

## Why do mergers between family firms protect jobs and outperform the rest?

*Family ownership drives employee retention and superior post-merger performance*

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Mergers occupy a peculiar position in the strategy playbook. Executives pursue them relentlessly—billions flow into M&A deals every year—yet the academic evidence is remarkably discouraging. Most mergers fail to deliver the value they promise. Employee layoffs, cultural clashes, and leadership turnover erode the very capabilities the deal was supposed to combine. The human cost compounds the financial one: survivors experience guilt, anxiety, and declining productivity, while departing employees take institutional knowledge with them.

Against that backdrop, this study asks a pointed question: does it matter who owns the merging firms? Specifically, do mergers between two family firms produce different outcomes than mergers involving nonfamily firms—and if so, why?

The answer, drawn from a comprehensive dataset of 1,173 private Swedish firm mergers and reinforced by 11 qualitative interviews across five countries, is unambiguous. Family firm mergers outperform. And the reason traces directly to what happens to employees after the deal closes.

### WHAT WE STUDIED

The researchers constructed a longitudinal dataset from three Swedish government databases covering all registered private firms. They tracked mergers between 2004 and 2012, following the combined entities for up to five years. The sample included 115 family-family mergers, 389 family-nonfamily mergers, and 669 nonfamily-nonfamily mergers—2,346 firms in total.

To ensure fair comparisons, the team used coarsened exact matching to balance the groups on firm age, size,

industry, and prior performance. They tested for endogeneity using instrumental variables (the percentage of family firms in the same municipality and industry) and ran structural equation modeling with bootstrapping to assess mediation. The dependent variable was industry-adjusted return on assets (ROA); the mediator was job security, measured as one minus the percentage of employees dismissed after the merger.

This is a study of private firms—and that matters. Private companies are less complex than publicly traded ones, which means the researchers could observe merger dynamics with less noise from regulatory pressures and market speculation. Owners of private firms are also more directly involved in strategic decisions, making the link between owner identity and firm behavior tighter and more observable. The qualitative interviews, conducted with owners and managers across Australia, India, Norway, Sweden, and the United States, added context that the register data alone could not provide.

### KEY INSIGHTS

***Family firm mergers retain more employees—and that drives performance***

The central finding is a mediation result: mergers between two family firms lead to higher job security, which in turn produces stronger post-merger financial performance. The indirect effects were statistically significant for both comparisons—family-family versus nonfamily-nonfamily, and family-family versus family-nonfamily. The relationship was fully mediated by job security, meaning that the performance advantage runs through employee retention, not around it.

In concrete terms, family firm mergers generated a predicted job security score of 0.63, compared to 0.57 for nonfamily mergers and 0.55 for mixed pairings. A one standard deviation increase in job security boosted post-merger ROA to 1.47, while a one standard deviation decrease cratered it to -0.88—a nearly fourfold decline relative to the sample average. Family firm mergers achieved a mean ROA of 2.36, over 1.2 points higher than nonfamily mergers.

The numbers tell a clear story. Employee retention is not a soft metric or a feel-good aspiration in family firm mergers—it is the primary causal mechanism through which these deals create financial value. Owners and advisors evaluating merger targets should treat workforce stability as a leading indicator of deal success, not a secondary concern to be managed after the papers are signed.

### ***Shared social identity is the engine behind the retention advantage***

The theoretical backbone is social identity theory. Family firm owners identify strongly with their firms—their reputation, their legacy, their employees are extensions of who they are. When two sets of family owners come together in a merger, that shared identity creates immediate common ground. They agree on long-term orientation. They understand each other's attachment to the workforce. They negotiate from a position of mutual recognition rather than mutual suspicion.

One interviewee—a family owner and managing director—captured this dynamic vividly: merging with another family felt natural because both parties shared the same building, knew each other's businesses, and trusted one another enough to skip formal due diligence. The social identity match acted as a shortcut to integration.

Nonfamily firms lack this cohesion. Their owners—whether founders, investors, or professional partners—bring diverse and sometimes competing social identities to the table. A founder may use a merger as a survival strategy; an investor may treat it as a growth play; an entrepreneur may view it as an exit. These competing motives fracture the post-merger agenda. The study found that even when two nonfamily firms share the same ownership type, their mergers still underperform family–family combinations on both job security and ROA.

