyers would not. The sell-side consultant explained that regarding the black list he should not approach certain competitors or people and companies with which Bishop had bad experiences in the past: "To put it bluntly, nobody sells their company to an asshole and nobody buys a company from an asshole". On the other hand side there were competitors mainly bigger ones active all over Germany, which the seller liked, hence the sell-side consultant listed them as prime contacts for the approach. The seller himself stated that he and his company were specialised in commercial office buildings and therefore he did not want to sell his company to people involved in the housing area: "We are a specialist in commercial buildings - offices we can build. I definitely did not want to build flats and I did not want my staff to have to do that either." The seller acknowledged that this was an issue because at the time he was dealing with the sale, the housing boom in Germany was really taking off.

The sell-side consultant explained that for the search, he started regionally within a 50 km area. Then he turned further and further circles depending on how successful the process was. Afterwards the search was broadened to look for potential buyers nationwide. To identify potential buyers the consulting company used their domestic database with 800k companies. The database was filtered according to the criteria defined with the seller. The seller approved the resulting short list of potential buyers and the consultant approached the potential buyers with three marketing documents a confidentiality agreement, an anonymous short profile of Bishop as well as a financial overview at P&L level with normalisations. The short-profile was headed: "Successful real estate company in construction management and project management, West-Germany".

4.3.4 Preliminary buyer selection

The sell-side consultant explained that there was a lot of positive feedback from potential buyers regarding Bishop. The short-list of potential buyers encompassed 50-150 contacts. The same applied for Bishop. The response rate however was very high. Usually less than 20% of the addressed potential investors respond to the mailing. For Bishop there was a response rate higher than 30%. The high response rate led to many phone calls between the

sell-side consultant and potential buyers. After these phone calls, the M&A consultant talked to the seller and explained what he learned from the initial talks with the interested parties and their plans for Bishop's future. The seller based on this input then had to confirm the handover of the clear name of Bishop to the potential buyer and to sign a mutual non-disclosure agreement. The next step were meetings with the potential buyers to get to know each other and to conduct management presentations.

The sell-side consultant underlined that the chemistry between potential buyer and seller is the most important thing during the first meeting: "...they don't have to be kissing each other's necks, but it has to fit." The sell-side consultant even went so far as to say that he can tell from his experience whether a first meeting will lead to a sale: "...based on body language and the course of the conversation, I can see whether the fit is right."

The seller explained that he received three serious indicative offers for his company. The sell-side consultant stated that he received several more indicative offers, but that the seller rejected all of them as the offered purchase price was simply too low or the variable portion too large.

The three serious potential buyers were: a large construction project management company from Berlin, a renowned family-owned construction company and a technical inspection and certification company - the latter two located roughly in the same area as Bishop.

With the large construction project management company from Berlin the seller came quite far during initial talks. He stated that he conducted several meetings with the management team of the Berlin based company. Not only did that potential buyer offer the highest valuation, but also the initial fit seemed to be ok. However, the seller explained that he terminated the negotiations just before the start of the Due Diligence. He got concerned because he developed an awkward feeling towards that potential buyer. After the meetings, the seller was convinced that his company would be integrated and dissolved relatively quickly. He underlined that the Berlin bidder just wanted to buy his staff and get access to his clients.

The sell-side consultant appreciated the management attention Bishop got from the Berlin based bidder as the whole management team - the owner with his two co-managing directors - came over from Berlin several times to meet with the seller. The consultant confirmed that the valuation was attractive, but somehow it did not work out: "...big versus small, and the chemistry was not right." The sell-side consultant stated that the Berlin bidder cancelled the talks and he suspected the reason was bad chemistry.

Regarding the second serious bidder the seller explained that the initial meeting went quite well too. The family-owned construction company offered a comparable purchase price range and the chemistry seemed to be well. Nonetheless, in the third meeting it turned out that, the construction company planned a swift integration and the seller feared that Bishop might be turned into a mere technical department. The sell-side consultant again painted a slightly different picture. He explained that the managing director of the family-owned construction company wanted to buy, but he did not get the approval of the holding company.

In the beginning, the seller did not want to meet with the TIC-company, even though the offer was comparable to the other bidders. He explained that he has to work with building surveyors from TIC-companies on a regular basis and did not understand “why on earth” a TIC-company would like to acquire Bishop. The sell-side consultant confirmed this and explained that the seller first rejected the offer of the subsequent buyer because he could not imagine what a TIC-company would want with a construction project management company. The sell-side consultant then intervened and urged the seller to take a closer look at the offer as TIC-companies are financially sound and hence attractive as buyers and long-term partners.

The seller stressed that it was important for him to find a partner that would not interfere in the day-to-day business. On the other hand, he wished for a partner with the economic strength to support Bishop even in times of an economic downturn or struggles with construction projects so that Bishop could retain the staff.

That was the reason the seller preferred the offer of the TIC-company over the other bidders, because he was able to keep a certain degree of operational freedom.

The afore mentioned, entrepreneurial freedom and financial backup came at a price for the seller. The seller explained that the TIC-company send him a letter which stated that Bishop was too small to be an attractive target and required a profitable growth strategy in order to grow Bishop by 1/3 over three years.

The managing director of the TIC-company explained that during the initial meetings with the seller it became clear, that Bishop did not really fit into the search profile of the TIC-company – Bishop was considered too small a target. The TIC-company’s sweet spot for M&A transactions are companies with an annual turnover of 5 to 25 Million Euros. On the other hand, the industry and the business model of Bishop seemed to be a good match for the construction and planning business stream of the TIC-company. This good fit was the reason the TIC-company received the teaser from the M&A consultant of Bishop, because the managing director of the TIC-company had shared a search profile with the M&A consultant of Bishop some years ago. The managing director of the TIC-

company explained that the reasons for the sale of Bishop and the intention of the seller to retire were discussed very openly. The seller told him, that since he was not able to find a successor it was either a sale or end of operations for Bishop.

The letter from the TIC-company had three main topics: First, it confirmed the high level of interest in acquiring Bishop and the good match between the business models. Second, it stressed the dependence of Bishop from its owner and managing director and put the transaction under the precondition that a joint search for an adequate successor would be carried out. Finally, it outlined an equal split of the purchase price in a fixed instalment and a variable instalment linked to a successful profitable growth of Bishop over the next three years. However, the TIC-company offered to acquire only 50% of Bishop's shares and only after three years, there would be an option agreement to acquire the remaining shares or to reverse the acquisition.

The managing director of the TIC-company explained that together with his firm as a growth-partner a strategy was envisioned to increase Bishop's revenue in a profitable way. Nevertheless, he pointed out, that the seller wanted to leave the company after a transitional period and hence the search for a suitable successor to manage Bishop was of high importance for him. Furthermore, he stated that the idea was to enable the seller to concentrate fully on growth and new orders in the three years after the acquisition, while the TIC-company would start the recruiting of a successor, so that the seller could retire after the handover period. Hence, the managing director of the TIC-company explained that after the first three meetings he felt that the seller considered his company the ideal partner for his business exit. In consequence, buyer and seller established a general understanding regarding the transaction structure – following the ideas outlined in the official letter to the seller. The managing director of the buyer stressed that the decisive criteria for the owner to sell Bishop to the TIC-company were all related to the M&A strategy of the TIC-company. The investment approach offered the seller a high degree of entrepreneurial freedom, with a long-term orientated investment strategy. Furthermore, the managing director of the TIC-company wondered if perhaps also the good brand name of his company helped, since the seller worked well with one of the TIC-companies subsidiaries, i.e. building surveyors.

The letter of intent signed by the seller and the TIC-company, which would later turn out to acquire Bishop deviated from the letter the TIC-company prepared initially. It was agreed, that the TIC-company would acquire 100% of Bishop's shares for 50% of the overall company valuation after closing. The seller could get the other 50% of the

purchase price year by year via an Earn-Out. The Earn-Out or the variable instalments of the purchase price were linked to a successful profitable growth of Bishop and the joint recruiting and training of a successor for the seller. In retrospect, the seller stated that he still thinks the goals that were set together during the negotiations of a letter of intent with the TIC-company regarding profitable growth are still good and achievable. In line with that, Bishop's owner explained that he "... did not negotiate the first offer very hard - perhaps a mistake in retrospect was to accept an earn-out." Thus, he explained that he was not so much concerned about the purchase price during the preliminary buyer selection, but looked more for a good personal fit. This was important for him as he wondered how the handover between him and the potential buyer should take place and how both parties envisioned the joint future of Bishop. Regarding this and especially the chemistry he pointed out that he had a good feeling from the initial meeting with the TIC-company till the closing of the transaction. The managing director of the TIC-company confirmed this and underlined that based on the agreement on the general terms of the transaction the parties became closer on an interpersonal level, which led into the classic M&A process, i.e. first valuation and offer and then Due Diligence in the various areas.

4.3.5 Strategic and Financial evaluation – Due Diligence and Negotiations

The sell-side M&A consultant explained that he had no intent to conduct several Due Diligences in parallel as he considered this "overkill" for small companies like Bishop. Hence, when the seller had made his preliminary decision to continue the M&A process with the TIC-company an exclusivity period was agreed between the seller and the TIC-company during which the seller would refrain from contacting other potential buyers. The exclusivity period encompassed the Due Diligence and subsequent negotiations regarding the sale and purchase agreement.

The TIC-company hired an external audit firm to conduct a financial, tax and legal Due Diligence of Bishop. The managing-director of the TIC-company explained that they did everything, which is standard for a Due Diligence, but on a scale that was appropriate for the size of Bishop. Hence, the buy-side auditor explained his team only did a red flag Due Diligence regarding the core topics and that he as a lawyer was responsible for drafting the sale and purchase agreement as well. He explained that for the legal Due Diligence he subcontracted another law firm, because the client contracts in the area of construction planning and construction project management were characterised by a very large volume and by a high level of complexity, especially the top project contracted recently. Yet, the auditor explained that the findings of the Due Diligence were not very conspicuous and that the

process went quite well in comparison to the usual problems that occur with small companies like Bishop. In addition, the buy-side auditor explained that he only talked to the seller and his M&A-consultant because the seller wanted to keep the number of staff involved in the M&A project to be limited in order to prevent rumours and unrest within his staff. Still the preparation of the documents was reasonable, considering that the resources on the seller's side were limited due to the size of the company. The buy-side auditor underlined that in his view the guidance provided by the seller's M&A consultant, who accompanied the process in a very goal-oriented manner, was very important and helpful. The managing director of the TIC-company agreed and simply stated that the result of the Due Diligence was satisfactory and in his view far more important than the Due Diligence were the intensive negotiations regarding the sale and purchase agreement. The sell-side M&A consultant agreed regarding the Due Diligence phase. He considered the Due Diligence of Bishop not to be a big deal. For him it was simply work, that resulted in a satisfactory outcome. He stressed that the pragmatic approach of the TIC-company was very helpful in that manner, because large audit-companies, e.g. the big four are overkill for small entities like Bishop.

After the Due Diligence turned out to be satisfactory the TIC-company advised the legal branch of their audit firm to prepare a draft for the sale and purchase agreement based on the letter of intent. The indicative offer of the TIC-company and the letter of intent stated that the purchase price for Bishop was cash and debt free and that the company needed to have a certain working capital position at the closing date of the transaction. The cash and debt free requirement was not an issue as Bishop did not have external loans and had a healthy cash position. However, the seller surprised the buyer when he suddenly explained that he wanted to postpone the process for several months. The seller wanted to pay out a dividend from existing profit carry forwards before the signing of the sale and purchase agreement. The cash position of Bishop was not sufficient to pay out the dividend, because the letter of intent required Bishop to have a certain level of working capital. Therefore, the amount of working capital turned out to be a problem for the seller as the working capital requirement was only achievable, if he did not pay himself a dividend or if he was able to increase Bishop's cash flow. In case the seller had nonetheless paid a dividend, the purchase price would have been lowered accordingly due to the letter of intent. To circumvent this the seller had intended to pay out the dividend after he invoiced a substantial amount for one of Bishop's top projects. The seller did not provide further detail, but he was not able to invoice his customer due to delays in that top project. Faced with that issue the seller asked the managing director of the TIC-company to delay the transaction process until Bishop was able to receive the outstanding money from the customer. The managing

director of the buyer explained that this was a big issue and interfered with the post-merger integration plans. Nevertheless, the managing director of the buyer reluctantly accepted the delay as the Earn-Out, i.e. the variable instalments of the purchase price were not only linked to the planned profit, but also to Bishops operational cash flow. Furthermore, the seller promised to fulfil the working capital requirement he had agreed to earlier. The buy-side auditor stated that after the Due Diligence was finalised and before he was allowed to send out the draft for the sale and purchase agreement there was a major interruption in the process. He was aware that it had nothing to do with findings of the Due Diligence but was due to the fact that a payment from a large project was delayed, which the seller wanted to use to pay himself a dividend. With regard to these issues, he explained that seller and buyer had already been wrangling, so that the preparation of the draft contract was delayed until this issue was concluded. The seller's lawyer reported the delay as well as he had to wait about 1 ½ months for the draft purchase agreement. He explained that in his understanding buyer and seller agreed that an expected larger payment from an ongoing project should be used to make another dividend payment to the seller. The seller's lawyer explained that this topic was a commercial question, i.e. how much purchase price does the buyer waive or how much does he get for the receivables and the cash that is still in the company at the time of the sale.

Regarding the sale and purchase agreement, the sell-side auditor explained that the draft contained a relatively hard list of obligations on the part of the buyer. There were obligations to cancel the purchase by means of options if the number of employees fell below a certain level or the seller left the company. These obligations were relatively tough, in the auditor's view and rather unusual demands because a seller wants to ensure that once such a transaction has been completed it can no longer be reversed. In addition, many provisions were concerning the Earn-Out arrangement that were supposed to balance the seller's purchase price claim in terms of risk, e.g. regarding profit, cash flow and growth. The negotiations that followed were tough. The sell-side auditor explained that unsurprisingly the seller, his M&A consultant and their lawyer did not like many of the obligations presented in the draft sale and purchase agreement. However, after three rounds of negotiations a common ground was found, among other things through catch-up possibilities for the Earn-Out. The compromise was that the Earn-Out would also be paid, if the goals were reached one year later.

The sell-side auditor explained that although the process as a whole took a relatively long time – nearly a year – with three rounds of negotiations the discussions concerning the sale and purchase agreement went along relatively fast. In his opinion the process speed up a lot, because the seller's lawyer, after being relatively tough at the

beginning of the negotiations, may have been asked to be a little more flexible so that the sale could be implemented.

The seller's lawyer explained that he received the first draft of the sale and purchase agreement from the buyer after the Due Diligence was officially completed. Apart from the sale and purchase contract, he examined the seller's new employment contract as well. The employment contract mirrored many points of the purchase agreement, because seller and buyer agreed that the seller would remain in the company for three more years. Furthermore, the seller was required to look for a successor together with the buyer, which was included in the purchase agreement and financially incentivised. The seller's lawyer explained that, as the buyer had drafted the sale and purchase agreement, it was "naturally buyer-friendly". Especially a put option, i.e. the possibility to transfer the company back to the seller if certain events occur, was a deal breaker from the sell-side's point of view. For the seller's lawyer the call and put options to reverse the sale as well as dividend rights and the required working capital position were issues that could have led to the negotiations failing, if no solution had been found. Additionally, in his view the retention for warranty risks was simply too high and had to be lowered. In the end for the seller's lawyer, there were no insurmountable hurdles as his aim during the negotiations was always to find a solution to every contentious issue. The solutions found encompassed amongst others that both sides could reverse the purchase and that the reasons for triggering these call and put options were set in a much broader fashion. The seller's lawyer explained that he met with the buyer four times for personal negotiations until they reached an agreement. He explained that he received the sale and purchase agreement in April and that the signing happened in June. The closing of the transaction then followed in August.

4.3.6 Closing of the transaction

The seller explained that it was very important for him to know his employees would continue to have a job and in consequence, that Bishop's story would continue. For him this was more important than: "...getting the maximum Earn-Out." Therefore, he would not sell his business to a buyer who just wanted to get his employees and clients and change the company's name at the day of the sale. For him it was important who would take care of his company and his employees in the future. On the other side, it was clear for the seller that he wanted to retire and thus stay with the company only for a limited period. Furthermore, the seller stated that he had not accepted an external manager installed by a buyer, since he wanted to continue his business with the degree of freedom he felt

necessary to have. All of this the seller thought to be provided by the TIC-company and therefore decided to sell Bishop to them. He explained that his decision in the end was all about “gut feeling” and since he had a positive feeling towards the TIC-company and the people representing it he signed the sale and purchase agreement.

The seller’s lawyer stressed that apart from the purchase price the seller wanted a buyer that was a financially strong partner, but was not a competitor. Furthermore, unlike a financial investor, the buyer should have an operational interest in the company and grant the seller a certain level of entrepreneurial freedom.

The managing director of the TIC-company explained that the future management of Bishop was the topic he worried about most. The seller wanted to stay with the company only for two years. Finally, it was agreed that the seller would stay for three years and that he would train a successor for his job together with the buyer. For the managing director of the buyer the topics that were the hardest to deal with before the signing and closing of the transaction were in particular the liquidity and withdrawals, i.e. dividend payments that were made before the closing of the transaction. Yet he felt that the deal reached, based on future profitable growth with more employees and a new managing director was the key to a successful acquisition. The seller could receive the purchase price he wanted to get, while the risk was shared equally between buyer and seller: “We had to pay only a part of the purchase price initially and if things went as planned the seller would receive a premium.”

The sell-side consultant explained that the hardest part for him was to explain the rather complicated Earn-Out structure to the seller. For him the seller was driven mainly by the purchase price. Other aspects the continuation of the business were of lesser importance: “The seller wanted to feather his own nest and if the employees also have a future, that is helpful”. Yet the sell-side consultant acknowledged, that sellers often act very detached and say that the company name and employees are not important, but sometimes it turns out that the company is the baby and should be continued in the sense of the former owner. The buy-side auditor explained that the decisive topic for the closing of the deal was the design of the Earn-Out and therefore, at the end of the day, the amount of the purchase price and how much it was variable and according to what criteria. In his view, companies like Bishop are only sold, if there is trust between buyer and seller. Hence, the purchase price is only a ticket, but in the end, it comes down to the soft factors.

Process Milestones - BISHOP	
Date	Item
Mid of September	Teaser received by buyer

23 rd of September	NDA signed
05 th of September	Management presentation
01 st of October	Letter to owner by TIC-company
06 th of December	Indicative offer / LOI
11 th of December – 05 th of April	Due Diligence
05 th of April	Request to hold transaction for 2 months
03 rd of May	First Sale and Purchase Agreement draft
April – June	Negotiations
02 nd of July	Signing
31 st of July	Closing

Table 15 – Process Milestones Bishop

Source: Author

5. Analysis - Determinants for buyer selection

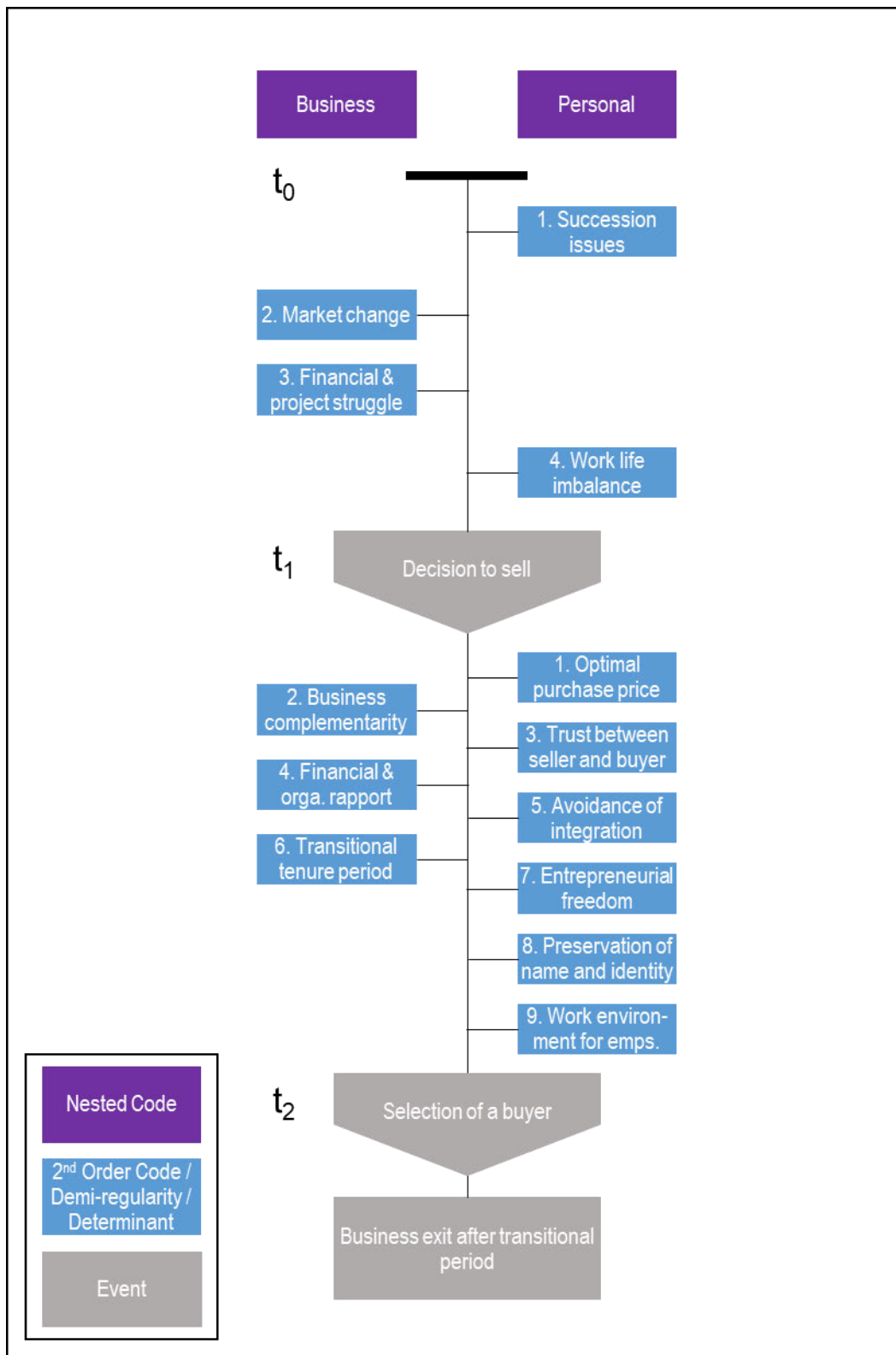


Figure 9 – Determinants for buyer selection
Source: Author

5.1 Determinants for buyer selection

Different from the previous chapter, which established the case reports refraining from analysis in order to provide as much context as possible and to establish a chronological order of events, now the data analysis shall be presented. Hence, this chapter identifies the determinants that led to the selection of a buyer by the family firm owners in the three case studies. The determinants for buyer selection are represented by the second order codes or in critical realist terminology the demi-regularities. These 13 demi-regularities are presented and discussed in the following sections 5.2 and 5.3 of this chapter.

In a second step after theoretical redescription or retrodution of the demi-regularities the underlying mechanisms for the selection of a buyer are conceptualised in chapter 6 and thus represent the conclusion to the research aims and objectives one and two:

1. Why do first-generation owners decide to sell their businesses?
2. How and why do they select a particular buyer?

The 13 demi-regularities are based on 55 first order codes. The first order codes stem only from the data - interviews as well as archival data - and are not based on theory. In order to create the first order codes I summarised a part of text and assigned a word or a short phrase to it. As advised by Fletcher and Saxena I employed an additional nested code based on the personal and business level of the data. This nested code stems from the M&A literature regarding the motives of sellers to engage in M&A activities and seems to be generally accepted as described by Sabel (2015) and Wirtz (2017).

