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Merging With Another Family Firm is Safer and Smarter

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Family business mergers enjoy greater harmony and better financial performance than mergers involving non-family firms.

Mergers and acquisitions represent one of the most significant strategic phenomena in business management, fundamentally affecting both firm growth and survival. According to the 2025 McKinsey M&A annual report(https://www.mckinsey.com/capabilities/m-and-a/our-insights/top-m-and-a-trends) , global M&A activity reached $3.4 trillion in 2024, and was expected to rise in 2025.

While mergers happen frequently, it can be challenging to integrate and create value from combining two companies. High failure rates and value destruction are common in merged companies. Famous cautionary tales include the Daimler-Chrysler merger and, more recently, Bayer-Monsanto.

Given this backdrop, we wanted to understand what happens to company performance after two family-owned businesses merge, compared to when only one is a family firm or when both are non-family firms. This is an important question given that family-owned firms represent the most widespread model of economic organization globally, accounting for over 60% of the overall workforce and contributing substantially to global employment.

Social identity theory points to the importance of the social groups where individuals belong. Not only do individuals in such groups share several characteristics, but they also tend to define themselves as part of the social group and be attracted to others that belong to it. Owners of family firms tend to identify strongly with other family owners. A compelling recent example illustrates this: When Fiat Chrysler initially negotiated with French government-backed Renault, those talks faltered. In contrast, the shared identity and common understanding between representatives of Fiat's Agnelli family and Groupe PSA's Peugeot family ultimately led to a successful merger agreement.

We believed that social identity might offer a key to understanding the merger outcomes in family and non-family firms. And indeed, the role of ownership identity in determining merger outcomes has been largely overlooked. We were curious: Do mergers between two family businesses turn out better than other kinds of mergers? Why?

Our Hypotheses

We thought that when two family businesses merge, things would go more smoothly than when a family business merges with a non-family business, or when two non-family businesses merge. We did worry about potential problems specific to family firms, such as family owners' tendency to favor their own family and firm, conflicting objectives between merging firms, nepotism, and so on. But overall, we focused on the strong common identity shared by family business owners – an identity based on a long-term orientation, concern for the family's reputation, and concern for employees.

In general, mergers are traumatic events for employees. Many lose their jobs or leave, and those that stay face high job insecurity. Firms often merge to reduce operating costs and get rid of redundant assets, and this usually means layoffs. We hypothesized that family owners would be reluctant to do this, given their concern for their employees, many of whom are long-tenured and have personal relationships with family members.

We also thought that family owners would want to remain involved after a merger, and think of successful outcomes in the long term, not the short term. That is, family owners' social identity leads them to have different objectives from a merger than those of non-family owners.Such priorities are easier understood and supported by other owners of family firms.

Accordingly, we believed that owners of two merging family firms would be able to agree on issues like family involvement and autonomy, a long-term approach, and taking care of employees. Indeed, holding on to employees would allow owning families to continue to influence the merged firm. At the same time, the higher job security experienced by employees of both merging firms would positively affect the trust, communication, and cooperation they exhibit towards each other and the owners, enhancing the merged firm's operating performance (Return on Assets, ROA).

What We Studied

We studied over 1,100 family and non-family firm mergers that took place in Sweden between 2004 and 2012. We looked at how these mergers affected job security for employees and how the businesses performed afterward. We also conducted interviews with business owners and managers across five countries and three continents (Australia, India, Norway, Sweden, and the United States) to get deeper insights.

What We Found

We were surprised by just how much better things turned out when two family businesses merged. These businesses kept more employees after merging and enjoyed stronger ROA than other merger types. In contrast, we saw greater job losses and lower ROA when a family business merged with a non-family firm or when two non-family firms merged. The family/non-family firm mergers performed better than the strictly non-family firm mergers.

Another surprising finding -- which contradicts past research that suggests that unrelated mergers and acquisitions perform worse than related ones -- was that family firm mergers actually achieved better ROA when the merging businesses come from different industries. Our theory suggests that industry differences help each family maintain its distinct identity and autonomy while still gaining the complementary benefits of diversification and avoiding direct conflicts between the two families within the merged entity.

Our interviews corroborated our reasoning. Indeed, some family owners acknowledged potential conflicting priorities and interpersonal issues. Nevertheless, they argued that it was still easier to communicate and strategize with another owning family.

Takeaways

Our analysis and conversations with family business owners, managers, and advisors offer several key takeaways for these stakeholders. In particular, our research shows that mergers are important strategic tools for family businesses, even smaller firms. Here are some things that family businesses contemplating a merger should think about:

Actively seek other family firms as merger partners. Prioritize social identity and cultural fit when choosing a merger partner. This is easier if the family firm owners have already developed a social network among other family firms in the region and complementary industries.

Understand their motivation to merge. Recognize that family firms greatly value long-term orientation, employee-centered values, and their family legacy. Even while giving up control, they like to retain involvement and some autonomy.

Financial metrics matter less than social fit. For family firms, social identity fit matters as much as, or even more than, strategic fit. It facilitates mutual understanding and trust, smoother negotiations, and better post-merger integration. "When we look into the company, we can see that the employee turnover is low and that management has been there for a long time," one of our respondents told us. "This helps us trust that the merger partner values their people as much as we do."

Understand that job security is a key driver of post-merger performance. While conventional

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wisdom suggests workforce reduction after mergers, our data shows that family firm mergers maintaining job security achieve significantly better performance—up to 3.9 times higher than the average. This is because employees feel more secure, stay committed, and help drive the merged company forward. Communicate job security early and often, and frame the merger as an opportunity rather than a threat. A family business leader in the manufacturing sector described their guiding philosophy: "We keep our family and employees together; we don't fire. This has always been a successful strategy for M&A operations. We do quite well financially."

Don't be afraid of cross-industry mergers. In contrast to conventional wisdom, our research shows that family firm mergers actually perform *better* when combining businesses from different industries, as this enables better integration due to the shared family owner social identity, while allowing each family to maintain some autonomy in its area of expertise. Thus, the merger capitalizes on complementary benefits between the two firms. One interviewee told us: "We agreed that each family would run its operations and employees independently while working together on shared goals. This balance of autonomy and integration allowed us to achieve growth without compromising our core values."

Preserve specialized knowledge. Retaining employees from both firms allows the merged firm to maintain the unique skills and relationships each team brings, while enabling both autonomy and integration for the merging firms.

Use dual-family leadership in the merged company. This allows each family to retain a sphere of influence while also enabling effective decision making (balancing integration and autonomy). Instead of looking for immediate returns (e.g. through employee layoffs), think long-term – something that family businesses do best.

Conclusion

By emphasizing continuity and cultivating trust, family firms ensure their employees view mergers as opportunities, not threats. This shared commitment translates into more engaged teams, smoother transitions, and ultimately, stronger post-merger integration and performance.

Explore the Research

Calm in the Storm: Job Security and Post-Merger Performance in Family versus Nonfamily Firms (https://journals.aom.org/doi/abs/10.5465/amj.2023.0496?journalCode=amj) . *Academy of Management Journal,* March 2025.

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