

Why PE Firms Want to Buy Your Family Firm (and Change it)

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Family businesses are often viewed as ripe for operational improvement, making them especially attractive to private equity investors seeking value creation.

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A growing number of owning families are considering selling their businesses to external investors, while private equity (PE) firms are increasingly targeting family businesses as investment opportunities. At the same time, family firms are often perceived as more complex and less transparent than non-family firms due to their unique characteristics and the strong influence of family members on decision-making. Unlike publicly traded companies, family businesses rarely disclose detailed financial or operational information to outsiders. Business information often stays within the family, making it difficult for investors to assess performance drivers, key relationships, or the real basis of competitive advantage. This makes it difficult for potential investors and other outsiders to assess their true potential.

Despite the economic importance of family firms and the increasing interaction with PE investors, we still know surprisingly little about how professional investors actually perceive family firms—and how these perceptions shape their investment decisions. Our research sought to answer this question because it's

important for both sides: for investors evaluating family firms, and for owners considering a sale or external investment.

The PE Approach

Private equity firms are investment funds that acquire companies, or significant stakes in them, typically using a combination of their own capital and borrowed money. After acquiring a stake, the PE firm works to improve the business and then exits, usually by selling to another buyer or taking the company public. Holding periods typically run four to seven years, with investors targeting a return of roughly two to three times their invested capital.

PE firms pursue improvement through four main levers: growing revenue, improving profit margins, increasing the company's valuation multiple, and improving how efficiently the business converts earnings into cash. For a family firm, PE investment can bring in capital, professionalize management, and open doors to acquisitions or international expansion the family could not pursue alone. In family firm deals, PE investors often structure their involvement to keep the family engaged, either as co-owners, in management, or in an advisory capacity, because family-specific knowledge and relationships are often central to what makes the business valuable.

In undertaking our research, we expected that private equity investors would use mental shortcuts when evaluating companies, especially family firms whose financials are not readily available. Investors tend to associate certain financial characteristics with the "family firm" category and let that association shape their decisions, even before verifying whether the company actually is a family business. In particular, we

hypothesized that firms with strong value-creation potential are more likely to be perceived as family firms and that this perception increases the likelihood of investment. We also expected that more experienced investors would be less influenced by such shortcuts and evaluate family firms more critically.

What We Studied

We conducted an experimental study with 207 private equity investors from 26 countries. The largest groups came from Germany (24%), the United Kingdom (15%), and Spain (10%). Most held senior roles; 62% were partners or managing directors. Their deal experience ranged from 1 to 100 transactions, with an average of 17 deals and a median of 10. Participants each evaluated eight hypothetical company profiles, not real firms, each showing a combination of the financial characteristics PE investors consider in their decision making: revenue growth potential, margin improvement potential, multiple expansion potential, and cash conversion. In total, we analyzed more than 1,600 individual investment decisions. For each company profile, participants answered two questions:

How likely is it that this company is a family business?

How likely would you be to invest in this company?

What We Found

We identified these key insights:

- **Revenue growth potential did not significantly influence whether a firm was perceived as a family business.** Investors focused more on efficiency improvements and operational optimization.
- **Family firms are seen as having untapped efficiency potential.** Companies with the potential for strong margin improvement, restructuring, and cash generation were more likely to be perceived as family businesses.
- **Being perceived as a family firm increases investment likelihood.** If investors believe a company is a family business, they are more likely to invest.
- **Experience changes how investors evaluate family firms.** More experienced investors develop a more nuanced way of evaluating the potential of family firms.

In a nutshell: less experienced investors are more

strongly influenced by the family firm label. Once they perceive a company as a family business, their willingness to invest rises sharply. More experienced investors still view family firms favorably overall, but they are more measured. They tend to be more cautious about value-creation strategies that clash with family priorities, such as cost cuts and restructuring. Experience produces a more realistic picture of where the opportunities are, not skepticism about family firms as a category.

Takeaways

Family businesses are often seen as attractive investment targets, not despite being family firms, but partly because of it. Investors believe they can create value by improving operational efficiency, professionalizing structures, and optimizing financial performance. This attraction is driven by PE investors' beliefs about what they can change, not to what is already working.

Although these investors often demand organizational and structural changes, this does not necessarily mean that the family loses its leadership influence. PE investors generally recognize that family managers carry relationships, knowledge, and credibility that outside managers cannot replicate quickly. Fully substituting the leadership team often destroys the value that made the company attractive.

In practice, structures vary. Some PE firms acquire a majority stake and install outside management. Many retain family members in executive or advisory roles, particularly where family relationships with customers, suppliers, or employees are central to performance. Research consistently finds that deals where the family remains involved tend to outperform those where the family exits entirely. Experienced investors have good financial reasons to keep the family in place.

How the relationship begins shapes everything that follows

If your family business is considering seeking PE investment, understand that investors will assess your company primarily through the lens of operational efficiency, not growth trajectory. They will look for untapped potential in your margins, cost structure, working capital, and balance sheet. Going in with a clear sense of what you are willing to change, and where family priorities set real limits, lets you negotiate those boundaries before the investment is made.

Discovering the conflicts mid-investment is far more costly for both sides.

If PE investors approach you without you having sought them out, their interest is not neutral. By the time they contact you, they have likely already formed a view of your company as one with significant efficiency potential, and a thesis about where value can be created. That thesis probably centers on your cost structure, your supplier and customer relationships, and your balance sheet. Understanding their likely agenda before negotiations begin puts you in a stronger position to assess whether the partnership is compatible with how you want to run the business, and what it might cost you if it is not.

In either scenario, be specific early about what can realistically change and what cannot -- around culture, employees, and long-term orientation. The clearer you are before any deal is signed, the less room for conflict during the holding period. And take the tensions seriously. A PE investor focused on margin improvement might push to renegotiate contracts with suppliers the family has worked with for decades; close a regional facility that matters to the local community; or outsource activities to lower-cost locations. These moves can make financial sense in isolation. But research shows that cutting social engagement and longstanding stakeholder relationships during the holding period tends to hurt medium-term performance. The tension carries real business risk, not just cultural friction.

Many family business owners may be surprised that investors often view family firms as especially attractive investment targets, but mainly because they expect to actively change and improve them. The infusion of money from PE firms will come at a cost.

Explore the Research

[Family firm perceptions and investment decisions: An experimental conjoint analysis of private equity investors](https://www.sciencedirect.com/science/article/pii/S1877858525000130)

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