To create the second order codes or demi-regularities I used deduction. Again, I followed the approach of Saxena (2019) and thus grouped the first order codes based on their underlying similarity. The second order codes were mainly derived from existing literature and therefore are inferred deductively. The nested codes regarding the level was continued as well. However, different from Saxena and in line with Fletcher I consider my second order codes to be demi-regularities as these tendencies showed up in all three case studies.

Based on the descriptive narrative, i.e. the case reports and the demi-regularities I created a causal explanation of explicit theoretical form as proposed by Saxena (2019). In order to do so I started with a mind-map like Fletcher (2017). With the mind-map I intended to create a critical realist framework as proposed by Aastrup (2000). In order to create the framework I arranged the pre-coded information, i.e. the demi-regularities and the nested code, i.e.

business or personal level into a chronological order based on the descriptive narrative and the broader context. Additionally, I arranged the demi-regularities due to their explanatory power regarding the decisions taken by the owners and kept them sorted by the nested code.

In accordance with the temporal bracketing, it became clear that the sales process was marked by a clear distinction between two main phases. The first phase encompassed the timeframe during which the owners made up their mind in order to come up with a strategy that led to the decision to sell their business, which is elaborated on in section 5.2 of this chapter. In consequence, I was able to assign four demi-regularities to the first phase: 5.2.1 Succession issues, 5.2.2 market change, 5.2.3 financial and project struggle and 5.2.4 work life imbalance.

The second phase deals with the selection of the best possible buyer and is presented in section 5.3. For the second phase that led to the selection of a buyer I was able to assign nine demi-regularities: 5.3.1 Optimal purchase price, 5.3.2 business complementarity, 5.3.3 trust between seller and buyer, 5.3.4 financial and organisational rapport, 5.3.5 avoidance of integration, 5.3.6 transitional tenure period, 5.3.7 entrepreneurial freedom, 5.3.8 preservation of name and identity and 5.3.9 work environment for employees.

Furthermore, their ranking represents the importance of the demi-regularities for the seller's decision making, i.e. succession issues were the most important demi-regularity for the decision to sell the business and the optimal purchase price was the most important demi-regularity for buyer selection.

Following Discua and Hamilton (2022) for all of the 13 demi-regularities, a link to all 55 first order codes and the data is presented in the form of a table at the end of each subsection in section 5.2 and 5.3.

5.2 Decision to sell the business

5.2.1 Succession issues

In all three case studies, the owners faced succession issues. All of them were less than a decade away from the retirement age in Germany. While only one of the owners mentioned issues directly related to his current age, all of them worried about business continuation after their retirement. Hence, they felt the need to find a solution for the succession issue. Relatively early it became clear that family succession was not an option. The owner of Knight actively approached his children, who right away refused:

At that time my oldest one was 18 years. None of my three children wanted to study engineering and they told me that they had no interest to take over the company. Which I can understand as they had told me

numerous times that they did not like my work-related moodiness. But what shall I say having your own business is hard (Frank, Knight's Owner).

The three owners of Castle did not even contemplate a family succession option. For them it was clear, that none of their children or family members were qualified or had the ambition to take over the business. The owner of Bishop would have loved to hand over his business to his stepdaughter a construction engineer, who had helped in the family business since her youth, but she had a different life plan.

After the family succession plan for Knight, Castle and Bishop failed the owners of Castle and Bishop tested the water for a management buyout. The owner of Knight considered none of his employees fit to engage in a management buyout process and thus did not pursue this option any further. For Castle the hope for a management buyout even led to the appointment of two external managers in an attempt to convince these former employees to take over the business. Nonetheless, the employees feared the risks and more importantly did not have the money to buy out the business. Even though one of Castle's owners mentioned that he might have given away the company to the external directors for free, the statement that the management buyout failed because the employees were not able to provide bank guarantees for a purchase price made this illogical:

We absolutely trusted a young employee to take over the company. She was strong both professionally and technically as well as in sales, but she shied away from the entrepreneurial risk. However, the two [employees considered for a management buyout] did not want to do this under any circumstances, on the one hand because they had also seen with us what self-employment meant, and on the other hand also because they did not have enough assets to obtain a bank guarantee for the loan to pay the purchase price, i.e. they had no real estate that could have been pledged as collateral (Uwe, Castle Finance Manager Owner).

The same applied for Bishop. The owner asked his best employee, if he was willing to take over the business, which he refused with the same arguments stated in the other cases, e.g. entrepreneurial risk, different life plan and lack of financial resources:

At the age of 60, I felt that I had to take care of a succession plan. I have a very good employee to whom I would have loved to pass on the office. I then talked to him, but he did not want to take over the business. It was not the centre of his life at that time, because he had just had children and bought a house (Stefan, Bishop Owner).

One of Castle's owners and the owner of Bishop even went so far as to consider a business liquidation after the plans regarding the management buyout did not materialise. However, these statements should be taken with a grain of salt as a business exit like that would lead to substantial financial losses for the owners. Realising this themselves the owners of Castle and Bishop stated that after giving that exit option some thought they considered it not feasible. However, to underline how dire their current situation was to the point of desperation to find a solution for the succession issues, which grew more pressing year by year, they stated that they were even ready to go out of business.

Case	Text block	First order codes	Level	Demi-reg
Dirk - Bishop Buy-side consultant	"It was clear that...the sale was part of a succession plan."	Early succession planning	Personal	Succession issues
Frank - Knight Seller	"I built it by myself, so I can sell it myself."	Owner is entitled to sell his business	Personal	
Peter - Castle Sales Manager Owner	"We have spoken several times with some employees, but nobody wanted to take the entrepreneurial risk."	Management buy-out failed	Personal	
Stefan - Bishop Seller	"My step-daughter could have taken over, but her plans for life were different".	No family succession	Personal	
Peter - Castle Sales Manager Owner	"I was not unhappy that others took over [my tasks]"	Replacement of own role	Business	
Stefan - Bishop Seller	"My role model was...an entrepreneur friend [who] ... pulled out of the company bit by bit".	Idea to sell the business by a peer	Personal	

Table 16 – Example for all first order codes link to second order code Succession issues

Source: Author

5.2.2 Market change

The German construction planning and consulting market changed dramatically during the lifecycle of Knight, Castle and Bishop. All three companies were start-ups in the early 1990ies. Boosted by Germany's reunification the construction marked boomed and many construction engineers set up their own business. Companies like Knight, Castle and Bishop, which survived the following construction and housing crisis, proved the robustness of their business model and were able to grow slowly but surely over the next twenty five years. The modest growth put them in a range from 2 – 4 m EUR in revenue and 15 – 40 employees. When the owners started to feel their succession issues, the German construction market began to change again with substantial consequences for

construction planning and consulting. In the aftermath of the financial crisis and the Eurozone debt crisis a downward spiral of low interest rates and unprecedented quantitative easing was the 'whatever it takes' to stabilise the Euro. The following capital inflow did not only lead to increased stock market performance, but to brick and mortar investments Germany had not seen for decades. In consequence, the German construction industry grew by more than 30% from 2012 to 2019.

This favourable market situation spurred the growth of Knight, Castle and Bishop. However, with an increasing number of building projects and increasing project size, complexity and demands especially for MEP planning as well as consulting started to grow. This coincided with a shortage of skilled workers in STEM (science, technology, engineering and mathematics) professions. The overall quality of construction planning started to decrease and especially the interface management within the value chain, e.g. between architects and the following implementation planning took its toll on the industry. Hence, Castle's buyer explained that the share of MEP planning in construction projects is becoming larger and more complex:

[Construction] projects grow larger and larger and more and more complex. In the past, it was a rule of thumb that building services would account for just under 20% of construction costs, but today it is more like 30% (Holger, Castle Buyer Managing Director).

Unsurprisingly, what followed was a market concentration. Knight's M&A consultant stated that the market simply required bigger MEP planning offices with more qualified engineers, i.e. more manpower:

Increasingly, it became apparent that the quality of the technical planners differed. This, combined with an increasing complexity of the projects, led to the fact that the size requirements of the clients for the technical specialist planners increased (Martin, Knight Buy-side M&A Consultant).

Another challenge for construction planning and consulting especially MEP is to obtain construction permits. Authorities in Germany have to deal with a growing volume of building applications, while the approval procedures get more complex year by year, e.g. regarding sustainability. Furthermore, the public service faces the same challenges to find qualified personal to asses building applications. In addition, the digital transformation requires

construction planning and consulting firms to invest in new IT solutions and to implement them, e.g. in Germany all public construction projects require BIM based planning from 2020 onwards.

Although faced with that changing market all owners stated that they never had to actively promote their offerings in the last decade as the demand for their niche planning and consulting business was always higher, than the capacity they were able to provide with their teams.

Case	Text block	First order codes	Level	Demi-reg
Michael - Knight Sell-side consultant	"Size does really matter now."	Market requires bigger planning offices	Business	Market change
Peter - Castle Sales Manager Owner	"In my view, this is also related to the fact that there is a clear trend towards concentration in this market. In the future, there will be a number of large planning companies, and the question is simply whether we, as a small office, could have survived in this market environment in the long term."	Market concentration	Business	

Table 17 – Example for all first order codes link to second order code Market change

Source: Author

5.2.3 Financial and project struggle

The changing German construction market required companies like Knight, Castle and Bishop to carry out bigger and more complex planning and consulting projects. These building projects usually run between three to five years with varying profitability during the construction phases at least partially determined by the Official Scale of Fees for Services by Architects and Engineers. As explained by the owners usually the early planning phases have less interface problems and are generally considered to be very profitable, while later phases especially those requiring supervision on site are considered to be substantially less profitable. However due to the divergence of performance period and accounting period concurrent project costing is quite challenging and requires a more sophisticated management approach as shown in the Due Diligence reports and underlined by the consultants. Knight, Castle and Bishop did not have concurrent project costing and valued all work in progress based on the percentage of completion of their planning and consulting projects. Overstated work in progress leads to overstated profits, which at the end of a planning project have to be corrected via depreciations. The bigger and more complex projects were however, often times plagued with delays, interface problems and subsequent planning errors. Without a robust project cost controlling based on fully-distributed costing using historical costs and hour recording for a target/actual comparison Knight, Castle and Bishop were not able to identify project problems at an early stage. Thus, they

lacked the ability to take measures to mitigate the planning issues before these turned into substantial problems with a negative financial impact. Hence planning errors inevitably and unbeknownst to management led to cost overruns as more man-hours were required for planning and consulting than initially budgeted. In addition, without early warning regarding cost overruns Knight, Castle and Bishop were never able to take in orders for amended or additional work as the problems are often based on plan amendments. These plan amendments would entitle the planner to stop his work until the customer contractually accepts the additional planning. Furthermore, not all planning errors can be identified during the initial planning phases. Hence when an office building with its MEP components like heating and air conditioning, plumbing and electric supplies is actually built these errors surface. Subsequently the construction supervision phase deals with the building defects and the fight between the suppliers starts who is responsible for the defects. For the planners the question always is whether the building defect exists due to a planning error or resulted from mistakes made on site and thus if a warranty claim for the planner is justified.

As explained these project struggles did not surface immediately but with a considerable time-shift, while the profitability may look very promising at a certain point of time during a project the overall project performance can be quite devastating. This is why one of Castle's owners called projects like this disaster projects. Furthermore, if the project mix between profitable and cash positive early phase projects and less profitable late phase projects gets out of balance the company as a whole might be endangered by a cash crisis:

One problem ... was certainly the project structure. We had a lot of ... these 'disaster star architect projects', like hospitals and data-centres. Unfortunately, in the last few years before the sale, the ratio of bread and butter projects to 'disaster star architect projects' tilted... (Uwe, Castle Finance Manager Owner).

Unsurprisingly the owner of Knight pointed out that, if he had had the commercial support he has today before the sale of Knight, he might not have sold his business at all. After the sale, Knight's owner hired a commercial manager together with the buyer, thus he had more support in the business administration tasks:

My biggest mistake or key mistake was that I never hired a commercial manager, but always calculated everything myself... In retrospect, I would say that if I had had a commercial guy like I have today, I would not have sold (Frank, Knight Owner).

Case	Text block	First order codes	Level	Demi-reg
Frank - Knight Buyer	"...the seller had taken in several large projects before the sale, which were very profitable in the initial stages of the project, but turned out to be loss-making in retrospect."	Project trouble	Business	Financial and project struggle
Uwe – Castle Finance Manager Owner	"...a service company with around 50 employees has to be managed differently than a company with 10 colleagues - at such a size, everything is still largely under control and communication in particular is still relatively simple."	Organisational issues	Business	
Ralf - Bishop Sell-side Lawyer	"A payment from a large project was postponed, i.e. we had to wait for 1 ½ month to continue the process."	Financial problems	Business	

Table 18 – Example for all first order codes link to second order code Financial and project struggle

Source: Author

5.2.4 Work life imbalance

The changing construction market spurred the growth of Knight, Castle and Bishop. Knight and Castle nearly doubled in terms of work force and had to move into bigger office spaces and Bishop started to offer its consulting services all over Germany. For Knight this even led to multiple sites. Maybe the growth happened at a rate too fast for the organisational set up, which did not grow alongside the revenue. The span of control for the owners who still managed the daily business got out of hand and the organisation lacked some sort of middle management. The owner of Knight appointed one of his colleagues as an additional manager, the same happened with Castle where two employees joined the management team alongside the three owners. Nonetheless, the owner of Knight explained that he had to do the accounting and cost controlling during the weekends together with his wife. For him managing two sites and taking in three big and complex new planning projects at the same time was too much. Hence, he considered himself near a burn out:

I wrote all the invoices myself, had six or seven excel spreadsheets [for cost controlling] I actually had a good overview with the linked tables, but during the weekend I entered the billable hours of every employee by hand. We ended up with 27 people just in the main office. I would not say I was on the verge of burn-out, but at some point it just became too much for me (Frank, Knight Owner).

The work life imbalance for Knight's owner got so big that only after he sold his company he told the buyer he was finally able to sleep again at night:

In retrospect, the seller told me that he could simply sleep better after the sale because he no longer had to constantly think about the liquidity of his company (Werner, Knight Buyer Managing Director).

Castle's owner responsible for finance matters explained that he had done 60-70 hour weeks for the last thirty years but now age took its toll. Hence, he could not continue this lifestyle especially as one of his partners decided to pursue a career at a university of applied sciences and slowly but surely reduced his work load. At the same time the number of disaster projects for Castle got out of hand. Unsurprisingly his partner concerned with sales for Castle explained that after the business exit was completed he felt an incredible weight lifted off his shoulders. In consequence, Castle's owner responsible for finance contemplated quitting his job to reduce the workload and stress level or to convince his partners to close down the company:

I had an exchange with my founding partner and said that it couldn't go on like that and that I would give up my management activities and effectively quit. For the last thirty years, I have worked 60-70 hours a week, and I just couldn't go on like that. There were even times when I worked through every Saturday and Sunday for seven weeks. If it hadn't been for me, the company would probably have gone bankrupt sooner or later ... (Uwe, Castle Finance Manager Owner).

Working overtime was the rule not the exception for the owner of Bishop as well. If a customer required it, Bishop's owner and the staff always used to go the extra mile especially during a technical Due Diligence and on the way to obtain construction permits. For Bishop doing its consulting work upstream in the value chain starting at an earlier stage than Knight and Towner this meant often times carrying out unpaid preliminary work without a consulting contract for multiple projects at the same time. As the owner explained, his reasoning was that by showing such commitment towards his customers he would be in the pole position, if one of the projects did actually materialise. His rule of thumb was that out of five projects Bishop would without doubt always win one contract and do the

project management. Yet a changing construction market led to a plethora of tentative projects and Bishop's sales approach reached its limits. Hence, after his former business partner had retired, Bishop's owner relied heavily on his stepdaughter to deal with the ever-increasing workload. Therefore, she became over time an unofficial manager of the company. When she decided not to take over the business and took maternity leave the workload was again on the shoulders of Bishop's owner.

Case	Text block	First order codes	Level	Demi-reg
Frank - Knight Seller	"I knew every employee, every project [for three sites and two companies] ... it was incredibly time consuming."	Work load	Personal	Work life imbalance
Uwe - Castle Finance Manager Owner	"...when my partner accepted a professorship, the stress simply became too much for me in terms of workload. I was responsible for the finances, for the personnel and later also for the acquisition of new orders. I continued to be the boss for the employees and the colleagues naturally unloaded all their worries and needs on me."	Stress	Personal	
Stefan - Bishop Seller	"Working night shifts and weekends has always been the rule not the exception – we have to go the extra mile to win a contract even for free in the beginning."	Fear of burn out	Personal	
Uwe - Castle Finance Manager Owner	"Another approach might have been to scale back, i.e. reduce staff and no longer accept new projects. The only problem is that although this is theoretically possible, it is not possible in practice. If you have a lot of large, long-running and prestigious projects, it is difficult to say that you are stopping."	Going out of business	Personal	
Uwe - Castle Finance Manager Owner	"In that meeting ... my partners and I then took the decision to sell the company. We then looked for an M&A consultant who managed the process for us."	Decision to sell	Personal	
Peter - Castle Sales Manager Owner	"Consequently, when we managed to sell the company the burden was lifted from my shoulders."	Less responsibility after a sale	Personal	

Table 19 – Example for all first order codes link to second order code Work life imbalance

Source: Author

5.2.5 Summary - Engagement in the sales process

In the following section, a short summary of the four determinants for the decision to sell in the three case studies is presented. As the determinants for the decision to sell represent the second order codes and are equal to the demi-regularities at the end of this section a figure is employed. This figure shows the critical realist framework for the decision to sell as it puts the demi-regularities into a relation regarding their importance, interdependence and chronological order. In addition, the figure shows the events during the first phase of the M&A or sales process and the nested code concerning the business or personal domain of the determinant.

The first phase of the sales process encompassed the timeframe during which the owners made up their mind in order to come up with a strategy that led to the decision to sell their business. In all three cases the owners described turning points where the decision to engage in the process was taken.

Knight's owner explained that he had tasted blood, when he met a friend of a friend who had sold his business in a comparable situation. After the meeting with that distant acquaintance and the things he had learned from it, Knight's owner engaged an M&A consultant and started the sales process:

But the psychological tension was very high ... there was trouble with the projects, there was ... stress and in this situation someone asked me if like to sell my office. A friend of someone who had sold his engineering office. I said, 'I don't know if I'd like to do that' and he said, 'Think about it and I'll come and visit you'. Then he came over with someone ... who had sold his office to a large service company from southern Germany. After this visit I had tasted blood (Frank, Knight Owner).

Castle's owners had a heated discussion regarding the future of their business and as a result, they engaged one of the M&A consultants that regularly send them advertisement letters:

After that [failure of management buyout] was clear, I had an exchange with my founding partner and said that it could not go on like that and that I would give up my management activities and effectively quit... In that meeting ... my partners and I then took the decision to sell the company. We then looked for an M&A consultant who managed the process for us (Uwe, Castle Finance Manager Owner).

Bishop's owner found a role model in one of his entrepreneur friends. Said friend had done a management buyout and was able to reduce his workload bit by bit. Since Bishop's owner was not able to do a management buyout, he engaged an M&A consultant to sell his business and reduce the workload gradually over a transitional period:

My role model was actually an entrepreneur friend who handed over shares in his company to his best employee and who then pulled out of the company step by step. He has a phased retirement, only half days in the office, and he gave me some advice (Stefan, Bishop Owner).

In summary the starting point for the owners in all three case studies were the succession issues, which got more pressing year by year. However only after family succession was considered impractical or impossible and other

internal succession options via a management buyout failed the owners of Knight, Castle and Bishop started contemplating a business exit via an external sale.

All of this was spurred by the change in the German construction market, which was genuinely positive for the companies, but resulted in capacity adjustment issues for Knight, Castle and Bishop. The growing pains of the three construction service providers were so severe that they resulted in project struggle and hence financial struggle that endangered the very existence of the companies. Unsurprisingly the business struggles equalled the personal struggles of the five owners. The work life imbalance of the owners got out of hand and in consequence, they were ready to sell their companies.

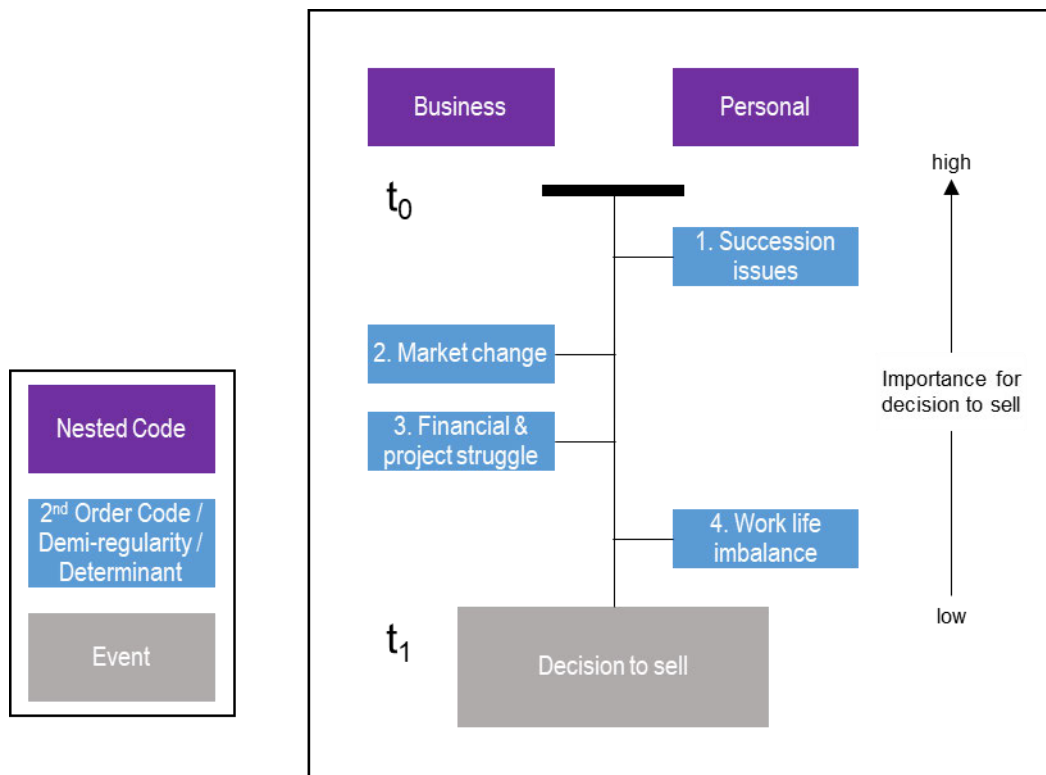


Figure 10 – First phase – Decision to sale – Second order codes / Demi-regularities
Source: Author

5.3 Selection of a buyer

5.3.1 Optimal purchase price

The sell side M&A consultant of Bishop explained that company valuation "... is not voodoo magic". The indicative business valuations in all three case studies followed the rule of thumb in the German Mittelstand (Schwartz, 2019) and equalled one times turn over. Accordingly, the owners of Knight, Castle and Bishop knew about the market value of their companies. All sellers started their business exit process with independent M&A consultants. One of the first steps for the consulting companies was to prepare an indicative business valuation. Thus, for the owners of Castle it was quite a surprise to find out that they were actually able to sell their business and to receive a decent purchase price for it. The M&A consultants of all sellers unsurprisingly tried to achieve an optimal purchase price as the bulk of their fees was linked to the achieved purchase price. Hence, in all three cases, the consulting companies conducted a broad market search for potential buyers and only certain direct competitors or companies with which the owners had encountered issues in the past were excluded from the marketing process. While Knight, Castle and Bishop were too small to conduct a strict auction process, the consulting companies nonetheless tried very hard to achieve a controlled sales process with a group of interested parties.

Knight's owner stated that he received five financially interesting indicative offers for his company: "In terms of the purchase price, all the interested parties were actually close to each other." Hence, a comparable company valuation or a comparable indicative purchase price was for Knight's owner a precondition for the preliminary buyer selection. However, during the process Knight's owner ruled three of the five bidders out as he felt they were not ready to pay the expected purchase price:

There was a third bidder I considered - a construction company a so called general contractor - but after two meetings and some further discussions I had the feeling that they just didn't trust my numbers and kept questioning everything so I ruled them out (Frank, Knight Owner).

With the same reasoning, Knight's owner ended talks with the fourth bidder: "I also had a conversation with another large construction company focused on infrastructure, but they weren't ready yet to be able to imagine a company with my business model in their group."

The same happened to the fifth bidder: "...this company had a better understanding of my business model because they had already acquired a small construction planning office. It's just a niche topic and the buyer has to weigh up whether it fits into his portfolio."

The owner of Knight stated that in the end his decision for the buyer was based 50% on gut feeling. He pointed out that the purchase price is important, but more important for buyer selection was trust. It was very important for him that he felt he could trust the management team of the buyer and especially the employee responsible for accounting from the buyer's team:

In the end I can say that 50% of it is definitely a gut decision and that the human component counts in particular. It is important to gain the confidence that you could work successfully with the other party in the future. One of the buyer's employees said in one of the Due Diligence interviews, if you join us you will be well off (Frank, Knight Owner).

However, the owner of Knight also stated, that the first thing he did after the sale was to check how long the money he received would last. Furthermore, he pointed out that for him it is always important to make more money, hence he negotiated amongst others to benefit from future acquisitions of other planning companies:

I was supposed to participate in this by managing the acquired companies. I am someone who always wants to develop further, who wants to move forward...For an entrepreneurial person, it is of course also important to always get more and more money out of something like this (Frank, Knight Owner).

Additionally he required to benefit from an age related tax optimisation opportunity, although he had not reached the required age. This made the deal a lot more complex but enabled him to receive a substantial portion of the purchase price free from income tax.

During the Due Diligence it became clear that something was wrong with Knights financial figures, however the deal was closed eventually. The buyer managed to negotiate an earn-out, while the overall amount of purchase price stayed at the same level. As the managing director of the buyer explained, there were certain limits regarding the purchase price, which could not be undercut:

For the seller there were certain fixed limits regarding the valuation, which could not be touched - even though we agreed upon an Earn-Out and coupled a part of the purchase price to the profit of the next three years at a very early stage in the process. So if we hadn't offered the corresponding purchase price, the deal would definitely not have been done, despite the above-mentioned temptations (Werner, Knight Buyer Managing Director).

After the transaction in the post-merger integration phase, it became clear to the buyer that Knight had taken on three large and unprofitable projects just before entering the sales process. The question for the managing director of the buyer remained, if the owner of Knight did this just for window dressing purposes and shifted profits to the early project phases:

In retrospect, it turned out that the seller had taken on several large projects before the sale, which were very profitable in the initial stages of the project, but turned out to be loss-making as a whole...The seller used the different profitability in the phase of his projects to optimise the company for sale...this may have been the reason for the pressure to sell (Werner, Knight Buyer Managing Director).

The owner of Knight carried out the Due Diligence in parallel with two bidders. However, when it became clear that one of the two remaining bidders wanted to do an asset deal or in other words intended to pay a lower purchase price the negotiations were ended:

Suddenly only an asset deal was possible and the potential buyer only wanted to get people or individual projects and the 'scrap' should stay with me (Frank, Knight Owner).

The M&A director of the buyer plainly stated that the owner of Knight did really everything to achieve the highest possible purchase price and that is in line with what the M&A consultant of Knight explained and how the process, e.g. negotiating in parallel for as long as possible was set up.

The three owners of Castle made it very clear that the most important criterion for buyer selection or in other words for potential buyers to enter the process was the offered purchase price. The finance manager owner of Castle explained that he and his partners received five financially interesting offers. The operation manager owner considered three of these bidders to be serious in terms of valuation. For him a clear deal breaker was the intention of the bidder who later became the buyer to reduce the purchase price after unfavourable Due Diligence results. The operations manager owner would have even been ready to terminate the whole process, had the buyer not changed his mind and stuck to the initial purchase price:

During the final stages of the negotiation, the buyer's head of finance showed us the findings of the Due Diligence and therefore demanded to reduce the offered purchase price. I was ready to end the negotiations right away, but we made it in the end (Bernd, Castle Operations Manager Owner).

Castle's sell side consultant corroborated this as he explained what happened during the negotiations:

There came a point when the head of finance said these are the findings of the Due Diligence and therefore we have to reduce the price. I then went out of the room with the three sellers and we clearly stated that we would terminate the process if the buy-side did not adhere to the previously agreed key points of the LOI – take it or leave it (Oliver, Castle Sell-Side M&A Consultant).

The sales manager owner underlined that they decided in favour of the bidder, who offered the highest purchase price:

The most important criterion was the purchase price - there was a 30% difference between the offers. If the offers had been equal in price, I would still have tended to the buyer because of the acquisition issue. The most important soft factor for me was the no longer necessary sales task (Peter, Castle Sales Manager Owner).

Castle's M&A consultant pointed out that the decisive criterion for buyer selection was the financial package. The finance manager owner actually stressed that because all interesting offers were in the same ballpark he and his partners were able to look for other criteria as well.

The owner of Bishop explained that he received three attractive offers with a comparable purchase price. His M&A consultant was more open and explained that they received several more offers but together with the owner, they decided to reject all offers with a purchase price considered as too low:

There were several indicative offers. But in some of them, the purchase price was simply too low or the variable portion too large. The seller then rejected these offers (Jan, Bishop Sell-Side M&A Consultant).

Bishop's owner further explained that he was less concerned about the amount of purchase price and more focused on personal chemistry and trust between him and the potential buyers. However, the whole transaction process stalled for nearly two months when the owner of Bishop was not able to pay out a dividend to himself before the transaction was closed. Due to issues in a construction project Bishop simply lacked the cash to pay out such a substantial dividend. In consequence, the buyer had to wait until Bishop got the money from his customer and the monetary package for the seller worked again. Furthermore, Bishop's owner explained that it was more important for him to see his company's story to continue and his employees to have a job than to achieve the maximum possible earn-out. In line with that, he accepted the offer of the buyer, which included an earn-out, i.e. that half of the purchase price was linked to profits and growth over the next three years. Hence, Bishop's owner explained that he "... did not negotiate the first offer very hard - perhaps a mistake in retrospect was to accept an earn-out." In stark contrast to that Bishop's M&A consultant explained that the owner was mainly driven by the purchase price / earn-out and foremost wanted to feather his own nest:

I think the seller was driven by the purchase price. Of course it was also important that the company continues to exist, but I think the financially good exit was most important, if the employees also have a future, that is helpful. It was an issue, but not a huge issue here, the seller was more like, I want to feather my own nest (Jan, Bishop Sell-Side M&A Consultant).

Accordingly, all stakeholders described the contract negotiations especially the negotiations regarding the earn-out as very tough.

In summary, the most important criterion for all sellers during preliminary buyer selection was the purchase price offered. From the process, it became clear that all bidders unwilling to offer the required valuation were excluded immediately. In the end, the owners of Knight, Castle and Bishop received a purchase price that was equal to or slightly higher than a company valuation based on a multiple of one times turn over. This is not surprising as a valuation in that ballpark seems to be industry standard in the small cap area of the German Mittelstand. Since all sellers had M&A advisors they were aware of the market price of their business. Unfavourable findings during the Due Diligence of the buyers did not lead to an overall reduction of the purchase price but resulted in adjustments to the variable portion of the purchase price. Hence, the variable portion of the purchase price for Knight, Castle and Bishop was between 30 – 50 % due to an earn-out period of three years. The sellers accepted this risk sharing as it was based on their budgeting for the next three years. Furthermore, all sellers except for one stayed with their company during the earn-out period. Thus, the sellers were able to influence the future results of their companies even after the sale and avoided overall reductions of the purchase price. The buy-side M&A consultant of Bishop pointed out that the purchase price is a ticket to enter the process but after the financials are agreed upon, it comes down to the soft factors for buyer selection:

The purchase price and the purchase price amount is a ticket, but in the end it comes down to the soft factors. I think that at the end of the day such [small] companies are only sold if the basis of trust between buyer and seller is right (Dirk, Bishop Buy-Side M&A Lawyer).

In all three cases, the sellers focused foremost on the optimal purchase price during preliminary buyer selections and they did not substitute financial goals with non-financial goals during that phase as proposed by Matschke and Broesel (2008). On the contrary, the sellers and their advisors negotiated a level playing field regarding the purchase price and afterwards tried to achieve beneficial additional non-financial factors like icing on the cake.

Case	Text block	First order codes	Level	Demi-reg
Michael - Knight Sell-Side Consultant	"We spoke with a broad array of different buyer groups and had to do a pre-selection of potential buyers together with the seller in a workshop."	Broad search pattern for buyers	Personal	Optimal purchase price

Uwe - Castle Finance Manager Owner	"We received five offers that were financially interesting for us."	Comparable purchase price for buyer selection	Personal
Frank - Knight Seller	"Then one of my annual financial statements wasn't so good anymore ... as a result, I had to accept an earn-out ..."	Decreasing profitability led to reduction of purchase price	Personal
Michael - Knight Sell-Side Consultant	"...the price was very important for the seller. He did everything in the process to get the highest possible sales price. The total price that we then negotiated with the earn-out was the only one that was really attractive for the seller."	Good purchase price	Personal
Peter - Castle Sales Manager Owner	"The most important criterion was the purchase price - there was a 30% difference between the offers."	Importance of purchase price	Personal
Jan - Bishop Sell-Side Consultant	"Can I [as a seller] get a purchase price high enough to sweeten my retirement?"	Make more money	Personal
Bernd - Castle Operations Manager Owner	"We had no preconceived idea how a perfect buyer should look like – we were completely open in that regard."	No perception of an ideal buyer	Personal
Bernd - Castle Operations Manager Owner	"Of course, we decided in favour of the bidder who made the highest offer."	Purchase price most important for buyer selection	Personal
Werner - Knight Buyer Managing Director	"[Due to a]... considerable tax advantage ...the owner wanted to split it [sale of the company] into several steps."	Purchase price tax optimisation	Personal
Michael - Bishop Seller	"At the time, I was less concerned about the purchase price and more about the chemistry, the transition and how we envisioned it. I always had a good feeling about the way people treated each other from the discussions."	Purchase price vs. chemistry between buyer and seller	Personal
Werner - Knight Buyer Managing Director	"One thing is clear in the M&A business: people lie and cheat as much as they can."	Window dressing for purchase price optimisation	Personal
Uwe - Castle Finance Manager Owner	"The other potential buyers increased their offer, when they learned of the intended negotiation exclusivity."	Negotiate in parallel to get better purchase price	Personal
Oliver - Castle Sell-Side Consultant	"Working with the buyer's consultant was difficult. It was just too much for this small company. They are simply not suitable for medium-sized companies with their corporate thinking."	Intimidating Due Diligence with external audit company	Personal
Uwe - Castle Finance Manager Owner	"Of course, we could not accept this. After tough negotiations, we then agreed that each shareholder would be liable for EUR 150 thousand, or a total of EUR 450 thousand, for planning errors from old projects. This liability was then limited to three years."	Tough contract negotiations	Personal
Holger - Castle Buyer Managing Director	"Based on the results of the Due Diligence, we then requested an earn-out."	Unfavourable Due Diligence results	Personal
Michael - Bishop Seller	"I was then actively approached by an M&A consultant with a financially attractive offer to sell my office. That was the entry point for me into the process. We drew a broad profile of which buyers would come into question and conversely, which buyers would not."	Approached by M&A consultant	Personal
Frank - Knight Seller	"During the process and the problems I realised that I had the wrong consultant, who did not really support me in the negotiations – in the end he just prated."	Dissatisfaction with consultants performance	Personal

Table 20 – Example for all first order codes link to second order code Optimal purchase price
Source: Author

5.3.2 Business complementarity

The classic M&A literature is to a high extend concerned with relatedness and strategic fit of the acquiring company and the targeted company. Regarding Knight, Castle and Bishop it was clear in the beginning of the M&A processes that in order to achieve the highest possible valuation a large group of potential buyers would be canvassed. In consequence, potential buyers were not screened towards relatedness. However, the strategic fit played an important role for the potential buyers identified during the pre-selection process.

Knight's buyer although not active in the area of construction planning covered areas in his investment portfolio, which were up- and downstream to the construction value chain. Hence, the buyer pointed out that he saw synergy potential with his activities in energy cost consulting and Knight's MEP planning. Furthermore as Knight's M&A consultant explained as a TIC-company the buyer had a certain understanding of the sector and the synergy potential. Therefore the overarching idea for the acquisition was a future growth partnership to create synergies with other subsidiaries and to follow a buy and built strategy with organic nationwide expansion and inorganic growth via additional acquisitions of planning companies. Knight's seller saw a greater synergy potential with another and bigger TIC-company already active in construction planning. However, since this potential buyer only offered an asset deal and by this reduced the purchase price the more favourable synergy potential did not matter.

There was more synergy potential with the other engineering and planning offices that were already part of the larger TIC-company. The larger TIC-company also offered to set up a network with several engineering offices. However, I still decided in favour of the smaller TIC-company because I didn't want the issue of an asset deal (Frank, Knight Owner).

For Castle the strategic fit played an even more important role. Due to the sales manager owner following a new life plan as university professor, the three owners hoped to substitute their sales activities by joining a construction company able to provide project inflow. Castle's buyer on the other hand experienced an increasing importance of MEP planning due to a changing market environment. Hence, he offered the owners of Castle to become the joint centre of excellence for MEP planning after the acquisition:

Here I think it was very important that we talked openly about our joint future. We absolutely did not make any promises that we would come in and everything would stay the same. Instead, I showed quite transparently and openly that we had an existing MEP planning and that this had to be looked after. We then also discussed that we would quickly dissolve our MEP department at our HQ and merge it with Castle at their site. We communicated clearly, that the company would be our MEP competence centre at its location. With the acquisition of Castle, we then brought the appropriate MEP competence into the

house. That means short and crisp planning and then scaling the business model together with our operational product unit (Holger, Castle Buyer Managing Director).

Unsurprisingly Castle's owners excluded the potential buyer - a private investor - who had no industry experience at all, although he had offered a comparable purchase price:

We had a private investor who had inherited a lot of money and who wanted to take over our company, but of course had no idea about the business...he was looking for a hobby... That would not have worked out either - neither our employees nor our customers would have been happy with such a buyer, and I don't think this buyer would have been happy in the end either (Peter, Castle Sales Manager Owner).

Castle's sales manager owner pointed out that he and his partners choose the bidder with the best price, but even if all the offers had been equal, they still would have joined the construction company due to their sales issue.

We then decided in favour of the bidder who, on the one hand, made the most attractive financial offer and, on the other, the bidder with whom we felt the company had a long-term future. If the offers had been equal in price, I would still have tended to the buyer because of the sales issue. The most important soft factor for me was the no longer necessary sales task (Peter, Castle Sales Manager Owner).

Bishop's owner could at the start of the process not imagine what a TIC-company would want with a construction project management business. However, his M&A consultant convinced him to give the offer a second thought as he considered TIC-companies financially solid and long term oriented. Furthermore, Bishop's buyer was already active in the area of construction planning and other areas of engineering services, thus a certain degree of complementarity was assumed. Similar to Knight, Bishop's buyer and seller agreed to follow a joint growth strategy with the idea to grow Bishop with a 25% EBIT margin by 1/3 over the next three years.

That's why the buyer's offer suited me so well. The buyer told me, OK, you're too small, but we'll consider together whether we can go on a growth path to increase the size of the company by 1/3. I still think the goals we set together back then are good and achievable (Stefan, Bishop Owner).

For Knight, Castle and Bishop the second most important criterion for buyer selection just after the optimal purchase price was strategic fit. However, this fit is not about aligned business strategy, but it is based on business complementarity, which enables and ensures a profitable future for the companies sold. I consider business complementarity to be more than strategic fit or relatedness. This demi-regularity is based on the approach of Graebner and Eisenhardt (2004, p. 384): "By combination potential, we mean the existence of similarities and complementarities that create opportunities for synergy (Larsson and Finkelstein, 1999)." Business complementarity mattered especially as in all three cases sellers and buyers agreed upon earn-out periods. In consequence, without the complementarity the future variable purchase price may be a lot harder to achieve for the sellers. It is essential to understand that relatedness was not of special importance. Castle was acquired by a family-owned general construction company with external management. However, the character of the buyer being a family business and belonging to the extended Mittelstand was not mentioned once in the interviews. On the contrary, buyer and sellers talked a lot about the complementarity of the two companies. Thus for Knight, Castle and Bishop it was not relatedness but strategic fit or in better terms business complementarity that mattered most after the optimal purchase price.

Case	Text block	First order codes	Level	Demi-reg
Martin - Knight Buy-Side Consultant	"A 'buy and build' strategy was presented to the seller. Regional branches were to be created, including through further M&A activities."	Joint growth strategy with buyer	Business	Business Complementarity
Werner - Knight Buyer Managing Director	"We recognised potential for an expansion of the value chain, especially in the link to our companies in the field of energy consulting. This was the background for taking a closer look at the target."	Strategic fit	Business	
Walter - Bishop Buyer Managing Director	"The issue of a growth strategy was also important, because as such the company was too small for us. The seller knew that we would only acquire the company in its current size if he adopted a growth strategy. This was clear even before Due Diligence. This was the condition for entering into the sale in the first place. The seller had to wrestle with himself to accept this, because otherwise we would not have met his purchase price expectations."	Succession planning and new strategy	Business	
Holger - Castle Buyer Managing Director	"The goal was for 100% of the office's capacity utilization to come from us in a period of two to four years."	Synergies with potential buyer	Business	

*Table 21 – Example for all first order codes link to second order code Business Complementarity
Source: Author*

5.3.3 Trust between seller and buyer

All interviewees stressed that the personal chemistry between the parties has to be right in order to enable a successful M&A process. Furthermore, all M&A consultants involved underlined that due to the service oriented business model, i.e. people business, the personal chemistry between the people involved played a special role. For Knight the seller explained that he felt a better chemistry with the people of the bigger TIC-company. He considered them to be more relaxed. The smaller TIC-company, which would buy Knight in the end, he considered more formal and stiff. However, not only the people the owner of Knight liked from the bigger TIC-company changed in addition, the financial offer became less attractive. The owner of Knight considered this change to some extent as a breach of trust. Hence, he continued the process with the more formal people:

If the framework [purchase price and share deal] had been better, I would have preferred to end up with the bigger TIC-company. The people I spoke to and negotiated with from the bigger TIC-company I considered to be more relaxed. The whole company culture seemed to be a better fit and less old-fashioned, but it was a big corporate firm. In my perception, the smaller TIC-company, i.e. the company which in the end of the process would turn out to be the buyer, was actually always more formal and more rigid. However, I had to find out that three month into the Due Diligence with the bigger TIC-company none of the people I had talked to in the beginning was working there anymore (Frank, Knight Owner).

On the other side, Knight's owner underlined how important one of the buyer's accounting employees was for him. She convinced him that the collaboration would work and be mutually beneficial:

It is important to gain the confidence that you could work successfully with the other party in the future. One of the buyer's employees said in one of the Due Diligence interviews, if you join us you will be well off (Frank, Knight Owner).

From the buyer's perspective, the head of M&A stressed that the no-nonsense, frugal and understatement behaviour of Knight's owner helped to build trust on the buy-side:

[The seller's] modest, low profile, no-nonsense just a rather humble way of life was a perfect fit with the company culture of the buyer (Sven, Knight Buyer Head of M&A).

The buyer of Castle pointed out how important it was during the process to be open and transparent regarding his vision for Castle's future. For him that included not to paint an overly positive picture of the future, but just to be honest. He considered this as the starting point for building trust with the sellers. The owners of Castle shared the buyer's view regarding current market changes and the required developments for Castle together with the buyer. To some extent Castle's buyer and sellers shared the same worldview and that helped to facilitate the process. Accordingly, Castle's operations manager owner pointed out:

With the eventual buyer, the fit and vision for the future was just perfect. What we also liked was that a clear announcement was made by both sides. You should not be worse off than before, but we expect the following things from you for the future (Bernd, Castle Operations Manager Owner).

While the financial package was comparable, the sellers ruled out one potential-buyer because the chemistry did not fit. The M&A consultant explained that the cold and not very empathetic behaviour of that potential buyer who he described as a very number driven and reserved person even calling him a bean counter prematurely ended the talks:

Next to be eliminated was the project developer. Here the purchase price was ok, but the chemistry was not right. The CEO of the project developer was extremely number driven and the [sellers] had no desire to work with such a grey person - not very empathetic. The basic chemistry was right with all the [remaining] bidders. So I was able to ask the sellers which bidder they would feel most comfortable with. This is very important, especially in medium-sized businesses, because these people usually sell a company only once in a lifetime and they have put a lot of heart and soul into the company. So the psychological aspects play a role here and that's why it's very important that there is trust and that the chemistry fits between the parties (Oliver, Castle Sell-Side M&A Consultant).

In the case of Bishop, it took some time to build trust between the parties. In the beginning, the owner could not imagine a TIC-company buying his business and the buyer was reluctant to acquire a company of such a small size. However, when the parties had agreed on the joint growth strategy and the deal structure they became closer on a personal level. Conversely, another potential buyer for Bishop, who invested quite some time in the initial process, cancelled the negotiations. For Bishop's M&A consultant the reason was the lacking trust between the parties. The consultant said that he is able to tell already in the first meeting if a deal will work due to the behaviour of the parties involved:

The most important thing is the chemistry in the first meeting - to find out if it fits. I mean, they don't have to be kissing each other's necks, but it has to fit. From my experience, I can actually tell today in the first meeting whether it will lead to a sale - based on body language and simply the course of the conversation, I can see whether the fit is right (Jan, Bishop Sell-Side M&A Consultant).

Therefore, the most important non-financial and not directly business related determinant for buyer selection in all three cases was the trust between seller and buyer. All interviewees stressed that the personal chemistry between the parties has to be right in order to enable a successful M&A process. Furthermore, all M&A consultants involved underlined that due to the service oriented business model, i.e. people business, the personal chemistry between the people involved played a special role. This was the reason why in all cases shortly after signing non-disclosure agreements and exchanging preliminary financial information management presentations took place. The sellers were considered as walking assets not only due to their knowledge and entrepreneurial experience but furthermore they were seen as an integrating force for the employees of their businesses. The issue for the buyers during Due Diligence and negotiations was always to avoid a situation where the seller exits the company prematurely after the sale and starts a new business, while taking the employees with him. If that happens a buyer has "only acquired some notebooks" as the buyer of Castle stated. Hence, one could argue that Knight, Castle and Bishop are to some extent knowledge acquisitions (Kreidl & Oberndorfer, 2004). The owner of Knight described this as selling "a cluster of engineers" with their head, i.e. himself. This is important, as the buyers would in all three cases become the

future employers of the sellers. In other words, the parties had to check if a long-term collaboration or a joint work environment at least for the three years of the earn-out periods would work.

Case	Text block	First order codes	Level	Demi-reg
Frank - Knight Seller	"However, I had to find out that three month into the Due Diligence with the bigger TIC-company none of the people I had talked to in the beginning was working there anymore."	Change of contact person and loss of trust	Personal	Trust between seller and buyer
Bernd - Castle Operations Manager Owner	"With one of the general contractors, the approach to the future together just didn't fit."	Chemistry and sympathy between seller and buyer	Personal	
Michael - Bishop Seller	"Gut feeling must also be right, along with everything else."	Decision to sell based on gut feeling and persuasiveness of buyer	Personal	

Table 22 – Example for all first order codes link to second order code Trust between seller and buyer
Source: Author

5.3.4 Financial and organisational rapport

As stated before the market for construction MEP planning and project management in Germany has changed over the last decade. With construction, projects becoming bigger and more demanding the requirements on businesses active in that market area are increasingly challenging. At the same time, the strain on human capital in the construction industry especially in engineering has surfaced, while the providers of said services are expected by their customers to become bigger and more professional. Unsurprisingly faced with the current market developments, the owners of Knight, Castle and Bishop all looked for a financially strong partner. All interviewees stressed the importance of a buyer that could support the companies in the financial and organisational dimension. Knight's owner stated that he finally could sleep again knowing that he had a buyer backing him financially, especially in a situation with big planning projects not performing as expected. Furthermore, he welcomed the accounting support. He even went so far as to say that if he had had the commercial and accounting support he has today before the sale he would not have sold his company. The organisational rapport did not stop with cost controlling, but since a buy and built strategy was envisioned by buyer and seller it should include organic and inorganic growth by opening regional offices nationwide and acquiring other planning offices. The sell-side M&A consultant explained it as follows:

The smaller TIC-company as a buyer had a double charm - on the one hand, a strong partner in the background for larger projects and, on the other hand, a joint professionalization of the commercial and administrative processes (Michael, Knight Sell-Side M&A Consultant).

The owners of Castle had realized that they needed a buyer who would solve their sales issue and reduce the strain on the management. The buyer as a general construction contractor could provide both a steady inflow of projects and subsidies to stabilise Castle's cash flow impacted by the disaster projects. Furthermore, Castle needed investments for the challenges of the future in their planning business regarding BIM and training of the staff. The offer of the buyer to turn Castle into the joint centre of excellence for MEP planning was therefore more than welcome. The buyer of Castle stated that he knew from the beginning and even more so based on the findings of the Due Diligence that he would have to support Castle financially and he confirmed that this actually happened after the sale:

During the process, the [sellers] also explained that if you look at a lighthouse project like this in terms of overall costs, it was negative, e.g. a public museum project. It was clear from the outset that we had to help here - we then also supported Castle financially after the acquisition (Holger, Castle Buyer Managing Director).

For Bishop the joint growth strategy meant support foremost in the area of human resource management. Due to the favourable construction market, sales had never been a problem for Bishop, but people had been the bottleneck as the seller explained:

That's why the TIC-company's offer suited me so well. The TIC-company then said, OK, you're too small, but we'll consider together whether we can take a growth path to increase the size of the company by 1/3. I still think the goals we set together back then were good and achievable. I never did active sales, however in our business the bottleneck are always qualified engineers (Stefan, Bishop Owner).

Actually, not only Bishop's owner, but also the owners in all three case studies pointed out that they never did active sales. All three companies Knight, Castle and Bishop scale their business by hiring construction engineers. However, since Bishop's project management business leans more towards consulting and is less focussed on technology like 3D planning software and BIM, finding the right people is of special importance. As the seller pointed out, he considered the ambitious goals for profitable growth by more than 30% over three years as viable, because the buyer as a financially strong partner could support with professional HR and employer branding. Furthermore, the seller and the buyer agreed to look for a new managing director together. This whole executive search endeavour was even formalised as a precondition for a portion of the earn-out and hence part of the penultimate purchase price for Bishop.

Overall, financial and organizational rapport was the fourth most important determinant for the selection of a buyer in the three cases. All interviewees stressed the importance of a buyer that could support the companies in the financial and organisational dimension. The demi-regularity financial and organizational rapport is partially based on the literature. Graebner and Eisenhardt (2004) coined the term organizational rapport. For them organisational rapport or relationship has four dimensions: company cultural fit, personal fit, trust and respect. However, I do not want to combine all of the four dimensions into a single determinant. I focus on the company cultural fit that enables the use of potential synergies and furthermore I included the financial dimension, which was of such a high importance for all sellers. In all three cases, the buyers wanted to carry out a joint growth strategy together with the sellers after the transaction, which not only required investments but also professionalization. Hence, the potential buyer should be able to support the organisation professionalising as well as providing investments for the profitable growth strategy. This organisational rapport focussed for Knight foremost on accounting, for Castle on sales and for Bishop on HR.

Case	Text block	First order codes	Level	Demi-reg
Michael - Knight Buy-Side Consultant	"Based on the results of the financial Due Diligence in particular, it was clear from the beginning that the seller would have to improve his business sooner or later - administratively and commercially."	Strong partner as a buyer	Business	Financial and organisational rapport
Knight (Fact book / memo prepared by sell-side consultant)	"Notable potential for further growth based on an even stronger sales performance by integrating the company into a larger unit with organizational and administrative capacity as well as a potential to further develop future markets both nationally and internationally by offering broader services."		Business	
Uwe - Castle Finance Manager Owner	"This should also make it possible to have more freedom for employee development and training and therefore it simply needed such a potent partner."		Business	

Holger - Castle Buyer Managing Director	"It was also important that the sellers had recognized that you need capital strength for the challenge of the future, especially digitization and BIM. We are entering a new world here, so we need a completely different landscape with a different infrastructure in the planning offices with further education and training measures."		Business	
Walter - Bishop Buyer Managing Director	"Accordingly, it was not unexpected that the company would then need interim financing from us and eventually did - of course this was also due to the economic crisis, but he also paid a lot of dividends before the sale. But we were okay with that."		Business	

Table 23 – Example for all first order codes link to second order code Financial and organisational rapport

Source: Author

5.3.5 Avoidance of integration and dissolution

The owners in the three case studied took different stances regarding post-merger integration. While for Knight and Bishop a full or partial integration after the sale was out of the question, Castle's owners considered a partial integration beneficial.

Knight's owner stated that he did not want to degenerate into an extended workbench for an integrated construction company. Furthermore, he wanted to sell his company in a share deal and avoid an asset deal:

I also didn't want to degenerate into an extended workbench for a general contractor, that wouldn't have been an option either... but I still decided in favour of the smaller TIC-company because I didn't want the issue of an asset deal (Frank, Knight Owner).

His M&A consultant underlined that it was important for the seller to continue carrying out demanding planning projects:

In particular, it was important for the seller and his employees to be able to continue to carry out demanding projects. This might not be possible with a pure construction service provider, as they work as an extended workbench (Michael, Knight Sell-Side M&A Consultant).

For Castle's operations manager it was not an option to choose a buyer who would integrate his business into another existing MEP planning company. He feared that this would happen, if he and his partners continued negotiations with the TIC-company as that potential buyer already had a MEP planning business in his portfolio. However, a partial integration was not a problem for Castle's owners as long as their business was in the lead. Hence, it suited them well to become the centre of MEP planning excellence as Castle's buyer pointed out:

We then also discussed that we would quickly dissolve our MEP department at our HQ and merge it with Castle at their site. We communicated clearly, that the company would be our MEP competence centre at its location. With the acquisition of Castle, we then brought the appropriate MEP competence into the house (Holger, Castle Buyer Managing Director).

The sales manager of Castle explained that in the end Castle only remained a separate company on paper, but the centre of excellence for the combined business is located at Castle's office spaces and the buyer has integrated all of his planning activities into Castle's organisation:

The buyer has taken over the sales task and today our company is only an internal service provider ... even if on paper it is currently still a separate limited liability company (Peter, Castle Sales Manager Owner).

Bishop's owner had no intention to change his business model after a business exit. Bishop is a specialist in the area of commercial office buildings and the owner did not want to enter the housing market and build flats as an extended workbench for larger integrated construction companies:

We are a specialist in commercial buildings - offices we can build. I definitely did not want to build flats and I did not want my staff to have to do that either (Stefan, Bishop Owner).

The fifth most important determinant for buyer selection was the avoidance of integration and dissolution. In all three case studies a large group of potential buyers were canvassed, which included direct competitors of Knight,

Castle and Bishop. However, none of the direct competitors became buyers at the end of the process. This might be related to the fear of the owners that joining a competitor would lead to integration and subsequent dissolution of their company. Turning that argument around direct competitors are potentially more aware of risks in the construction planning and consulting industry and hence are not willing to offer a purchase price as high as bidders with less industry insight. Furthermore, all owners insisted that the transaction was required to be carried out as a share deal and not as an asset deal, which would lead to inevitable dissolution. Probably again this was motivated by the avoidance of purchase price reduction by an asset deal. Additionally since in all cases a variable portion of the purchase price was agreed between the parties, an integration or dissolution of the business creates accounting issues. In all three cases, the earn-out was mainly coupled to the profitability of the business over the next three years. An integration and dissolution however makes measuring the profitability on a comparable basis a lot more complicated. Apart from this, the sellers were concerned with the preservation of their business model as this is the decisive criterion to accept a lengthy transitional tenure period, which again is connected to preserving a say in business decisions or in other words entrepreneurial freedom. Here all owners employed the dreadful picture of being turned into an extended workbench by a buyer and losing their competitive edge, which they liked to avoid.

Case	Text block	First order codes	Level	Demi-reg
Knight (Fact book / memo prepared by sell-side consultant)	"The transaction will be structured as a share deal. It is intended to sell all shares in Knight depending on the strategic interest of the seller."	Avoidance of an asset deal	Personal	Avoidance of integration and dissolution
Michael - Bishop Seller	"However, I was concerned that with this [potential] buyer my office would be transformed into a technical department only for the management of internal housing construction or into a technical department for this construction company".	Loss of independence by becoming an extended workbench	Personal	
Castle press release after the sale	"As [the buyer] is aiming to further expand its expertise and capacities in the field of technical building services planning and construction management, Castle is an ideal addition as part of its own growth strategy. Castle will continue to operate as another, independent pillar of [the buyer's] Group under its own name from [its current location]."	Partial post-merger integration	Personal	

Table 24 – Example for all first order codes link to second order code Avoidance of integration and dissolution

Source: Author

5.3.6 Transitional tenure period

In all three cases, it was clear from the start of the sales process that the owners were ready to remain at least for a transitional period with their company. Accordingly, all information memos send out to potential buyers covered

this aspect, however in a nuanced way. For Knight the memo / fact book stated that the owner was ready to play an active part in the integration process and would support the future development of the company as part of a larger entity:

The seller will take an active part in the integration process and will support the future development of the company as part of a larger entity for the long term (Knight M&A information memorandum, p. 6).

The memo for Castle was a little more reluctant and stated that the future collaboration with one owner was imaginable and Bishop's memo only stated that the owner was ready to do consulting support on the medium term. Here the age difference and motivation of the owners comes into play. The owner of Knight being the youngest seller of all case studies was probably more than a decade away from the age of retirement, while for Castle and Bishop the owners had a more pressing succession issue with about 5 to 8 years of work left for them. In addition, for Castle it was clear that one of the three owners wanted to exit the company immediately after the sale as he was pursuing a university career. However, that owner had already reduced his presence in the company in the years before the sale and spent only one day per week in the office. As his partners pointed out they were taking over more and more of his tasks what in consequence resulted in a higher workload for them, but nonetheless they agreed to be available for a transitional period.

Knight's sell-side consultant pointed out that a transitional period of three years is more or less industry standard, but heavily depends on the size and level of professionalization. Knight's owner pointed out that he had realized very early in the process that he needed to stay to be able to sell his business, as he believed especially his workforce being dependent on him:

It became clear to me at the beginning [of the process] that I had to stay in the business. If you sell, you can only sell if you stay with the company (Frank, Knight Owner).

Castle's finance manager owner pointed out that he was only ready to stay with Castle for two years after the sale, but the buyer required him and his partner to stay for three years concurrent with the earn-out period. He stressed that this was actually a bitter pill for him to swallow concerning the work-load issues he had with his job:

What I did not like at all about the buyer was that we had to stay in the company for three years after the sale, although we actually wanted to stay for a maximum of two years (Uwe, Castle Finance Manager Owner).

The buy-side consultant for Bishop underlined how important Bishop's owner was for the business as he was responsible for all the customer contacts and operationally involved to a great extent into all projects. Since the acquisition was only attractive for the buyer via a growth strategy the buyer pointed out that over the transitional period of three years the seller should be enabled to focus fully on profitable growth, while the buyer would look for a successor and help with the administrative and commercial processes. Bishop's owner however would have liked a shorter transitional tenure period of only 2 years better:

It was clear to me from the beginning that I would only stay in the company for a maximum of two years after the sale, i.e. as managing director. That would almost have been a deal-breaker for me. I also wouldn't have wanted a person I didn't know to be appointed managing director (Stefan, Bishop Owner).

The transitional tenure period as the sixth most important determinant for buyer selection has to be considered in multiple dimensions. From the buyer's perspective, it is important to keep the seller within the business as long as possible to be able to transfer the seller's network and customer contacts as well as to integrate and keep the employees. However the topic of the seller being a walking asset becomes less of an issue, if the potential buyer is active in the same area and has access to management resources, which may substitute the former owner or if there is already a candidate working in the acquired business who may take over. Thus, a smooth transition without frictions and risks kept as low as possible is in the interest of all parties involved especially if there is a variable share of the purchase price coupled to future profits. For the sellers there is a considerable financial upside, if they stay with their business especially if they keep their management function. Hence, the remuneration of the former sellers and future employees becomes a topic for the negotiations and acts as an additional purchase price, which includes items like a company car and bonus. In all three cases, the buyers agreed to continue paying the sellers, what they had received as an overall remuneration before the sale although it was transparent that the

remunerations were overstated. Furthermore, the sellers were allowed to keep their company cars – Knight's seller kept his sports car and Bishop's seller his luxury SUV – at least until the end of the lease term, before they had to comply with the guideline of the companies that they were now working for. In addition, only by continuing to work for their sold business preferably in a management function the sellers would be able to influence the variable portion of the purchase price, since in all cases a three-year earn-out period had been agreed upon. However, a prolonged transitional tenure period could result in a considerable downside for the sellers work life balance, if the assumed organisational rapport with the buyer would not materialize.

Case	Text block	First order codes	Level	Demi-reg
Michael - Knight Sell-Side Consultant	"The owner is a walking asset, so it is of course important for the buyer to keep the seller in the company for a transitional period. Therefore, it is simply important to clarify these things as early as possible in order to be able to address them in the process."	Seller as a walking asset	Business	Transitional tenure period
Ralf - Bishop Sell-Side Lawyer	"It was also clear that the seller would remain in the company and should also look for a successor together with the buyer, which was also included in the purchase agreement."	Seller to remain with the company after the sale	Business	

Table 25 – Example for all first order codes link to second order code Transitional tenure period
Source: Author

5.3.7 Entrepreneurial freedom

The demi-regularity entrepreneurial freedom is concerned with the independence of the sellers after the sale. While for the owners of Knight and Bishop it was of high importance to continue to take future business decisions on their own, for the owners of Castle the importance of entrepreneurial freedom depended to their future life plans. Knight's seller explained that the buyer played with relatively open cards and just told him he would be able to handle his business just like before as long as he provided for the required return on investment:

In contrast, the smaller TIC-company always promised me independence. I think they played with relatively open cards - we only want to buy [your business] and then get our investment back over time (Frank, Knight Owner).

His M&A consultant coined this 'have the cake and eat it', i.e. selling the business without giving up operational control. The buyer's M&A director considered it advantageous that he could offer this high degree of freedom to Knight's seller as he saw the seller as someone who needed this kind freedom. The buyer's auditor summarised it:

What speaks for the buyer as an investor, of course, is that there is no exit point. Of course, the buyer does portfolio management, but it is not a classic private equity fund that leverages and sells again after three to five years. From my point of view, the seller was someone who had already enjoyed an extreme amount of freedom. From working hours, sometimes extremely much, sometimes extremely little, to the company car and of course the need for entrepreneurial freedom (Michael, Knight Sell-Side M&A Consultant).

Furthermore, the buyer did not even require additional outside management. Knight's buyer underlined that his company offers seller's utmost entrepreneurial freedom, because the investment strategy is focussed on being a long-term growth partner and not to intervene with the daily operational business. As a strategic investor lacking operational capabilities, the buyer however made it very clear that he is ready to intervene, if the numbers are out of the ordinary:

...it was crucial for us that we clearly stated that the seller could continue to run the company with a high degree of entrepreneurial freedom, but that we also assured him to provide support when things get difficult (Werner, Knight Buyer Managing Director).

For the owner of Bishop it was important to find a buyer who would not interfere with his day-to-day business or force him to build flats instead of office buildings:

It was important to me to find a partner who would not interfere in the day-to-day operational business, but would still have the economic strength to support things when they were not going so well and, above all, to retain the staff (Stefan, Bishop Owner).

Now for Castle entrepreneurial freedom was viewed completely different. Castle's finance manager owner underlined that operational or entrepreneurial freedom was of less concern to him. A pure financial investor or the TIC-company offered a lot of operational freedom, but that was not what the owners wanted. The owners wanted to safeguard continuous project inflow from a bigger partner in the construction industry. By that, the two owners staying with the company for a transitional tenure period hoped to replace their partner who was to exit the company directly after the closing of the deal. In addition, the two remaining owners hoped to reduce their workload and to be relieved of the marketing and sales task. With continued operational freedom and a rather low level of synergies, this goal could not be achieved. Nevertheless, it has to be noted that Castle would not be integrated in the buyer's planning department, but that the buyer's planning department was to be integrated into Castle. Thus, to a great extent Castle was in the lead as the future centre of excellence for MEP planning. However, the operations manager owner and the finance manager owner of Castle agreed to a transitional tenure period of three years. Hence, the role of the two sellers in the joined business had to be defined. Castle's sell-side consultant explained that all of this was a hot topic during negotiations, i.e. will the sellers who stay with the company still be in charge after post-merger integration or not:

How am I provided for as a seller after the sale, what does the new structure look like, have I sold but am I still fully in charge, etc.? This topic was already very important to the sellers, because the second management level in the company was absolutely not yet in a position to fully assume this responsibility (Oliver, Castle Sell-Side M&A Consultant).

Castle's sales manager owner pointed out that the interests of three owners differed regarding entrepreneurial freedom. Since he wanted to leave the company immediately, he had a bigger interest in long term profitability and earn-out and was less concerned with the operational control of his partners remaining employed at Castle:

I got everything I wanted. I am out of the operating business, I am now a full-time professor at the university and I have started up a small consulting company again. It is certainly different for my two partners who have remained in the company. We are still good friends, and it is difficult for the others, because now

both of them are only department heads and no longer managing directors (Peter, Castle Sales Manager Owner).

His partners however, who were to stay for three more years focussed more on operational control and that had something to do with pride as well. He explained that his partners were demoted after the sale. They became heads of teams and had to step down as managers, while a manager from the buyer took over and that lead to some frictions.

In summary, business complementarity, trust, financial and organisational rapport, avoidance of integration and the transitional tenure period are all linked as preconditions to enable entrepreneurial freedom. Therefore, entrepreneurial freedom was the seventh most important determinant for buyer selection. In all three cases, the owners had to deal with the topic of integration and future management of their business as the motivation for the sale were succession issues. However, due to the varying degree of operative business synergies, i.e. medium for Castle and rather low for Knight and Bishop, organisational rapport mainly focussed on supporting activities and the avoidance of integration. Hence, the sellers were bound to stay with their company for a transitional tenure period, with only one exception, i.e. one seller who wanted to pursue an academic career. Now apart from the financial upside concerning continued remuneration and other benefits the sellers are able to influence the variable portion of the purchase price when they keep their management function. Subsequently the concerning issue for the sellers becomes the way they are able to manage their business after the sale or in other words to what extend the buyer intends to concern himself with management in the future. Due to German law (GmbH Gesetz § 37 Abs. 1 GmbHG), a 100% shareholder of a GmbH is entitled to issue so called 'Dienstanweisungen', i.e. instructions to the managing director, which the managing director has to follow. Furthermore, the 100% shareholder is entitled to appoint additional officers and directors. Accordingly, it was important for all sellers to understand how the post-merger integration was envisioned by the buyers and what their own role would be in it. This again highlights how important trust and personal chemistry are.

For the owners of Castle the importance of entrepreneurial freedom depended to their future life plans. The owner who left the business completely could not care less. The two owners who stayed for a transitional period foremost wanted to replace the sales task of their leaving colleague and reduce their workload. Their take on operational freedom thus was mixed. It was helpful that the buyer wanted to integrate his planning activities into Castle and

make it the future centre of planning excellence. Nonetheless, the negotiations concerning the future of the remaining owners after the sale were not easy. They had to step down from management and to accept a new external management. For Knight and Bishop the buyer had promised a high degree of entrepreneurial freedom to the sellers. It was clear that no outside manager would be appointed without the consent of the sellers, nor would the buyer intervene with the operative business. The argument of the buyer seemed trustworthy for the owners of Knight and Bishop as the buyer had no construction business in the niche of Knight and Bishop before these companies were acquired and hence lacked the operational insight. In addition to that, the buyer made the owners of Knight and Bishop aware that with his small and lean holding company there were no interim managers available to take over Knight or Bishop on short notice. The buyer however insisted on a rather formal and strict financial reporting, which had to be created for Knight as well as for Bishop. In addition to that, the sellers of Knight and Bishop in their new function as external managing directors had to comply with the buyer's corporate guidelines. These rules and regulations encompassing numerous folders are concerned amongst others with finance & accounting, procurement, sales, data protection, IT, travel expense, company cars and approval procedures. Notwithstanding that, the buyer was able to convince the owners of Knight and Bishop that they would keep their entrepreneurial freedom and get the best of two worlds.

Case	Text block	First order codes	Level	Demi-reg
Peter - Castle Sales Manager Owner	"So a pure financial investor would have been absolutely out of the question for us. I think a financial investor would not have got on well with us either and probably would not have had the necessary patience."	No financial investor	Personal	Entrepreneurial freedom
Walter - Bishop Buyer Managing Director	"Our investment approach with the high degree of entrepreneurial freedom and our long-term orientation. Perhaps also our good name, since the seller worked well with one of our subsidiaries, i.e. building experts."	Entrepreneurial freedom and pride	Personal	
Peter - Castle Sales Manager Owner	"So it is important to understand ... that the idea of a perfect buyer already differed between the three shareholders."	Different personal motives of owners	Personal	

Table 26 – Example for all first order codes link to second order code Entrepreneurial freedom

Source: Author

5.3.8 Preservation of name and identity

In all three case studies, the company name was simply the family name or at least an acronym linked to the owner's family name. The owners of Castle and Bishop used an acronym based on the initials of the founding

partners or former partners as the company's brand name. Hence, the owners of Castle and Bishop showed a significantly lower attachment to their company's name, than Knight's owner did, who used the full family name. That comes to no surprise, as it is not possible from the acronym to associate it directly with the family name. Yet the buyer of Knight and Bishop had no intention to change the company name, due to the buyer's multi brand strategy. The buyer underlined that a change of the brand name may even have resulted in adverse effects as the names were well established and had a positive connotation with customers.

Interestingly Knight's owner pointed out that another potential buyer the larger TIC-company wanted to 'kill' his company name. To convince him he had to do a phone call with someone from Singapore who tried to explain to the seller that changing Knight's name into something like 'real estate advisory' would be beneficial for international business activities. Furthermore, the seller stressed that he considered complete integration and the loss of the company name a deal breaker in the negotiations. However, the M&A director of Knight's buyer pointed out that he had the feeling that Knight's company name did not matter that much and that money was more important for Knight's owner than the preservation of his company's name:

This is also connected to the issue of preserving the company's name - but we did not discuss this intensively during the process. It was clear to us from the beginning that we would not change the name because it had been introduced (Sven, Knight Buyer Head of M&A).

Here it is important to distinguish again between legal or operational integration and brand alignment. Even if a business is acquired and integrated or merged, it is still possible to continue to use the former brand name, if it is helpful for sales and marketing. Knight's M&A consultant stressed that the seller clearly considered the loss of identity as a danger in the process and wanted to avoid it. Hence, this was not only an emotional topic, but the brand name was established in the region and thus protecting it was of importance to the seller. After the transaction, Knight's seller remained with the company for the transitional tenure period and continues to lead the company even today. Selling a family business and continuing the management role with a high amount of entrepreneurial freedom was for Knight's owner on the long term a lot easier with the preservation of the family and company name. Accordingly, Knight's seller admitted that it took some time for him to realise that the company he sold actually will continue to have his name even when the transitional tenure period is over or when he is retired.

He pointed out that there still is an undeniable emotional attachment to his company and simply that the company is his baby and it will always continue to be like that:

As a seller, you have to consider how you will find yourself afterwards, because you are giving something away – my heart and soul are in this company...What I did not think about was that if I leave the company, it would still have my name. But I didn't think about that at the time and in retrospect I do not think it is a bad thing ... Remember that you are giving your baby away a little bit ...can you do that as a seller, that is the emotional side of a business sale...The company is my baby. I would like to put that in good hands (Frank, Knight Owner).

However, the extent to which the owners identified themselves with their business varied between Knight, Castle and Bishop as well. In the case of Castle, the identity between family and business seemed to be the lowest out of the three cases, which might be linked to the fact that Castle had three independent owners.

Castle's sales manager owner openly admitted that there was no great emotional attachment to the company name in his family and that included his wife and son. He went so far as to state that there was overall no big emotional attachment to Castle in his family:

There was actually no great emotional attachment to the company in my family - neither with my wife, who is also self-employed, nor with me - nor with my son, who was also a teenager when the sale was made. Of course we talked about the decision to sell but it wasn't a big emotional issue, so I haven't developed pride of ownership over the years now (Peter, Castle Sales Manager Owner).

For Castle's operations manager owner the preservation of the company name was of some importance in the beginning of the M&A process. However the longer the owners were dealing with potential buyers, the lesser importance the preservation of the name seemed to have for them. Some of the potential buyers for Castle offered the sellers to keep the name after the sale, but the general construction company, which bought Castle, was focussed on brand integration as well. Thus when the owner of said construction company told Castle's sellers that they needed to change the name, it was not a big problem anymore:

In the beginning, the preservation of the name was important to me, and that was also offered to us in the process. However, we had a meeting with the owner of the company who bought our business and he said that there should be a uniform name and then that was also okay (Bernd, Castle Operations Manager Owner).

Bishop's owner simply stated that he preferred to keep the company name after the sale. His consultant underlined that sellers often act very cool and detached during negotiations and state that a change of name is not a big deal. However, in the end it often turns out that "the company is the baby" and that there is a high degree of emotional attachment so much so that the business shall continue in a way that suits the former owner. Bishop's buyer stressed that the preservation of the name was not a big topic during the negotiations. However since his company follows a multi brand strategy the topic was not discussed:

Of course, the seller told us about the history of the company. From my point of view, however, this was never a point where the seller insisted on it. It is rather the case that our approach is to pursue a multi-brand strategy, so we are very open in this respect. Moreover, the company name was and is very positively associated, so we saw no reason to do this. On the contrary, from our point of view it is even an added value (Walter, Bishop Buyer Managing Director).

To conclude, the second least important determinant for the selection of a buyer in the three case studies was the preservation of the company name. The owners of Castle and Bishop used acronyms as the company's brand name, while Knight used the family name. Hence, the owners of Castle and Bishop showed a significantly lower attachment to their company's name as Knight's owner. In the case of Castle, the identity between family and business seemed to be the lowest out of the three cases, which might be linked to the fact that Castle had three independent owners. Additionally, Knight, Castle and Bishop were all first-generation family firms that did not possess a multi-generational heritage linked to the family name. In none of the three cases did the owners express that they eliminated a buyer due to an intended change of the company name or that negotiations were hard considering the name of the business. Furthermore, the buyer of Knight and Bishop did not intent to change the

company name. Only the buyer of Castle wanted to integrate and change the name to his family firm name, which was accepted by the sellers.

Case	Text block	First order codes	Level	Demi-reg
Michael - Knight Sell-Side Consultant	"That was very important for the seller. Not only for emotional reasons, but also because the brand was well established with many important customers. There was certainly a fear on the part of the seller that this positive brand name would now be lost without need."	Loss of company name	Personal	Preservation of name and identity
Jan - Bishop Sell-Side Consultant	"The sellers sometimes act very cool, name and employee is not so important, but sometimes it turns out that the company is the baby and should be continued in the sense of the former owner."	The company is the baby	Personal	

Table 27 – Example for all first order codes link to second order code Preservation of name and identity

Source: Author

5.3.9 Work environment for employees

The least important determinant for buyer selection during the M&A process of Knight, Castle and Bishop was the future work environment for the employees. While the owners of Castle and Bishop elaborated on how important, it was for them to ensure a long-term future of their business and by this providing a safe haven for their employees, Knight's owner was more concerned with the company culture and the spirit of his staff. This might be related to the failure of one of Knight's potential buyers to keep the employees during the post-merger integration of a recent transaction. That potential buyer had acquired a comparable planning office a couple of month before engaging in negotiations with Knight and many employees left that other office shortly after it was sold. Unsurprisingly, Knight's sell-side consultant pointed out that this potential buyer was seen rather critical by Knight's owner. In line with that Knight's owner pointed out that, he picks new hires only if they fit to the culture of Knight and that he wants to preserve that culture and spirit. Notwithstanding that, Knight's owner stressed that he wanted to leave the company and his employees in good hands as well:

I always wanted to leave the company in good hands, which is why the human component is important to me ... the price is certainly important, but not the topmost criterion.

I also want to have the feeling that people are attached to me too. Knight has always been my baby. We do not just hire and fire employees. The people that work here have to fit to us (Frank, Knight Owner).

Castle's sales manager owner underlined that he and his partners chose the buyer who offered the most attractive financial package and in addition the one with whom Castle had the best chance for a profitable long-term future:

We then decided in favour of the bidder who, on the one hand, made the most attractive financial offer and, on the other, the bidder with whom we felt the company had a long-term future (Peter, Castle Sales Manager Owner).

This long-term orientation was grounded in the wish to provide a safe haven for the employees as Castle's owners felt a high responsibility for their staff. Castle's sell side consultant stressed that it was important for the sellers to preserve the jobs of their employees and hence that the social component was of high importance:

It was very important for the three sellers that the jobs for the employees were preserved, so the social responsibility of the sellers can absolutely not be denied (Oliver, Castle Sell-Side M&A Consultant).

Bishop's owner explained that it was important for him to continue to do business in his way and to care for his employees. That aspect, he considered even more important than getting the maximum variable purchase price:

It was important to me that the company continues, that my people continue to have a job. That is more important to me at the end of the day than getting the maximum earn-out (Stefan, Bishop Owner).

The owner of Bishop stated that during the whole M&A process he always asked himself which buyer would take good care of his business and his employees in the future.

In the end the question remains, if all the chitchat regarding employees and providing a safe haven is more than just lip service. None of the sale and purchase agreements for Knight, Castle and Bishop contained employment guarantees for employees. Furthermore, the one and only time wages were mentioned during the interviews was

when Castle's buyer explained that the employees would receive payment according to the collective agreement for the construction sector after integration. However, payment according to that agreement was more or less a mandatory consequence of the acquisition and yielded only marginal improvements for a small group of Castle's employees foremost trainees. For the sellers it was important to keep their key employees, because these employees guaranteed the future performance of Knight, Castle and Bishop. Without the key employees, no planning and consulting projects can be carried out and no growth or return on investment can be achieved. Plainly, without keeping the employees there could not be any earn-out or variable purchase price for the sellers. This is the reason why Knight's owner put so much emphasis on finding employees for growth that fit to the culture of his company. Additionally he ensured that his best employee got a management position after the sale as well. The same applied for Castle. The three owners formed together with their two best employees the management team. Due to the partial integration of Castle the management changed and while the buyer's planning activities were integrated into Castle an employee of the buyer took over the management at least formally. Hence, it was important for the three sellers that their two best employees became team managers and thus stayed with the company. The situation for Bishop was quite the same the seller wanted to ensure that his best employee stayed with the company. He explained that this employee was the project manager responsible for the biggest and most complicated construction project currently, i.e. during the M&A process, managed by Bishop. Therefore, he urged the buyer to grant this employee signing authority and promote him to the management team.

Case	Text block	First order codes	Level	Demi-reg
Peter - Castle Sales Manager Owner	"My motivation was always that the employees could continue to be employed regardless of economic developments. In this respect, I had the best feeling with the buyer."	Responsibility or employees	Personal	Work environment for employees
Michael - Bishop Owner	"So I said I would not sell the company if someone only wanted to have the people and our clients and also the name would be gone very quickly. Who takes care of the company, who takes care of the employees?"	Leave the company in good hands	Personal	
Frank - Knight Owner	"The development potential for my company was also important to me, which is another reason why I sold."	Long-term future of the company	Personal	

Table 28 – Example for all first order codes link to second order code Work environment for employees

Source: Author

5.3.10 Summary – Demi-regularities as determinants for buyer selection

In the following section, a short summary of all nine determinants for the selection of a buyer in the three case studies is presented. As the determinants for buyer selection represent the second order codes and are equal to the demi-regularities at the end of this section a figure is employed. This figure shows the critical realist framework for buyer selection as it puts the demi-regularities into a relation regarding their importance, interdependence and chronological order. In addition, the figure shows the events during the second stage of the M&A process and the nested code concerning the business or personal domain of the determinant.

1. Optimal purchase price

In summary, the most important determinant for all sellers during preliminary buyer selection was the purchase price offered. From the process, it became clear that all bidders unwilling to offer the required valuation were excluded immediately. In the end, the owners of Knight, Castle and Bishop received a purchase price that was equal to or slightly higher than a company valuation based on a multiple of one times turn over. This is not surprising as a valuation in that ballpark seems to be industry standard in the small cap area of the German Mittelstand (Gerstenberger, 2021). Since all sellers had M&A advisors they were aware of the market price of their business. Unfavourable findings during the Due Diligence of the buyers did not lead to an overall reduction of the purchase price but resulted in adjustments to the variable portion of the purchase price. Hence, the variable portion of the purchase price for Knight, Castle and Bishop was between 30 – 50 % due to an earn-out period of three years. The sellers accepted this risk sharing as it was based on their budgeting for the next three years. Furthermore, all sellers except for one stayed with their company during the earn-out period. Thus, the sellers were able to influence the future results of their companies even after the sale and avoided overall reductions of the purchase price. The buy-side M&A consultant of Bishop pointed out that the purchase price is a ticket to enter the process but after the financials are agreed upon, it comes down to the soft factors for buyer selection. Thus, in all three cases, the sellers focused foremost on the optimal purchase price during preliminary buyer selections and they did not substitute financial goals with non-financial goals during that phase as proposed by Matschke and Broesel (2008). On the contrary, the sellers and their advisors negotiated a level playing field regarding the purchase price and afterwards tried to achieve beneficial additional non-financial factors like icing on the cake.

2. Business Complementarity

For Knight, Castle and Bishop the second most important criterion for buyer selection just after the optimal purchase price was strategic fit. However, this fit is not about aligned business strategy, but it is based on business complementarity, which enables and ensures a profitable future for the companies sold. I consider business complementarity to be more than strategic fit or relatedness. This demi-regularity is based on the approach of Graebner and Eisenhardt (2004, p. 384): "By combination potential, we mean the existence of similarities and complementarities that create opportunities for synergy (Larsson and Finkelstein, 1999)." Business complementarity mattered especially as in all three cases sellers and buyers agreed upon earn-out periods. In consequence, without the complementarity the future variable purchase price may be a lot harder to achieve for the sellers. It is essential to understand that relatedness was not of special importance. Castle was acquired by a family-owned general construction company with external management. However, the character of the buyer being a family business and belonging to the extended Mittelstand was not mentioned once in the interviews. On the contrary, buyer and sellers talked a lot about the complementarity of the two companies. Thus for Knight, Castle and Bishop it was not relatedness but strategic fit or in better terms business complementarity that mattered the most after the optimal purchase price.

3. Trust between seller and buyer

The most important non-financial and not directly business related determinant for buyer selection in all three cases was the trust between seller and buyer. All interviewees stressed that the personal chemistry between the parties has to be right in order to enable a successful M&A process. Furthermore, all M&A consultants involved underlined that due to the service oriented business model, i.e. people business, the personal chemistry between the people involved played a special role. This was the reason why in all cases shortly after signing non-disclosure agreements and exchanging preliminary financial information management presentations took place. The sellers were considered as walking assets not only due to their knowledge and entrepreneurial experience but furthermore they were seen as an integrating force for the employees of their businesses. The issue for the buyers during Due Diligence and negotiations was always to avoid a situation where the seller exits the company prematurely after the sale and starts a new business, while taking the employees with him. If that happens a buyer has "only acquired some notebooks" as the buyer of Castle stated. Hence, one could argue that Knight, Castle and Bishop are to some extent knowledge acquisitions (Kreidl & Oberndorfer, 2004). The owner of Knight described this as selling "a cluster

of engineers” with their head, i.e. himself. This is important, as the buyers would in all three cases become the future employers of the sellers. In other words, the parties had to check if a long-term collaboration or a joint work environment at least for the three years of the earn-out periods would work.

4. Financial and organisational rapport

Overall, financial and organizational rapport was the fourth most important determinant for the selection of a buyer in the three cases. All interviewees stressed the importance of a buyer that could support the companies in the financial and organisational dimension. The demi-regularity financial and organizational rapport is partially based on the literature. Graebner and Eisenhardt (2004) coined the term organizational rapport. For them organisational rapport or relationship has four dimensions company cultural fit, personal fit, trust and respect. However, I do not want to combine all of the four dimensions into a single determinant. I focus on the company cultural fit that enables the use of potential synergies and furthermore I included the financial dimension, which was of such a high importance for all sellers. In all three cases, the buyers wanted to carry out a joint growth strategy together with the sellers after the transaction, which not only required investments but also professionalization. Hence, the potential buyer should be able to support the organisation professionalising as well as providing investments for the profitable growth strategy. This organisational rapport focussed for Knight foremost on accounting, for Castle on sales and for Bishop on HR.

5. Avoidance of integration and dissolution

The fifth most important determinant for buyer selection was the avoidance of integration and dissolution. In all three case studies a large group of potential buyers were canvassed, which included direct competitors of Knight, Castle and Bishop. However, none of the direct competitors became buyers at the end of the process. This might be related to the fear of the owners that joining a competitor would lead to integration and subsequent dissolution of their company. Turning that argument around direct competitors are potentially more aware of risks in the construction planning and consulting industry and hence are not willing to offer a purchase price as high as bidders with less industry insight. Furthermore, all owners insisted that the transaction was required to be carried out as a share deal and not as an asset deal, which would lead to inevitable dissolution. Probably again this was motivated by the avoidance of purchase price reduction by an asset deal. Additionally since in all cases a variable portion of

the purchase price was agreed between the parties, an integration or dissolution of the business creates accounting issues. In all three cases, the earn-out was mainly coupled to the profitability of the business over the next three years. An integration and dissolution however makes measuring the profitability on a comparable basis a lot more complicated. Apart from this, the sellers were concerned with the preservation of their business model as this is the decisive criterion to accept a lengthy transitional tenure period, which again is connected to preserving a say in business decisions or in other words entrepreneurial freedom. Here all owners employed the dreadful picture of being turned into an extended workbench by a buyer and losing their competitive edge, which they liked to avoid.

6. Transitional tenure period

The transitional tenure period as the sixth most important determinant for buyer selection has to be considered in multiple dimensions. From the buyer's perspective, it is important to keep the seller within the business as long as possible to be able to transfer the seller's network and customer contacts as well as to integrate and keep the employees. However the topic of the seller being a walking asset becomes less of an issue, if the potential buyer is active in the same area and has access to management resources, which may substitute the former owner or if there is already a candidate working in the acquired business who may take over. Thus, a smooth transition without frictions and risks kept as low as possible is in the interest of all parties involved especially if there is a variable share of the purchase price coupled to future profits. For the sellers there is a considerable financial upside, if they stay with their business especially if they keep their management function. Hence, the remuneration of the former sellers and future employees becomes a topic for the negotiations and acts as an additional purchase price, which includes items like a company car and bonus. In all three cases, the buyers agreed to continue paying the sellers, what they had received as an overall remuneration before the sale although it was transparent that the remunerations were overstated. Furthermore, the sellers were allowed to keep their company cars – Knight's seller kept his sports car and Bishop's seller his luxury SUV – at least until the end of the lease term, before they had to comply with the guideline of the companies that they were now working for. In addition, only by continuing to work for their sold business preferably in a management function the sellers would be able to influence the variable portion of the purchase price, since in all cases a three-year earn-out period had been agreed upon. However, a prolonged transitional tenure period could result in a considerable downside for the sellers work life balance, if the assumed organisational rapport with the buyer would not materialize.

7. Entrepreneurial freedom

The demi-regularity entrepreneurial freedom is concerned with the independence of the sellers after the sale. While for the owners of Knight and Bishop it was of high importance to continue to take future business decisions on their own, for the owners of Castle the importance of entrepreneurial freedom depended to their future life plans. In summary, business complementarity, trust, financial and organisational rapport, avoidance of integration and the transitional tenure period are all linked as preconditions to enable entrepreneurial freedom. Therefore, entrepreneurial freedom was the seventh most important determinant for buyer selection. In all three cases, the owners had to deal with the topic of integration and future management of their business as the motivation for the sale were succession issues. However, due to the varying degree of operative business synergies, i.e. medium for Castle and rather low for Knight and Bishop, organisational rapport mainly focussed on supporting activities and the avoidance of integration. Hence, the sellers were bound to stay with their company for a transitional tenure period, with only one exception, i.e. one seller who wanted to pursue an academic career. Now apart from the financial upside concerning continued remuneration and other benefits the sellers are able to influence the variable portion of the purchase price when they keep their management function. Subsequently the concerning issue for the sellers becomes the way they are able to manage their business after the sale or in other words to what extend the buyer intends to concern himself with management in the future. Accordingly, it was important for all sellers to understand how the post-merger integration was envisioned by the buyers and what their own role would be in it. This again highlights how important trust and personal chemistry are.

8. Preservation of name and identity

The second least important determinant for the selection of a buyer in the three case studies was the preservation of the company name. The owners of Castle and Bishop used acronyms as the company's brand name, while Knight used the family name. Hence, the owners of Castle and Bishop showed a significantly lower attachment to their company's name as Knight's owner. In the case of Castle, the identity between family and business seemed to be the lowest out of the three cases, which might be linked to the fact that Castle had three independent owners. Additionally, Knight, Castle and Bishop were all first-generation family firms that did not possess a multi-generational heritage linked to the family name. In none of the three cases did the owners express that they

eliminated a buyer due to an intended change of the company name or that negotiations were hard considering the name of the business. Furthermore, the buyer of Knight and Bishop did not intent to change the company name. Only the buyer of Castle wanted to integrate and change the name to his family firm name, which was accepted by the sellers.

9. Work environment for employees

The least important determinant for buyer selection during the M&A process of Knight, Castle and Bishop was probably the future work environment for the employees. In the end the question remains, if all the chitchat regarding employees and providing a safe haven is more than just lip service. None of the sale and purchase agreements for Knight, Castle and Bishop contained employment guarantees for employees. Furthermore, the one and only time wages were mentioned during the interviews was when Castle's buyer explained that the employees would receive payment according to the collective agreement for the construction sector after integration. However, payment according to that agreement was more or less a mandatory consequence of the acquisition and yielded only marginal improvements for a small group of Castle's employees foremost trainees. For the sellers it was important to keep their key employees, because these employees guaranteed the future performance of Knight, Castle and Bishop. Without the key employees, no planning and consulting projects can be carried out and no growth or return on investment can be achieved. Plainly, without keeping the employees there could not be any earn-out or variable purchase price for the sellers.

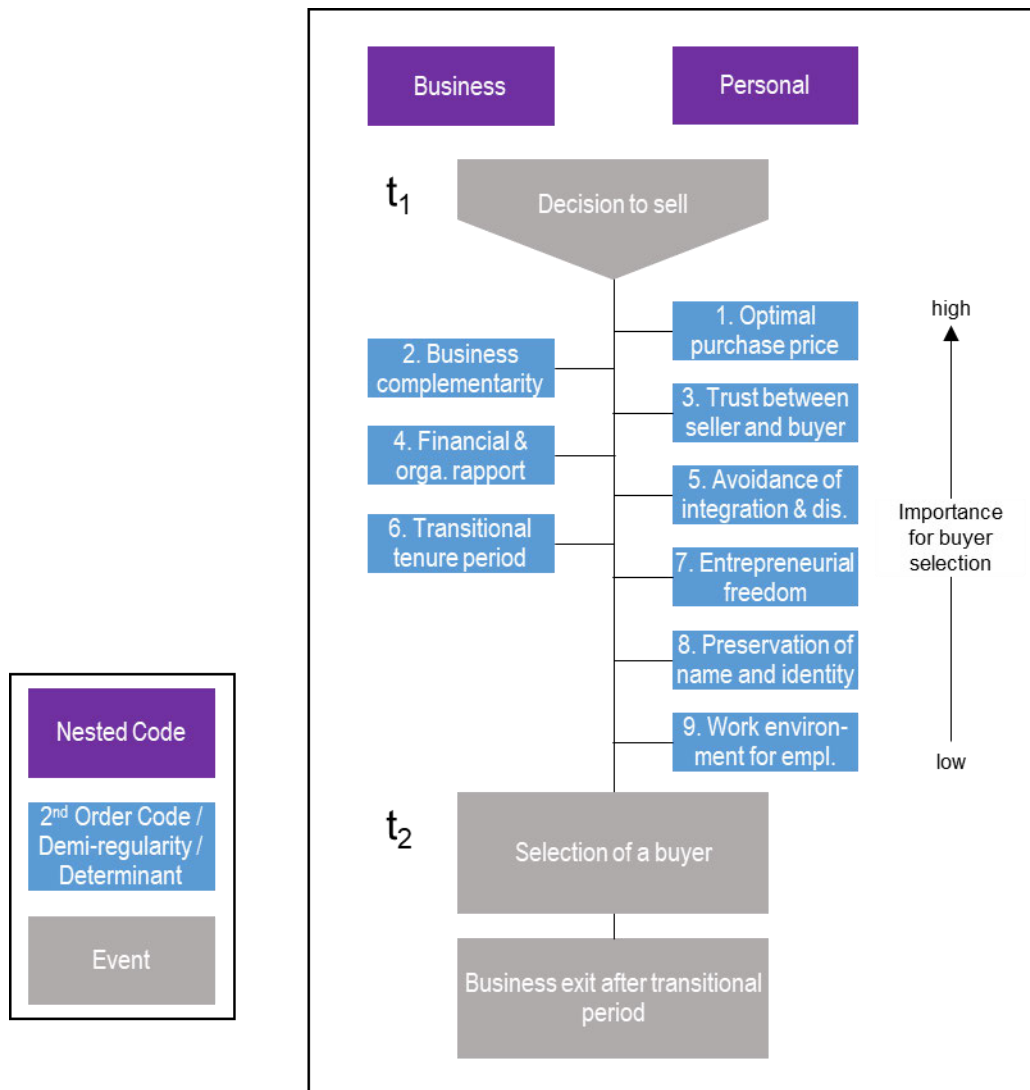


Figure 11 – Second phase – Selection of a buyer – Second order codes / Demi-regularities
Source: Author

6. Conclusion

6.1 Introduction

This chapter is concerned with an evaluation and discussion of the outcomes of the research project. Section 6.2 presents and critically evaluates the answers to the research questions posed in chapter 1.3. This is followed by a review and discussion of the contributions to knowledge that are outcomes of the research in section 6.3 and an analysis of the limitations of the study in section 6.4. Finally, the implications of the research findings for future research 6.5 and implications for practice 6.6 are debated in the last sections.

To recap, the aim of this research project was:

To enhance understanding of the reasons why first-generation German Mittelstand family firm owners sell their business and how and why they select a particular buyer.

(It should also be restated that the very concept of business exit by sale is in contradiction of the widespread 'conventional wisdom' surrounding the Mittelstand, i.e that it consists mainly of long-established multigenerational family firms whose primary goal is to maintain the firm in family ownership).

The research questions were as follows:

1. Why do first-generation owners decide to sell their businesses?
2. How and why do they select a particular buyer?
3. What are the implications of the research's findings for the Varieties of Capitalism Theory?

6.2 Answers to the research questions

6.2.1 RQ1 Why do first-generation owners decide to sell their businesses?

Answer summary to RQ1: In the three case studies (Knight, Castle and Bishop) the first-generation owner-managers decided to sell their business because of their perceived increased vulnerability and because none of their children wished to become owner-managers of the business.

The first causal mechanism highlighted by the analysis was perceived vulnerability. The concept of vulnerability stems from the work of Gomez-Mejia, Patel and Zellweger (2018), who applied the SEW concept to family firm acquisitions. They tried to solve the dilemma stemming from the trade-off between financial and non-financial goals and, unsurprisingly, they named their article: "In the horns of the dilemma". Their solution is to consider strategic decision-making in family firms as a mixed gamble, because the owners have to assess the potential gains and losses of their actions in financial and socioemotional wealth (SEW) simultaneously. Gomez-Mejia, Patel and Zellweger come to two main conclusions:

1. Family businesses are hesitant to acquire, especially unrelated targets, because the hoped-for financial gains are ultimately uncertain and the loss in SEW terms is certain. Thus, if family firms acquire they prefer related targets.

2. Under vulnerability however, i.e. because of below level of aspiration performance and/ or the absence of resource slack, SEW terms and financial concerns are aligned as drivers of acquisitions.

The model of Gomez-Mejia, Patel and Zellweger to explain family firm behaviour as a buyer of other firms is very appealing. It is able to solve the dilemma family businesses face between preserving socio-emotional wealth vs. financial wealth in the acquisition or buying context, but as is common in the literature, it says nothing about a situation in which a family business is being sold.

Notwithstanding that, I found it useful to apply the model of Gomez-Mejia, Patel and Zellweger to the three case studies of Knight, Castle and Bishop, where a business exit happened via sale. Differently from an acquisition in a sale situation, the hoped-for financial gains are relatively certain, while the loss of SEW is uncertain. In support of the findings of Gomez-Mejia, Patel and Zellweger, vulnerability seems to act as a booster in a sale situation as observable in the three case studies. This will be explained in the following subsection.

6.2.1.1 Perceived Vulnerability

In all three case studies, the market change in the German construction industry resulted in adverse capacity adjustment effects. In stark contrast to the preceding generally favourable market conditions, an ever more complex and demanding competitive environment forced Knight, Castle and Bishop to engage in bigger and more complex planning and consulting projects. The rapid growth of the three companies, however, resulted in financial and project struggle, which threatened the survival of the businesses. Knight had taken in three big planning projects, biting off more than the company was able to chew, which in the end resulted in financial difficulties. For Castle the balance between 'bread and butter' planning projects and more complex but loss-making projects, the so-called 'disaster star architect projects' (the projects were described as such because they had renowned customers, but were plagued with losses due to high levels of complexity), tilted the wrong way and one of the biggest customers of Bishop stopped payment due to delays. This is exactly the below-aspiration performance that puts family businesses and their owner-managers in a situation of perceived vulnerability. Furthermore, the succession issues can be considered as an additional cause of perceived vulnerability.

6.2.1.2 Business Sale as a Mixed Gamble

The left side of figure 12 shows business acquisition as a mixed gamble, i.e. those gambles that have the potential outcome of gains and losses. Family firm owners are balancing potential socioemotional as well as financial gains and losses associated with acquisitions of other businesses (Hussinger & Issah, 2019).

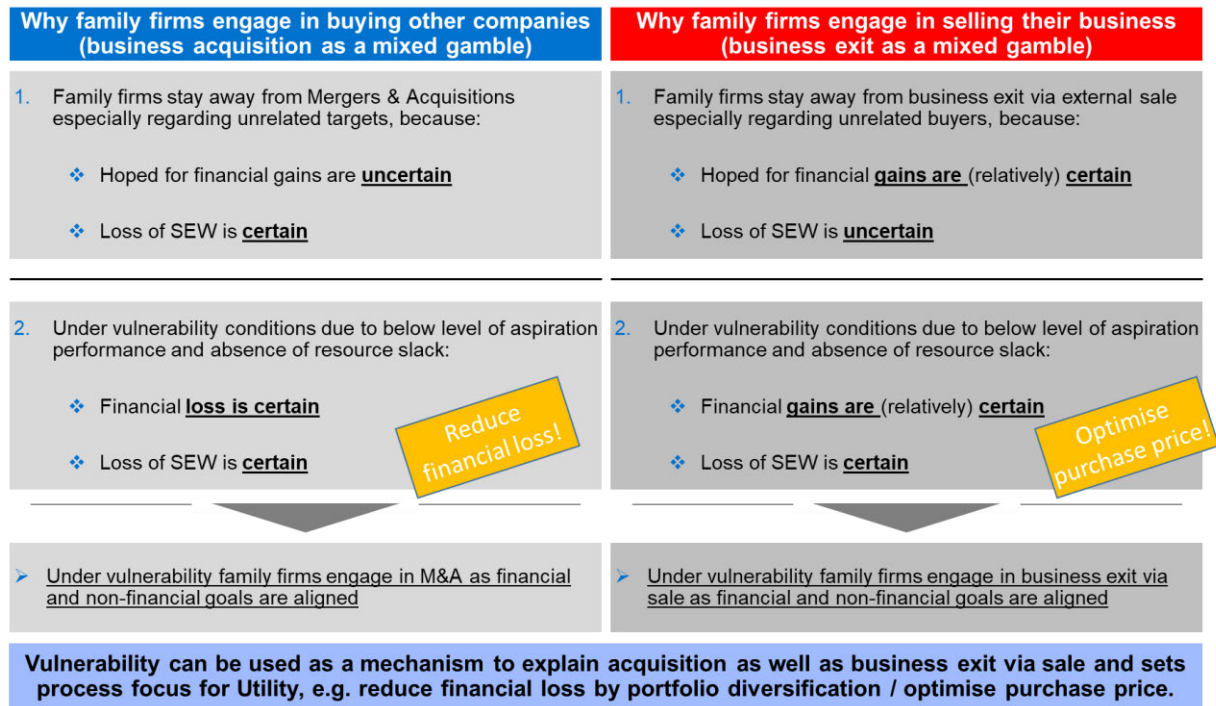


Figure 12 – Acquisition and business exit as mixed gamble

Source: Author (left acquisition side based on Gomez-Mejia, Patel and Zellweger, 2018)

Without perceived vulnerability, family firms do not engage in M&A, i.e. acquiring other firms, as financial and non-financial goals are not aligned. Family firms are generally considered to be more risk averse based on the preservation of non-financial goals. Thus, they tend to avoid acquisitions, especially if these are not in the same business area, i.e. unrelated acquisitions. The absence of resource slack and financial vulnerability however, lead to an alignment of financial and non-financial goals - money and heart in tandem - motivating family firms to actively engage in buying other firms. This is how Gomez-Mejia, Patel and Zellweger (2018) explain the acquisition activities of family firms and try to solve the dilemma family businesses face between preserving socio-emotional wealth vs. financial wealth in the acquisition context. The conclusion of Gomez-Mejia et al. is that a family firm in a crisis does not care anymore for SEW, since the crisis has already or will soon affect SEW negatively. Furthermore, their idea regarding absence of resource slack is that a family firm acquires another business in order to mend the vulnerability

by solving the resource problem with the resources acquired from that company. Additionally, the below-aspiration performance may be improved by the profits of the acquired business or by the performance of the new group.

The right side of Figure 12 portrays business exit as a mixed gamble. Without vulnerability, family firms tend not to engage in business exit via sale as financial and non-financial goals are not aligned. The financial gains may be certain in the form of a sufficiently high purchase price, but the loss of SEW due to the sale of the family business is uncertain. The absence of resource slack under conditions of financial vulnerability however, lead to an alignment of financial and non-financial goals - money and heart together - motivating family firms to actively engage in a business exit via sale. However, the process is focused on the optimisation of the purchase price since this is something sellers can actively influence.

Figure 13 illustrates how the 2nd-order-codes or demi-regularities are re-categorised into the mechanism vulnerability. According to Gomez-Mejia, Patel and Zellweger (2018) vulnerability is made up of two components: negative business performance (below aspiration performance) and lack of resources (absence of resource slack). Therefore, market change and financial and project struggle represent below-aspiration performance and hence create the first element of perceived vulnerability for the sellers. Furthermore, the owner-managers' perceived lack of resources was highlighted in the analysis by the 2nd-order-codes: business complementarity, financial and organisational rapport and transitional tenure period. The sellers simply did not have any back up for their own role, they were in need of organisational and financial support and they were looking for a complementary growth opportunity. In summary the sellers were faced with negative business performance and limited resources and thus were feeling vulnerable.

It is therefore reasonable to argue that this perceived vulnerability, combined with the abandonment of an alternative vision of the firm's future under the management of family successors, was the reason to proceed with business exit via sale and in addition, these circumstances set in train the process focus of the selection of a buyer. Hence, it became less important to look for a buyer that was a Mittelstand family business from the same industry, i.e. a buyer from a related industry. On the contrary, then it was of importance to find a partner that could solve the resource scarcity.

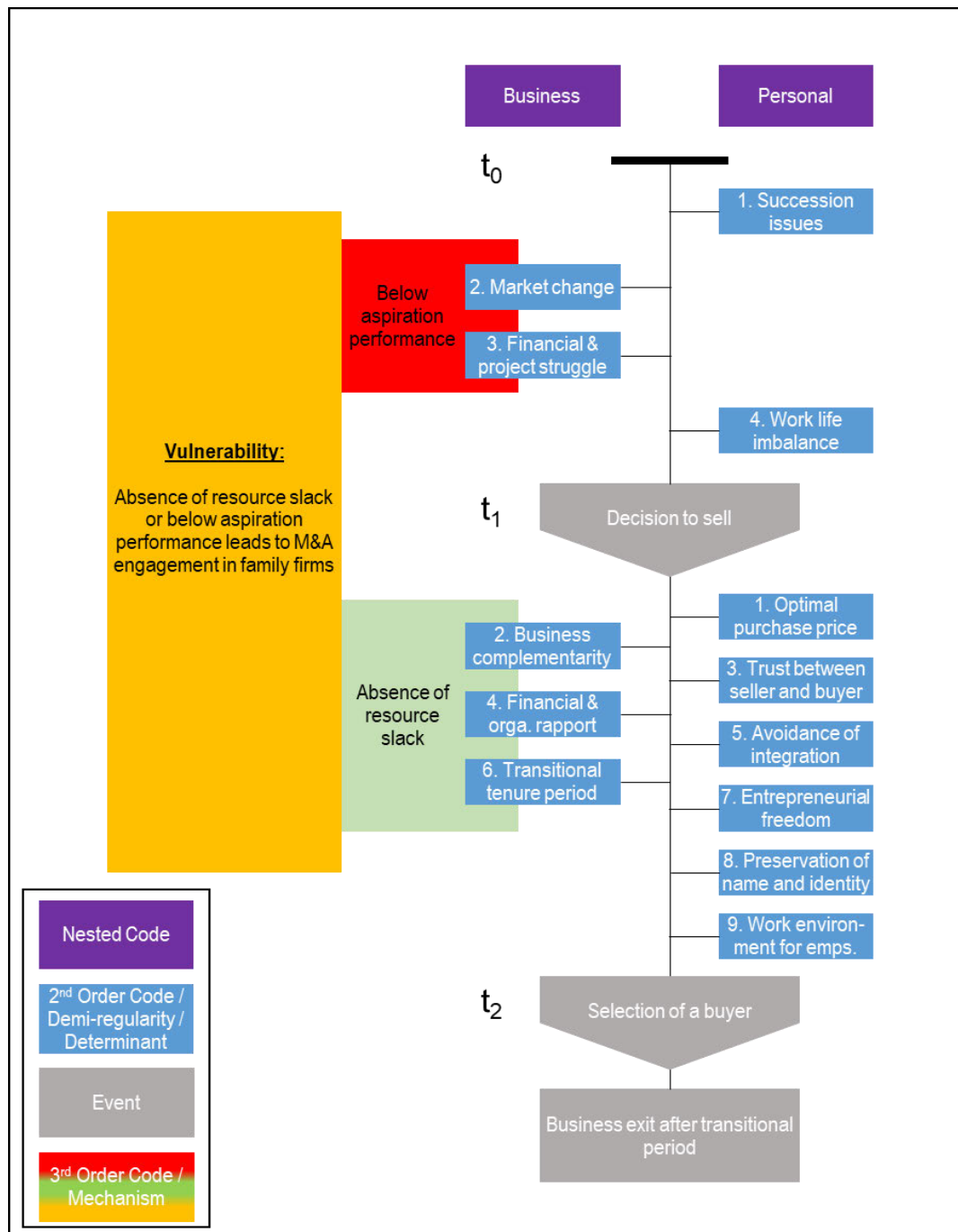


Figure 13 – Conceptualisation of Mechanism Vulnerability for Buyer selection based on Demi-reguliarities
Source: Author

6.2.2 RQ2 How and why do first-generation owners select a particular buyer?

Answer summary to RQ2: In the three case studies (Knight, Castle and Bishop) the first-generation owner-managers decided to select a particular buyer based on financial utility, while maintaining as much non-financial utility as possible.

The second mechanism, which enables me to explain the actions of the sellers in the three case studies, is the interrelation of the seller's perceived financial and non-financial utility. Again, I based the mechanism on existing

M&A literature. In 2010 Niedermeyer, Jaskiewicz and Klein evaluated the sale of family businesses from the family perspective and tried to derive implications for new venture activities. They investigated the retrospective satisfaction of the seller after the deal and created a model to explain the seller's satisfaction. In their view, satisfaction is based on utility, which is a function of financial and non-financial factors. The authors concluded that the fairness of the decision-making process within the family to sell the business and the degree of freedom to sell the business are positively related to retrospective satisfaction of the seller. The same applies for the goal alignment between seller and buyer as well as the perceived adequacy of the purchase price. In the following section, the conceptualisation of the mechanism is presented in detail.

6.2.2.1 Perceived Utility

Gomez-Mejia, Patel and Zellweger (2018) considered the mixed gamble between financial and non-financial goals or SEW terms and selling price to result in an alignment under vulnerability conditions, i.e. - money and heart together. However, that was in a situation where the family firm acquires a business. In the cases of Knight, Castle and Bishop, it is about a business exit via a sale for the family firm owner. In a sale situation the hoped-for financial gains become relatively certain when the sale price is agreed, while the loss of SEW tends to be generally less certain. Differing from the assumption of Gomez-Mejia et al. regarding a business sale situation, my sample data suggests that the most important criterion for buyer selection for a family firm seller is the optimal purchase price. The underlying mechanism remains utility as defined by Niedermeyer, Jaskiewicz and Klein (2010) as the sum of financial and non-financial goals. However, in my findings it remains money and heart together, but money came first, in the sense that the selling price was the prime consideration for the owner-managers.

In none of the three cases did the sellers substitute financial goals with non-financial goals, e.g. accepting a reduced purchase price in exchange for a reduced transitional tenure period or in exchange for organisational support, as proposed by Graebner and Eisenhardt's (2004) case study or conceptualized by Matschke and Broesel (2008) and observed by Kammerlander (2016) in Swiss SMEs. On the contrary, as soon as the non-financial factors became indirectly related to the financial package offered, the non-financial factors were ranked by the sellers according to the future financial impact they might yield. On the other hand, there was no overstatement of purchase prices by the owners, in line with Schwartz's (2019) or Tao-Schuchardt et al. (2023) findings. The approach of the sellers and their advisors was to negotiate a 'level playing field' regarding the purchase price with the potential buyers. However, after that, the sellers tried to achieve beneficial additional non-financial factors as 'icing on the cake'.

The data analysis showed that the most important non-financial factor in each of the three case studies was trust between seller and buyer. This, often expressed as the 'chemistry' between the parties was given such a high importance because it was felt by the owner-managers to be the very basis for the preservation of SEW after the sale. All sellers started the business exit process because of succession issues, which was already felt to be a loss of SEW and, only after they were sure that family succession, management buyouts and dissolution were not available options, did they consider a sale. This supports the findings of Chirico et al. (2019), regarding which approaches to business exit are preferred by family and non-family firms. In the circumstances, the entire business exit process was spurred by the work-life imbalance the owners were facing. To compensate for the growing pains of the companies and the resource scarcity the owners had to increase their workload, which for Frank and Uwe resulted in a near-burnout situation:

I wrote all the invoices myself, had six or seven excel spreadsheets [for cost controlling] I actually had a good overview with the linked tables, but during the weekend I entered the billable hours of every employee by hand. We ended up with 27 people just in the main office. I would not say I was on the verge of burn-out, but at some point it just became too much for me (Frank, Knight owner-manager).

I had an exchange with my founding partner and said that it couldn't go on like that and that I would give up my management activities and effectively quit. For the last thirty years, I have worked 60-70 hours a week, and I just couldn't go on like that. There were even times when I worked through every Saturday and Sunday for seven weeks. If it hadn't been for me, the company would probably have gone bankrupt sooner or later ... (Uwe, Castle Finance Manager-owner).

Hence, economic as well as personal failure and the ultimate loss of SEW became an option for the sellers. Working overtime for an indefinite period carried the latent message to the firm's stakeholders that the family owner-manager was somehow losing control and that their wounded entrepreneurial pride endangered SEW.

In a business exit via sale situation where the owner-manager retains a management role in the acquired firm within an earn-out agreement for a transitional tenure period, with the earn-out payment coupled to a return to profitable growth, trust is essential. In the terms used by Graebner and Eisenhardt (2004), in these circumstances the M&A project turns into a 'courtship process'. The whole deal structure can only work if the buyer is considered trustworthy by the seller and keeps his or her promises, in addition to all the legal details agreed and signed in the sale and purchase agreement. For Knight and Bishop, the owner-managers' key aim of avoiding integration as a subsidiary

and being turned into 'an extended workbench' (i.e. routinized activities), and for the owner-manager of Castle the aim of becoming the centre of planning excellence after post-merger integration could only materialize if the promises made by the buyer were kept. The same logic applied to entrepreneurial freedom. Castle's sell-side consultant put it into one question: how can it be ensured that the seller who remains in place as an external manager will be in charge after the sale? In the end, after a share deal and the transfer of ownership, the sellers would be dependent on their new employer, the buyer. Nonetheless, the buyer had a substantial interest in the sellers being successful during the transitional tenure period. The reason for this alignment of interest is that the achievement or overachievement of the goals set for the variable portion of the purchase price must be congruent with the buyer's return on investment.

All of this may sound convincing in theory, but what is going to happen in a crisis, and if instead of profitable growth the parties are facing less revenue and losses? The seller could not be sure that the buyer would keep their promises that enable the seller to preserve SEW for the transitional tenure period. Again, the agreement must be based on trust. The same applies to the preservation of name and identity as well as the work environment for the employees. According to the data analysis, the preservation of name and identity as well as the work environment for the employees were the two least important determinants for buyer selection in all three cases. While the preservation of name and identity played a less important role for the sellers of Castle and Bishop it mattered a little more for the seller of Knight. Unsurprisingly Knight's owner stressed that by losing his well-established brand the future performance of Knight, and with it the earn-out, might be jeopardised. However, Knight's buyer had no intent of changing the name.

In all three case studies the sellers emphasised the importance of providing a long-term future for their employees. In the end the question remains whether all the expressions of the importance of employees' futures and providing a safe haven for them was more than just lip service, particularly as none of the sale and purchase agreements for Knight, Castle and Bishop contained employment guarantees for employees. Furthermore, the one and only time wages were mentioned during the interviews was when Castle's buyer explained that the employees would receive payment according to the collective agreement for the construction sector after integration. However, payment according to that agreement was more or less a mandatory consequence of the acquisition and yielded only marginal improvements for a small group of the outstanding trainees among Castle's employees.

Regarding the work environment for the employees, it was important for the sellers to keep the key employees, because these employees seemed critical to the future performance of Knight, Castle and Bishop. Hence, Knight's owner underlined the importance of finding employees that fit to the culture of his company. Additionally he ensured that his best employee got a management position after the sale as well:

I always wanted to leave the company in good hands, which is why the human component is important to me ... I also want to have the feeling that people are attached to me too. Knight has always been my baby.

We do not just hire and fire employees. The people that work here have to fit to us (Frank, Knight Owner).

The same applied to Castle. The three owners of Castle formed the management team together with their two best employees. Due to the partial integration of Castle, the management changed and, while the buyer's planning activities were integrated into Castle, an employee of the buyer took over the management, at least formally. Hence, it was important for the three sellers that their two best employees became team managers and thus stayed with the company.

We then decided in favour of the bidder who, on the one hand, made the most attractive financial offer and, on the other, the bidder with whom we felt the company [and the employees] had a long-term future (Peter, Castle Sales Manager-owner). (Note: It was the same bidder)

The situation for Bishop was similar: the seller wanted to ensure that his best employee stayed with the company. He explained that this employee was the project manager responsible for the biggest and most complicated construction project currently, i.e. during the M&A process, managed by Bishop. Therefore, he successfully persuaded the buyer to grant this employee signing authority and promote him to the management team.

Without the key employees, no planning and consulting projects could be carried out and no growth or return on investment could be achieved. Plainly, without keeping the employees there could not be any earn-out or variable purchase price for the sellers. All the same, in none of the case studies were there indications of employment guarantees, or wage guarantees required by the sellers. On the contrary, in the case of Bishop a precondition for the variable purchase price was that the owner-manager would be able to keep 80% of the workforce during the earn-out period.

Figure 14 illustrates how the 2nd-order-codes or demi-regularities were re-assigned to the mechanism of 'utility'. In addition, figure 14 shows the interrelation and importance of the mechanisms for the decision making of the sellers as they are based on the 2nd-order-codes. Succession issues, work-life imbalance, trust between seller & buyer,

avoidance of integration, entrepreneurial freedom, preservation of name identity and work environment for employees are non-financial determinants and represent the perceived socioemotional wealth of the seller and stakeholders. Together with the optimal purchase price, these demi-regularities can be re-described as creating utility for the seller. However, their importance differs as money comes first, i.e. financial utility before non-financial utility.

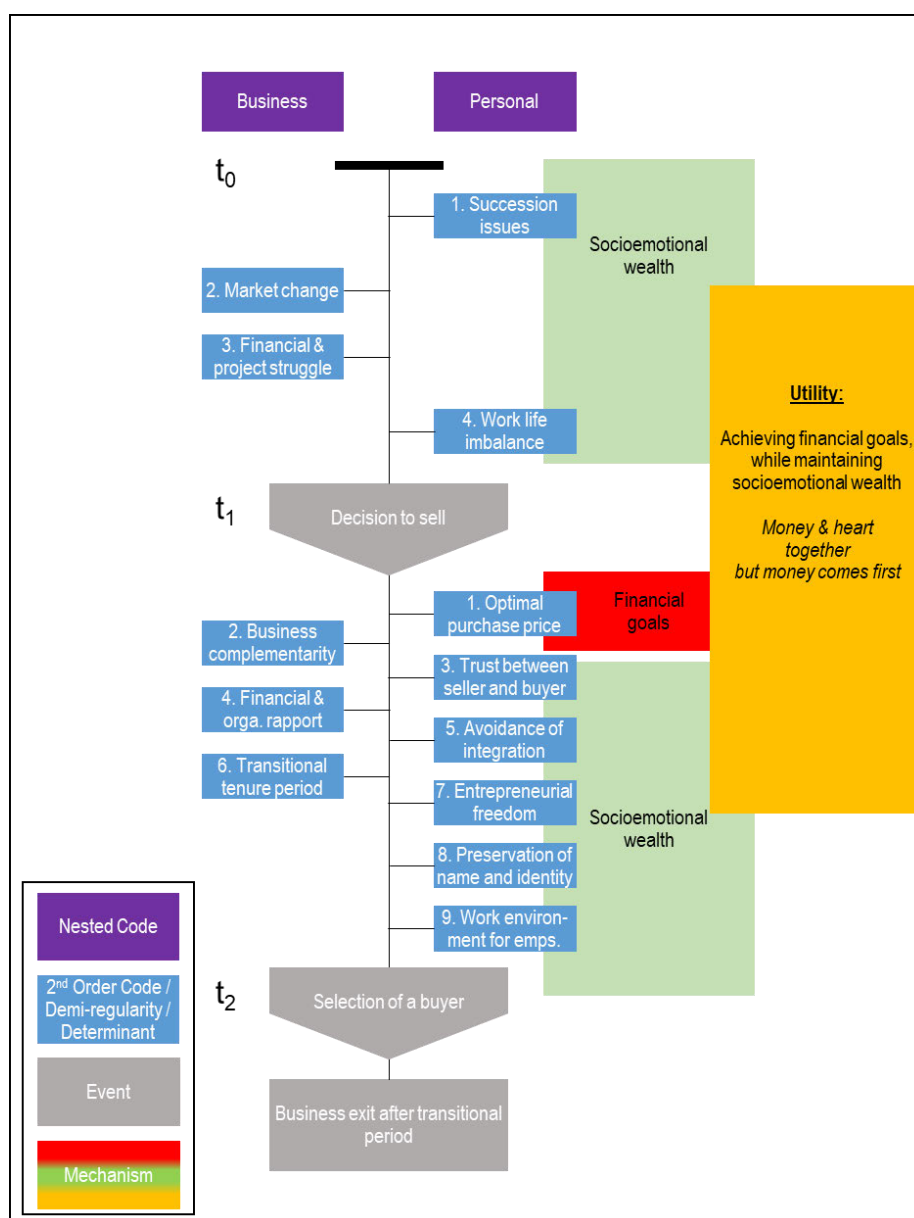


Figure 14 – Conceptualisation of Mechanism Utility for Buyer selection based on Demi-regularities
Source: Author

To conclude, the underlying mechanism for buyer selection in all three case studies was financial utility before non-financial utility. The seller's utility was the sum of financial and non-financial goals / SEW achievable by selling the family business. All the same in a business exit via sale situation the hoped-for financial gains are relatively certain,

while the loss or preservation of SEW is uncertain for the family firm seller. The reason for this uncertainty is that the preservation of SEW after the sale is not in the hands of the family firm seller anymore but is dependent on the buyer. Hence, trust and chemistry between seller and buyer becomes the most important non-financial determinant for buyer selection. Still the key determinant for buyer selection in all three case studies was the purchase price offered by the buyers:

I think the seller was driven by the purchase price. Of course it was also important that the company continues to exist, but I think the financially good exit was most important [and] if the employees also have a future, that is helpful. It was an issue, but not a huge issue here. The seller was more like, I want to feather my own nest (Jan, Bishop Sell-Side M&A Consultant).

The most important criterion was the purchase price - there was a 30% difference between the offers. If the offers had been equal in price, I would still have tended to the buyer because of the acquisition issue. The most important soft factor for me was the no longer necessary sales task (Peter, Castle Sales Manager Owner).

I was supposed to participate in this by managing the acquired companies. I am someone who always wants to develop further, who wants to move forward...For an entrepreneurial person, it is of course also important to always get more and more money out of something like this (Frank, Knight Owner).

The purchase price and the purchase price amount is a ticket, but in the end it comes down to the soft factors. I think that at the end of the day such [small] companies are only sold if the basis of trust between buyer and seller is right (Dirk, Bishop Buy-Side M&A Lawyer).

In other words, it was important for each seller to end his perceived vulnerability by ensuring that a financially strong partner acquires the company. Under vulnerability conditions, as relatedness (e.g. a buyer from the same industry) becomes less important, the partner or buyer should at least yield strategic fit. However, this fit is not about aligned business strategy, but it is based on business complementarity, which enables and ensures a profitable future for the companies sold. Unsurprisingly faced with the current market developments, the owners of Knight, Castle and Bishop all looked for a financially strong partner. Thus, all interviewees stressed the importance of a buyer that could support the companies in that regard. Nonetheless, that support not only meant financial backing, but was focused on organisational rapport as well.

The concept of organisational rapport was employed by Graebner and Eisenhardt (2004) in one of the very few studies that considered the seller's side of the story in an M&A process. Looking at the buyers in the three case studies, Knight and Bishop were bought by a Technical Inspection and Certification-(TIC)-company that acted more like a financial investor and had virtually no construction industry footprint. Nonetheless, for the TIC-company, support in the areas of accounting and HR was possible. Castle was acquired by a family-owned, but non-family-managed, construction company, hence a company from the broader Mittelstand. Although Castle's buyer is a general construction company from the same industry, it had just entered the consulting and MEP planning business, which was the main reason for the buyer to acquire Castle.

In all three cases, the buyers wanted to carry out a joint growth strategy together with the sellers after the transaction, which not only required investments but also improvement of the administrative and commercial tasks. Hence, the potential buyer should be able to support the organisation's professional development as well as providing investments for the profitable growth strategy. This organisational support focussed for Knight foremost on accounting, for Castle on sales and for Bishop on HR.

Business complementarity and financial, as well as organisational support mattered to the sellers, especially as in all three cases sellers and buyers agreed upon earn-out periods. In consequence, without the complementarity and support, the future variable purchase price may be a lot harder to achieve for the sellers.

In all three case studies the sellers were considered as walking assets (knowledge acquisition) by the buyers. Since Knight, Castle and Bishop are service providers doing engineering consulting and planning, the critical input is qualified and experienced staff, while the tangible asset base is low. Thus, the knowledge of the owner-managers and their employees is of special importance. Hence, these knowledge acquisitions, as so described by Kreidl and Oberndorfer (2004), often require the sellers to stay for a transitional tenure period. (This transitional period is particularly important for the buyers because of the human resource scarcity in the German construction engineering, consulting and planning market). However, for the sellers there are two sides of this coin. During the transitional tenure period, they are able to influence the variable purchase price by ensuring profitable growth and additionally they continue to receive a comparable remuneration for their work.

The research has therefore shown that the mechanisms of perceived vulnerability and utility influenced first-generation family firm owner-managers from the German Mittelstand (in the cases of Knight, Bishop and Castle, who have abandoned hope of an eventual family succession) to engage in a business exit via sale and careful

selection of a buyer. It must be emphasised that for each of these three sellers, the lack of family succession was a key driver of the decision to sell, so these findings are not necessarily generalisable across the broader population of first-generation firms.

6.2.3 RQ3 What are the implications of the research's findings for the VoC-theory?

Answer summary to RQ3: Evidence from the three case studies of first-generation Mittelstand companies sold by their owners may require an update of the view of institutions within the Varieties of Capitalism theory of Hall and Soskice (2001). Due to a recombination or rearrangement of the institutional principals, a business exit via sale is not only possible, but occurs regularly in the German Mittelstand. Thus, Mittelstand owners seem to fulfil the role of a Market for Corporate Control (MfCC) in that area of the German economy now.

In the following section, the implications of the research's findings for the VoC-theory are discussed. Based on the conceptualisation of mechanisms that are able to explain why core Mittelstand firms engage in a business exit via sale and how they select potential buyers, generalisation may be achieved through theory. In critical realism, generalization is not statistical inference from a sample to a broader population. Because it is highly unlikely to identify similar outcomes by replicating a study in a different environment. Generalization for critical realism is an answer through theory on how mechanisms may lead to a similar or different outcome in different settings (Wynn & Williams, 2012). Now this theory might have an impact on the Varieties of Capitalism and thus shall answer my third research question.

6.2.3.1 The VoC-theory and the Mittelstand

Due to the classical VoC-theory there should not be an active MfCC in Germany. The institutional set-up of Germany is identified by Hall and Soskice as the exemplar of a Coordinated Market Economy (CME), which in their view hinders the existence of a MfCC. Thus, within VoC-theory, the presence or absence of a MfCC reflects a central distinction among national systems of corporate governance (Hoepner & Jackson, 2006). Germany is now considered to be a hybrid form in terms of corporate governance (Witt & Jackson, 2016; Witt et al., 2018). However, it has to be noted that, even for listed companies, the MfCC in Germany is not really active and takeovers are still the exception, not the rule, for stock market listed companies in Germany.

Notwithstanding that, there remains a surprising gap in the VoC-theory and literature. While the VoC acknowledges many traits generally attributed to the German Mittelstand in the institutional set up for CMEs the terms Mittelstand or family firms are not used or discussed to describe a distinctive feature of the German economy.

The VoC simply states that Mittelstand companies are the same as SMEs in general, on a universal basis. Therefore, the Mittelstand model seems to be overlooked by the VoC.

In Germany 71% of all firms may be characterised as belonging to the 'core Mittelstand', in the sense that these businesses are family-owned as well as family-managed. Their size, their form of incorporation or a listing at the stock market does not matter in this distinction. In addition, this governance and ownership-based definition avoids the somewhat esoteric and pseudo-cultural notions of qualitative Mittelstand definitions, which illustrate company culture and values. Yet, the vast majority of the family-owned as well as family-managed enterprises are very small, belonging to the category of micro-businesses with fewer than 10 employees and an annual turnover of less than 2 m Euro. This makes research rather complicated, as these very small businesses are not required to disclose financial information or information about a change of ownership. This only changes if they incorporate and reach an annual turnover of more than 40 m EUR.

Nonetheless, a substantial number of core Mittelstand businesses is bound to the institutional set-up of Germany. Mittelstand companies often are subject to codetermination – the minimum threshold is 10 employees for works councils – and collective wage bargaining. Their access to stock market financing is limited, though there might be a change here especially for start-ups using SPACS (special purpose acquisition companies) to capitalise via the stock market. Thus, the Mittelstand mainly relies for financing on 'patient' capital, primarily from the house bank, which tends to be a long-established relationship. Furthermore, in Germany, there is still a strong internal labour market with employee protection and a skill formation system with vocational training, resulting in the development of specialized skills.

Evidence from the three case studies shows that Germany's CME institutional set-up influenced Knight, Castle and Bishop accordingly, but in different ways. None of the three companies had real codetermination due to their size, neither did they have works councils. For financing, the three companies mainly relied on internal financing, but all used bank financing during growth phases. A monitoring role of their banks however was never mentioned by the owners nor were the banks in any way involved in the M&A process. All three companies relied on highly qualified employees and carried out vocational training.

6.2.3.1 *Market for Corporate Control (MfCC)*

As mentioned before the presence or absence of a MfCC reflects a central distinction among national systems of corporate governance. However, the question remains how a MfCC is envisioned. If we abandon the idea of Berle and Means (1932) that an MfCC requires a separation of ownership and leadership and only focus on the fact that Manne's MfCC (1965) is the market where a corporation or implicitly the control over the corporation is traded, a lot changes. It is all about the question of whether there is a hidden fourth type of capitalist market apart from the stock exchange where companies are traded and turned into a commodity as envisioned by Windolf (1994). This is especially important for Germany as one distinction continues to hold out of the VoC-theory, namely that the importance of the German capital market is still a lot lower than in the US. Now let us assume that there is a MfCC in the German Mittelstand where companies are traded. Thus, the question is why the companies are traded and to whom or in other words based on what criteria the companies are sold.

According to Manne (1965), in an MfCC scenario minority shareholders should rather exit a company with bad numbers, than raise their voice, leading to low share prices and the threat of hostile takeover. In other words, listed companies that underperform have a low share price and hence are readily available for a takeover. Hence, in Manne's perfect world, after the company is sold, a new and better management takes over and the performance problems are solved. In consequence, in Manne's ideal world, companies are traded because of underperformance and the fear of financial loss by the shareholders. If hypothetically the same applies to family firms, owners should tend to replace non-family managers due to under-performance as soon as possible and even more so they should be ready to sell their companies if dividends are too low.

6.2.3.2 *Update of the VoC-theory*

The underlying mechanism identified in the three case studies show that perceived vulnerability triggers first-generation Mittelstand businesses like Knight, Castle and Bishop to consider a business sale and subsequently to sell their businesses. Furthermore, for the selection of a buyer in the three case studies, financial utility before non-financial utility was essential. It became clear that utility required for the sellers a satisfaction of financial goals before non-financial goals in the form of SEW. Explanatory case studies based on critical realism do not allow for generalisation in the form of statistical inference from a sample to a broader population. It is highly unlikely to identify similar outcomes by replicating a study in a different environment. Yet generalization for critical realism is an answer through theory on how mechanisms may lead to a similar or different outcome in different settings.

Therefore, the evidence from the three case studies of core Mittelstand companies sold by their owners may require an update of the view of institutions within the VoC-theory of Hall and Soskice (2001). Due to a recombination or rearrangement of the institutional principals, a business exit via sale is not only possible but occurs regularly in the German Mittelstand, perhaps particularly in first-generation firms lacking in succession possibilities. Thus, Mittelstand owners seem to fulfil the role of a MfCC in the German economy now.

Owner-managers do not exist in a vacuum. They are surrounded by an ecosystem including of course the M&A industry, the media, business partners, competitors and customers, their cross-firm peer and social networks and the society in general, all of which are continuously driving social and cultural change within the Mittelstand and the actors within it.

Subsequently, there seems to be a path-dependent institutional change that led to the emergence of a MfCC, that comes in the form of family firm owners of core Mittelstand companies ready to sell their business. Historical institutionalism argues that for actors at least bounded rationality is at work. Thus, institutions are external rule-following structures that constrain actors by pure rational thinking, history or culture. The institutional set-up of Germany as envisioned by the VoC describes a punctuated equilibrium in which the various institutions reinforce each other and hence create comparative advantages, i.e. long-term orientation as the precondition for incremental innovation and quality production. In New Institutionalism and especially in Historical Institutionalism there is a lot of debate regarding change. This encompasses new ideas, incremental change and, for HI (Historic Institutionalism) in particular, change via an exogenous shock or as an alternative change through layering and how layering actually is conceptualized (see figure 6, p. 64).

Apart from the debate, it is accepted that change through layering means existing institutions are not replaced but new institutional layers are added, e.g. by rules, political policies or actors (Van der Heijden & Kuhlmann, 2017).

There are various possible ways how this institutional change might have happened in Germany. The change did not happen on the large scale as expected by Hoepfner and Jackson (2006). When Vodafone took over Mannesmann in 2001 in the culmination of the new market there was no big shockwave travelling through the German economy.

However, it is reasonable to argue that the German Mittelstand has changed through layering in the last twenty years. The sale of a family company is not sacrosanct any more, given that it has happened so many times now. There are so many widely known examples of entrepreneurs who did it and the companies sold do still exist in one

way or the other. In other words, there is no real external, e.g. public scrutiny any more that may lead to a perceived loss of SEW on the part of the owner-managers. Furthermore, the structural change of the German economy and the end of Rhine capitalism was marked by the close-down of the last coal pit of the Ruhr zone in 2018. The structural change has shown that sometimes a takeover can be more beneficial as some of the jobs may be preserved (Braune, 2019; Salazar, 2019).

In addition, currently Germany is experiencing a new Gründerzeit. Start-ups and how much capital these new ventures have taken, perhaps foremost in Berlin, the 'start-up capital', are now a mainstay of German business press coverage. Additionally, start-up entrepreneurs who sold their businesses are talking openly about how much money they made with the sale of their businesses. A good example is one of Germany's few unicorns AUTO1 from Berlin (Dames, 2021). In consequence, the behaviour of the Mittelstand family firm owner especially if said person is founder and manager at the same time might have changed.

As stated, before the average lifespan of a newly founded company is 30 years and only 10% of all family companies reach the fourth generation (Sabel, 2015). Chirico et al. (2019) found evidence among Swedish family firms that family firm owners try to exit by merger, then dissolution and, only as a last option, sale of the business. In my three case studies, all three companies had reached that critical age at which the owner-managers were considering retirement and the owners and later sellers followed Chirico's example – the external sale was only the last option. However, they were hesitant regarding a merger with customers or competitors, given their reluctance to become simply an 'extended workbench'.

It might be argued that in the past the merger option along the value chain in the German Mittelstand was the rule if family succession was not feasible, especially for the very small firms. However, in my understanding, data confirming this is not accessible so far and I could not find research towards this historiographic topic, e.g. looking back towards the 1960ies and 1970ies. In addition, one has to consider that even today going out of business, i.e. liquidation & closure due to succession issues is a common solution in the German Mittelstand. Out of the 15,000 Mittelstand owners in the 2018 KfW-Mittelstands-Panel 21% saw going out of business as the solution to their succession issue.

There still may be a latent longing for transgenerational continuity, but if family succession is impossible and if the financial gains of a sale outweigh potential future losses Mittelstand owners consider an external sale. Mittelstand family firm owners are entrepreneurs and investors and not motivated only by altruistic ideas (Mittelstand ideal as

a qualitative Mittelstand definition, e.g. Becker, Staffel & Ulrich, 2008). While they are not detached from control like minority shareholders their primary focus is financial. However to start the engagement in a sales process there needs to be a perceived vulnerability, with the owners still trying to preserve some SEW. Hence, the Mittelstand as an institution or the entrepreneurial culture in Germany has changed. The actors now seem to perceive the institution differently. In addition, the sale option has become a lot more attractive due to the continued professionalization of the market and the M&A consulting companies. Due to a recombination or rearrangement of the institutional principals, a business exit via sale is possible in the German Mittelstand and Mittelstand owners seem to fulfil the role of a MfCC in the German economy now.

6.3 Contributions to knowledge

The findings of this research contribute to the existing literature in the fields of M&A, family business, the German Mittelstand and the Variety of Capitalism theory.

This study is the first one in the core Mittelstand (the segment with first-generation owner-managers) to my knowledge that puts the seller's perspective at the centre of attention. Furthermore, the research aimed to build a complete account involving all stakeholders of the M&A project (buy-side as well as the sell-side) to corroborate the data and provide a rich insight regarding the determinants for buyer selection. From my point of view, this approach is a contribution to knowledge as such, as I have (so far) been unable to find another study that tries to incorporate the view of all involved stakeholder groups in an M&A project.

More specific, but nonetheless important, contributions of my research are the conceptualisation of mechanisms that are able to explain why core Mittelstand firms engage in business exit via sale and how they select potential buyers.

The following chapter discusses the main contributions to knowledge concerning their originality and relevance in subsections 6.3.1 to 6.3.5.

6.3.1 Seller's point of view

This study is the first one concerning the business exit via sale of first-generation owner-managers in the German Mittelstand that puts the seller's perspective at the centre of attention. Furthermore, the case studies strive to get

a complete account involving all stakeholders on the buy-side as well as the sell-side to corroborate the data and provide rich insights regarding the determinants for buyer selection.

There are numerous studies that are concerned with the Mittelstand firm as a buyer and the subsequent success or failure of M&A projects foremost concerning relatedness between buyer and seller, namely in terms of industry. However, as mentioned before seller-focussed M&A research is very limited (Worek 2017; Meglio & King, 2019). From the 11 papers I found that are concerned with family firm M&A research towards non-financial goals only three consider the seller's point of view and look at data from actual transactions.

Previous research has included the Mittelstand seller's perspective, for example Sabel (2015), who conducted a study on how German Mittelstand family firms perceive private equity investors. After 40 interviews and 8 case studies, he concluded that the acceptance of private equity investors is generally low in the German Mittelstand. However, Sable intentionally avoided corroboration and only interviewed owners/ sellers, as he was most interested in the perception of private equity firms by Mittelstand owners.

Following up on Sable's research, Ahlers et al. (2017) asked whether family firm sales are all about money as they accordingly looked at affective deal commitment and differences between family and non-family sellers in buyouts, thus raising the issue of financial vs. non-financial goals. Unfortunately (from my perspective), instead of an answer to the question as to why family firm owners sell and how family firm owners select a buyer, Ahlers et al. developed a model to explain the perception of private equity firms by family firm owners.

Another study by Kurta et al. (2022) combined the seller's perspective and the SEW approach. The study found that employee orientation has a significantly positive influence and family prominence has a significantly negative influence on the willingness to sell a minority share in a family business. They show a direct, positive effect of below-average financial performance on willingness to sell and argue that below-average financial performance weakens the positive relationship between employee orientation and willingness to sell. The same applies for the positive relationship between pure family management and willingness to sell. However, the data sample does not reach a significant level for the relationship between below-average financial performance and family prominence and willingness to sell. This result suggests that, contrary to the predictions of previous studies, that family prominence may influence family members' decisions regardless of their economic situation.

These findings have to be considered carefully, since they are based on a vignette study, i.e. a mix between a sample and an experiment considering a hypothetical sale situation. In addition, the focus was not a complete sale, but only a minority stake in the family-business.

To sum up, this contribution offers an original and valuable addition to the field of M&A projects in the German core Mittelstand that encompasses various stakeholder perspectives.

6.3.2 Business Valuation

The three case studies provide evidence of actual business valuation in the Mittelstand, in the form of actual paid purchase prices. These valuations followed a classic rule of thumb for valuation, in that the purchase price was equal to $\sim 1 \times$ annual revenue. Furthermore, the case studies provided interesting and valuable insights into additional terms and agreements between sellers and buyers, e.g. earn-outs and required guarantees in the sale and purchase agreements.

Surprisingly, in none of the three cases did the sellers substitute financial goals with non-financial goals, for example accepting a reduced purchase price in exchange for a reduced transitional tenure period or in exchange for organisational rapport, as proposed by Graebner and Eisenhard (2004), conceptualized by Matschke and Broesel (2008) and observed by Kammerlander (2016) in Swiss SMEs. On the contrary, as soon as the non-financial factors became indirectly related to the financial package offered, the non-financial factors were ranked by the sellers according to the future financial impact they might yield. However, it has to be noted that financial impact is easier to model than non-financial impact, so the owner-managers may have used it as a proxy. On the other hand, there was no overstatement of purchase prices by the owners, along the lines of Schwartz's (2019) findings. This is interesting, as Schwartz notes that Mittelstand owners are considered to require a "Herzblutrendite" (heart blood return rate). That means owners in the Mittelstand overstate the value of their business as they expect to receive a special return for the 'blood, sweat and tears' they have invested. Tao-Schuchardt et al. (2023) looked at the valuation of family firms based on a sample of 486 observations of acquisitions in France, Germany, Italy, and Spain from 2011-2019. They found evidence that buyers purchase family firms at a higher valuation than non-family firms. This was however impacted by the financial performance of the targeted company and the type of buyer, e.g. financial vs. strategic, cross-border vs. domestic. Thus, not only the seller but also the buyer influence the outcome of the process. Tao-Schuchardt et al. (2023) dataset did use some scrutiny regarding the unity of ownership and

management, i.e. at least 25% family ownership and one family member with a management function. Thus, while not fully representative for the core Mittelstand their study might shed some light on the prices paid for these businesses.

Nonetheless, it is very important to remember that, from the owner-manager's perspective, 'financial' and 'non-financial' goals are not mutually independent. Even if the owner-manager is a sole shareholder, he or she will consider the implications of the sale price for other family members – if ownership is already distributed within the family, then this is explicit and of even greater importance.

The outcome of this thesis showed that the sellers required a 'fair' purchase price, in that no over- or understatements were observable. The approach of the sellers and their advisors was therefore to negotiate a level playing field regarding the purchase price with the potential buyers. Only after that, the sellers tried to achieve beneficial additional non-financial factors like 'icing on the cake'.

6.3.3 Buyer selection

In my view this study is one of the very few research endeavours that follows the whole buyer selection process in a business exit of owner-managers via sale. The three case studies provide rich insights into the whole process, i.e. from the decision of the owner-managers for a business exit via sale, the searching and screening of the market for potential buyers to the Due Diligence process and the subsequent negotiations. I was not able to find other research that provided insight into the way in which owner-managers and their M&A consultants set up a searching and screening strategy to look for potential buyers. Especially the way in which the canvassing and short listing was carried out is helpful to understand the ex-ante intentions of the owner-managers.

Furthermore, the identification of business and personal determinants for the selection of a buyer and their interrelation and perception is an important contribution of this research.

6.3.4 Explanatory model development

Another contribution of my thesis is the conceptualisation of mechanisms that are able to explain why core Mittelstand owner-managers engage in a business exit via sale and how they select potential buyers. In addition to that, the conceptualisation of the 13 determinants / demi-regularities provides insight towards important topics for decision-making during the sale process and their interrelation as shown in the next figure 15. Furthermore, the focus on the time-frame and the division of the pre-merger phase into two stages (1. Decision to sell and 2. Selection

of a buyer) may offer a way to improve the first stage (strategic objectives) of the classic acquisition process model by Hasperlagh and Jamisson (1991) with a focus on the sell-side.

As Worek (2017) points out in her study, there is no general theory of mergers and acquisitions. Junni and Teerikangas (2019) agree and state that despite decades of scholarly attention the study of M&A is still criticised for its inability to provide robust theories to explain the underlying dynamics and value creation mechanisms of this organizational encounter called a merger or an acquisition, especially in the family firm context.

Based on the work of Gomez-Mejia, Patel and Zellweger (2018) the acquisition situation is a mixed gamble for the family firm. Thus, game theory might be an approach to explain why family firms engage in M&A and how and why family firms acquire a certain company, but so far, it has lacked application to a sale situation.

I amended the model of Gomez-Mejia, Patel and Zellweger to explain the behaviour of owner-managers in a business exit via sale situation. The amended model is able to consider both financial and non-financial goals as a mixed gamble in a business exit via sale scenario and sets the focus for the buyer selection process.

This contribution, in my understanding is the first one that applies the mixed gamble concept not to an acquisition but to a sale context (see figure 15 below).

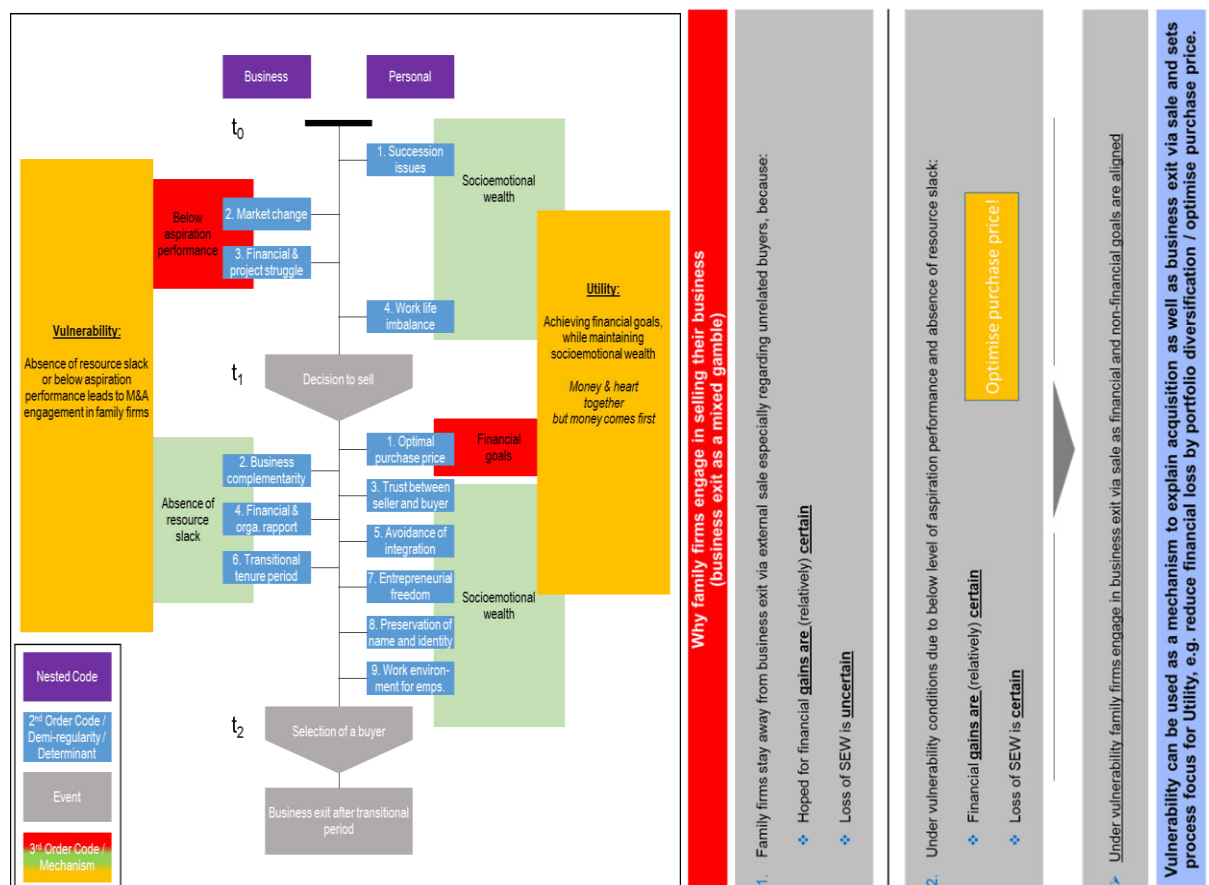


Figure 15 – Model: Critical realist framework & Business exit as mixed gamble
Source: Author (based on Gomez-Mejia, Patel and Zellweger, 2018)

6.3.5 Impact on VoC-theory

The evidence from the three case studies of core Mittelstand companies sold by their owners may require an update of the view of institutions within the VoC-theory of Hall and Soskice (2001). The VoC-theory may be criticised from various angles amongst others due to its parsimony of only two 'perfect' types of economic systems, its neglect of family firms and the Mittelstand (real world examples) as well as its limited ability to account for change. Hence, there might be room for improvement concerning new or changed institutions.

Due to a recombination or rearrangement of the institutional principals, a business exit via sale is possible in the German Mittelstand and Mittelstand owners seem to fulfil the role of a MfCC in their part of the German economy now. Subsequently, there seems to be a path-dependent institutional change that led to the emergence of a MfCC, that comes in the form of family firm owners of core Mittelstand companies ready to sell their business.

In consequence, Germany might have lost one of the central institutional distinctions, i.e. the absence of a MfCC that makes it a Coordinated Market Economy (CME) as envisioned by the VoC-theory. Therefore, I propose an update of the institutional set-up of Germany as a CME with an active MfCC as well as the proposal to consider the Mittelstand as an institution as well. However, that does not mean that I consider the institutional change as proof for the conversion of Germany into a Liberal Market Economy (LME). I think quite the opposite is happening Germany is becoming a hybrid but with distinctions based on its history and culture.

To sum up, this contribution offers a theory based on the mechanism derived from the three case studies on how the German Mittelstand has developed through layering. Thus, a suggestion is provided to improve the VoC-theory by considering Mittelstand owners to fulfil the role of a MfCC in the German economy.

6.4 Limitations

6.4.1 Research paradigm of Critical Realism

One of the most substantial limitations is my research paradigm. Although critical realism follows a specific worldview that I share, it nonetheless limits the way in which we create knowledge. Taking a more interpretivist

position the focus shifts over to the individual situation in each case study. Abandoning generalisation and looking only at the owner's / seller's individual situation in every case may reveal additional insights that critical realism with its bounded rationality overlooks. There are definitely differences between the owners in the three case studies concerning age, future life plans, identification with the firm and their family situation. However, in my view these differences did not influence the decision to sell or the buyer selection in general. On the other hand, there are important commonalities between the owners: The reluctance of their children and their employees to join or take over the business, the critical economic and personal situation as well as their shared industry. In my view, the outlier was Peter – Castle's Sales Manager Owner, who pursued a new life plan in becoming a university professor. As stated before explanatory case studies based on critical realism do not allow for generalisation in the form of statistical inference from a sample to a broader population, since it is highly unlikely to identify similar outcomes by replicating a study in a different environment. Yet generalization for critical realism is an answer through theory on how mechanisms may lead to a similar or different outcome in different settings. One of the contributions of my thesis is the conceptualisation of mechanisms that are able to explain why core Mittelstand firms engage in business exit via sale and how they select potential buyers. Based on the work of Gomez-Mejia, Patel and Zellweger (2018) the sale situation is a mixed gamble for the family firm. However, because I had to use creative abduction as no existing theory was available to explain the demi-regularities, a ranking of various mechanisms due to their explanatory power while reading through an alternative theoretical lens was limited, as in my view the competing alternative explanations of the evidence are very limited. Along this line, there might be criticism towards the conceptualisation of mechanisms as such. It may be argued that even if financial and non-financial goals are aligned family firms do not engage in M&A activity. How about internal restructuring or going out of business altogether? Further options that are not directly M&A related may be a strategic cooperation with a competitor a customer or a supplier and furthermore an option may be to start a different business or pursue other personal interests. Looking again at M&A a partial sale of the company or a sale of assets instead of ownership rights might have been an option that other owners / sellers have taken. In other words, there might be many different ways to amend below aspiration performance and the absence of resource slack, i.e. perceived vulnerability.

6.4.2 Qualitative data generation & semi-structured interviews

There are inevitable limitations that stem from my approach of data generation. The use of qualitative data for my case studies means that my data collection techniques focused on the individual perspective of the stakeholder. I tried to reduce this limitation by means of data triangulation. I combined various data sources in using semi-structured interviews and corroborating as well as enriching the findings with archival data. The goal was to capture respondents' meanings and perception of reality looking at the M&A process from various stances of all stakeholders to safeguard interpretative validity. However, I was not able to corroborate all findings with a second or even third source. Interviews with other family members, e.g. wives or children might have been another option to corroborate my findings.

6.4.3 Timeframe

My research was limited by time constraints. The selection of cases and agreement of access to the respondents took four years. Furthermore, the data collection, especially concerning corroborating respondents input via other stakeholders, the subsequent sense-making and analysis as well as further reading consumed a considerable amount of time. Here especially the amount of archival data and the screening was another constraint. Additionally, the access to archival data varied between cases, which constitutes another potential limitation.

6.4.4 Sampling

Another limitation is my sampling. I excluded distressed M&A, i.e. the sale of a company due to a crisis or bankruptcy as well as management buyouts, but I included succession-related business sales. Therefore, the number of cases was limited due to the tight boundary of case selection, e.g. King was rejected as it turned out to be a management buyout. Thus in all three cases the starting point for the M&A process was succession. This comes to no surprise, as succession is one of the most prolific reasons for a change of ownership in general, not only for first-generation family firms in the German Mittelstand. Notwithstanding that, there are many first-generation family firm owners, who engage in M&A activity (business exit via sale) and have not yet reached the age of succession. Furthermore, the setting of the three case studies in this research is very narrow and the selection of cases followed a replication logic rather than a sampling logic (Yin, 2003), in that cases supported the development of theory.

The sample size of three case studies might be considered as a limitation. I tried to create more case studies, however due to the tight boundary of case selection and the time constraints I was not able to do so. As mentioned before a homogeneous sample was very important, i.e. same size, industry, owner-manager, complete business exit etc.

The challenge is best described in the words of Peter Hall:

Seen from this perspective, it is not surprising that small-n research designs based on intensive investigation of a few cases have been considered the weak sister of statistical methods applied to a large number of cases.....However, when we have a small number of cases to work with, we need not approach the problem of causal inference in the correlational terms of the conventional comparative method. On the contrary, a small set of cases, from which many observations can be drawn, can be used as terrain for 'process tracing' in which many facets of the causal chain are examined. A more intensive examination of the causal chain, in turn, provides a new and different basis for causal inference, one especially well-suited to assessing the complex causal theories now prominent in many of the social sciences. In short, small-n research designs can be valuable for testing causal propositions (Hall, P., 2006, pp. 27-28)

This has great advantages as the cases are comparable, but as mentioned before they are not representative for the whole Mittelstand. Although 78% of all core Mittelstand companies stem from the construction industry, the share of planning and consulting companies in this industry is small. Additionally, all three case studies were first-generation family firms. The important factor for case selection was that ownership and management were not separated. However, many transgenerational Mittelstand family firms are nonetheless owner or family managed and there are examples of first-generation family firm that are managed externally.

6.4.5 Model development – ranking of determinants

Additional criticism might arise from my approach to rank the determinants for buyer selection due to their importance for decision-making. The non-financial factors were to some extent interchangeable for the sellers and the sellers did not explicitly rank the 13 determinants during the interviews. Furthermore, I did not discuss my ranking of the 13 determinants with the sellers in a second iteration of interviews. However, in none of the three cases the sellers substituted financial goals with non-financial goals, e.g. accepting a reduced purchase price in

exchange for a reduced transitional tenure period or in exchange for organisational rapport as proposed by Graebner and Eisenhardt's (2004) case study or conceptualized by Matschke and Broesel (2008) and observed by Kammerlander (2016) in Swiss SMEs. On the contrary, as soon as the non-financial factors became indirectly related to the financial package offered, the non-financial factors were ranked by the sellers according to the future financial impact they might yield. On the other side, there was no overstatement of purchase prices by the owners along the lines of Schwartz's (2019) or Tao-Schuchardt et al. (2023) findings. The approach of the sellers and their advisors was to negotiate a level playing field regarding the purchase price with the potential buyers. After that, the sellers tried to achieve beneficial additional non-financial factors as 'icing on the cake'.

6.4.6 Usage of SEW

Further criticism might arise from my use of the SEW concept. I consider SEW to represent all non-financial goals of the family firm owners. Here I follow the approach of Gomez-Mejia et al. (2018). However, this is currently heavily debated (Brigham & Payne, 2019) and criticised, as the SEW concept might not be used best in that way and should better be directly measured via the REI scale (Identification of family member with the family firm, Emotional attachment of family members and Renewal of family bonds through intrafamily succession & Long Term orientation). Thus, the importance of SEW might vary between family firms and the cultural setting they exist in. While the identification of owner and firm varied in my small sample at least in my opinion, it did not play a significant role for the selection of a buyer. In a business exit via sale situation where the end of the family business is predetermined a loss of SEW is unavoidable. However, in a first-generation family business this might be less impactful than in comparison to a third- or fourth-generational succession situation.

6.5 Implications for future research

6.5.1 Quantitative M&A research in the German Mittelstand

There is a need for more quantitative as well as qualitative research regarding M&A as well as business exit via sale of owner-managers in the German Mittelstand. Additionally, as stated many times in this research, all Mittelstand research faces a 'streetlight problem' due to the heterogeneity of this part of the German economy. Often researchers are only able to get a glimpse of a limited area of the Mittelstand and thus the rest of the street,

i.e. the rest of the Mittelstand remains in the dark. In my view it is of utmost importance to establish homogeneous samples based on clear definitions, e.g. in size, branch and ownership / management. These samples can then be the basis for cross-case comparisons of different cases, e.g. in size, branch and ownership / management etc.

Yet there is again a cultural issue to consider. In Germany, there is a saying: 'Über Geld spricht man nicht', which literally means talking about money is taboo. This is especially important for purchase prices in the M&A market. Another gem from the interviews was the opinion of one consultant that nowhere there is as much lying as in M&A projects. In consequence, a joint research agenda using quantitative as well as qualitative research seems advisable.

My idea for future quantitative research is based on the IFRS (International Finance Reporting Standards) accounting requirements. Due to IFRS' purchase price allocation it might be possible to access paid purchase prices via the annual reports of companies using these standards. Therefore, the annual reports may be checked for acquisitions that might stem from the Mittelstand. This approach might be extremely time consuming, as at first the reports have to be checked for acquisitions from the Mittelstand in the qualitative part of the annual report, e.g. the management commentary and subsequently the financial reporting has to be checked for possible purchase price allocations. Maybe artificial intelligence might help in the future to make this data set accessible.

6.5.2 Testing the mechanisms with mixed methods

Furthermore, it would be interesting to test the hypothesised mechanisms quantitatively with a broad sample of M&A projects or to apply the model in different areas of the Mittelstand. Hence a mixed method approach for research might be beneficial. In addition, case studies with second- or third-generation family firms that were sold by their owners are a fruitful area for future research. Nevertheless, this argument works for even younger enterprises as well. Research aiming at Mittelstand start-ups or business that faced less pressing succession issues would shed light on that area as well. Especially concerning family firms with transgenerational continuity it will be difficult to gain access to data nonetheless, it should be tried.

6.5.3 Testing the model with failed M&A projects (failed business exit via sale)

Another interesting area for research might be failed M&A projects. During the interviews, the sellers as well as their advisors explained why certain potential buyers were excluded or withdrew from the process themselves. In

all three cases the group of unsuccessful buyers amounted to approx. 4. One approach might be to gain access to the unsuccessful bidders and additionally it might be interesting to look for M&A projects that failed completely. Again, the conceptualised mechanisms might be applied to check their explanatory power.

6.5.4 Comparable research in different societal settings

The next step could be comparable case study research in different societal setting, i.e. different life-cycle stages of companies, different family and management situations, different industries, different geographical regions and ultimately different countries. However, the cross-sample or cross-case-comparisons from my point of view are only helpful if the sample as such is in itself homogeneous. Therefore, similar research in the UK, the Netherlands and the USA with owner-managed first-generation family firms that were sold, might yield interesting insights for the development of M&A research as well as the VoC-theory. Especially, the SEW-theory might benefit from this research as the measurement and the very concept of this theory is currently debated intensively. Different societal settings might lead to varying levels of SEW and thus might be helpful to develop this theory further.

6.6 Implications for practice

Although more helpful in applied research, I consider the insights of the case studies towards buyer selection for business exit in the Mittelstand to be helpful for professionals working in that area. If M&A consultants better understand the motivation of their customers and buyers are better equipped to fulfil the selection criteria the process as a whole might be demystified, less cumbersome, faster and completed with higher satisfaction.

6.6.1 Best practices

This research is able to provide advice towards best practices for sellers as well as buyers concerning successful M&A projects in first-generation Mittelstand family firms.

When questions arise how sellers behave in an M&A project the work of Graebner and Eisenhardt (2004) is still frequently cited as there is only limited research concerning this topic. It has to be noted, that Graebner and Eisenhardt specifically did not research family-businesses in their sample, but entrepreneurial firms. However, their insight is helpful in discussing the best practices derived from the M&A case studies of Knight, Castle and Bishop.

From Graebner and Eisenhardt's perspective, an acquisition is not a takeover, but a courtship process. Therefore, acquisition turns into a social exchange between buyers and sellers shaped by considerations of long-term fit as well as price. They consider their courtship perspective especially important for family firms and knowledge acquisitions, where the value lies within the individual employees. They view M&A as a form of syndication. Thus, M&A is not a takeover battle but a process to gain organisational rapport for future success based on trust. Trust between seller and buyer was the most important non-financial determinant for the selection of a buyer in all three case studies. One quote from the interviews underlines this especially well:

The purchase price and the purchase price amount is a ticket, but in the end it comes down to the soft factors. I think that at the end of the day such [small] companies are only sold if the basis of trust between buyer and seller is right (Dirk, Bishop Buy-Side M&A Lawyer).

The sellers in the three case studies were unsurprisingly not very well versed in the M&A language and in the process as such. A family firm seller is probably going to sell a business only once in a lifetime, a strategic buyer however is buying businesses on a daily basis. It was evident in all three case studies that the professional consultants of the sellers were essential in making the deals happen. They negotiated hard on behalf of their clients and explained the peculiarities of the process to them as well as providing indicative business valuations. In consequence, potential sellers should get a professional M&A consultant and buyers should encourage potential sellers to at least get a professional M&A lawyer.

6.6.2 Advice for the owner-seller

Owners should avoid stumbling into a process to sell their business. This is easier said than done, as usually owners are reluctant to consider an external sale and try all other options beforehand, as it was the case for Knight, Tower and Bishop. Looking at the three case studies, I think that only one owner concerned himself early enough with the future of his business. Therefore, potential sellers should seek advice from other owner-managers that sold their businesses. Two out of the three owners from the case studies consulted peers to come up with a strategy for a business exit.

Owners should use M&A professionals to facilitate the best possible outcome of such a process. At the very least, an owner-manager from the German Mittelstand who considers a sale should inform himself about the topic via the industry association. As mentioned before, there is substantial governmental support as succession issues are

seen as a major economic challenge. In all three case studies, the owners used professional M&A consultants and the process was conducted successfully.

6.6.3 Advice for the potential buyer

Concerning the indicative valuation, it might be especially helpful to not only offer an appropriate purchase price but to directly include a package of non-financial items as well. These non-financial items may be related to commitments concerning the post-merger integration, e.g. transitional tenure periods, company cars and even more soft facts like company culture and success stories. Notwithstanding that, as the cases showed, the non-financial items cannot be used to compensate for a lacking financial offer.

Providing case studies of successful acquisitions of Mittelstand companies or even using testimonials might be a way to support the bonding between the parties and might help to create trust. Especially for knowledge acquisitions in the service sector, e.g. planning and consulting, it might be helpful to allow the potential seller to talk to someone who was in the same situation, has sold his business to the potential buyer and still is satisfied after the post-merger integration. If that is not possible direct contact to employees from the same area might help to facilitate trust.

Advice on a possible M&A consultant for a potential seller might be another option for a buyer to distinguish their offer from potential other bidders. A potential buyer might even go so far as to pay for such a consultant or at least recommend an M&A professional to the potential seller.

7. Appendices

Code book

First order codes	Level	Second order codes / demi regularities	Third order codes	Mechanisms
Broad search pattern for buyers	Personal	Optimal purchase price	Achieving financial goals	Utility
Comparable purchase price for buyer selection				
Decreasing profitability led to reduction of purchase price				
Good purchase price				
Importance of purchase price				
Make more money				
No preconception of an ideal buyer				
Purchase price most important for buyer selection				
Purchase price tax optimisation				
Purchase price vs. chemistry between buyer and seller				
Window dressing for purchase price optimisation				
Negotiate in parallel to get better purchase price				
Intimidating Due Diligence with external audit companies				
Tough contract negotiations				
Unfavourable Due Diligence results				
Approached by M&A consultant				
Dissatisfaction with consultants performance				
Avoidance of an asset deal				
Loss of independence by becoming an extended workbench				
Partial post merger integration				
Different personal motives of owners				
Entrepreneurial freedom and pride				
No financial investor				
Loss of company name				
The company is the baby				
Early succession planning				
Founder is entitled to become a seller				
Idea to sell the business by a peer				
Management buy out failed				
No family succession				
Replacement of own role				
Change of contact persons and loss of trust				
Chemistry and sympathy between seller and buyer				
Decision to sell based partially on gut feeling and persuasiveness of buyer				
Leave the company in good hands				
Long-term future of the company				
Responsibility for employees				
Decision to sell				
Fear of burn-out				
Go out of business				
Less responsibility after the sale				
Stress				
Work load				
Joint growth strategy with buyer				
Strategic fit				
Succession planning and new strategy				
Synergies with potential buyers				
Strong partner as buyer				
Seller as a walking asset				
Seller to remain with the company after the sale				
Market concentration				
Market requires bigger planning offices				
Financial problems				
Organisational issues				
Project trouble				
	Business	Business complementarity	Absence of resource slack	Vulnerability
		Financial and organisational rapport		
		Transitional period		
		Market change	Below aspiration performance	
		Financial and project struggle		

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