Identity similarity between owners is not just a cultural nicety. It is a strategic asset that reduces post-merger friction, accelerates integration, and protects the human capital that makes the combined firm worth more than the sum of its parts. This is the most underappreciated finding in the paper: the *type* of

identity matters as much as the *similarity* of identity. Family owner identity, with its deep entanglement of self, firm, and legacy, produces stronger effects than any other ownership form.

### ***Unrelated mergers work better for family firms—against conventional wisdom***

Perhaps the most provocative result comes from the supplementary analysis on industry dissimilarity. The conventional M&A playbook favors related mergers: combine firms in similar industries, eliminate redundancies, harvest cost synergies. The socioemotional wealth (SEW) perspective predicts the same for family firms—avoid unrelated deals because they threaten nonfinancial benefits and amplify risk.

The data say otherwise. As industry dissimilarity increased, the performance gap between family firm mergers and other combinations widened dramatically. Family mergers in unrelated industries delivered the highest job security and the strongest post-merger performance. Nonfamily and mixed mergers in unrelated industries saw the opposite—more layoffs, worse financial results.

The logic is elegant. When family firms merge across industries, each owning family can continue running its side of the business with its own employees. Industry differences create natural divisions of authority and autonomy. The families stay connected through their shared social identity but operate semi-independently within their respective domains. Cross-industry complementarities generate value without requiring the painful redundancy eliminations that typically sink unrelated mergers. One interviewee described the arrangement plainly: each owning family stays in charge of its own operations and employees, which keeps roles clear and harmony intact.

Nonfamily firms, by contrast, default to cost-cutting in unrelated mergers. Duplicate positions get consolidated. Employees get laid off. The restructuring generates short-term savings but destroys the human capital base the deal was supposed to build on.

Family business owners should not reflexively avoid unrelated merger partners. If you find another family firm in a complementary industry, the deal structure practically designs itself: each family keeps its operational domain, employees stay in place, and the combined entity benefits from diversification without the usual integration trauma. Advisors who steer family clients away from cross-industry deals solely because "unrelated mergers are risky" are applying a nonfamily playbook to a family game.

## TAKEAWAYS

### *For family business owners considering a merger*

- Seek out other family firms as merger partners. Shared identity reduces integration friction and protects workforce stability—the single most important driver of post-merger performance in this study.
- Consider cross-industry combinations. Contrary to standard M&A advice, unrelated mergers between family firms can outperform related ones because they allow each family to maintain autonomy while capturing complementary value.
- Treat employee retention as a strategic priority, not a byproduct. Build it into the deal terms, the integration plan, and the communication strategy from day one.

### *For advisors and policymakers*

- When advising on M&A targets, factor in owner identity—not just financials, strategic fit, or market position. Two family firms with aligned values may outperform a financially superior nonfamily target.
- Resist the reflex to restructure through layoffs. The evidence here is striking: workforce reduction is, in the authors' framing, the most frequently used and lowest-payoff method of post-merger restructuring. Survivors suffer guilt and anxiety; the merged firm loses knowledge and capability.
- Support policies that facilitate family-to-family business transitions—including mergers—as a way to preserve employment and regional economic stability.

## IMPACT

This study recalibrates a longstanding debate. Prior research by Neckebrouck, Schulze, and Zellweger (2018) suggested family firms are worse organizational stewards in steady-state conditions—higher employee turnover, fewer HR investments. The finding created an uncomfortable paradox: family firms claim to care about their people, but the data seemed to show otherwise.

Chirico and colleagues resolve that paradox by shifting the lens from static conditions to transformative ones. In the extreme stress test of a merger—where layoffs are the norm, not the exception—family firms emerge as both superior organizational stewards (higher job

security) and superior financial stewards (higher ROA). When a family's legacy is on the line, they fight harder to keep their people. The merger activates identity mechanisms that may stay dormant during routine operations.

The supplementary critical experiment adds theoretical weight. By demonstrating that social identity theory outpredicts the socioemotional wealth perspective on unrelated mergers, the study carves out a distinctive contribution: loss aversion is not the primary driver of family firm merger behavior. Identity stewardship is. Family owners don't avoid risk—they manage it differently, using their shared identity as a resource for navigating complexity.

For the broader field, the private firm context is a crucial contribution. Most M&A research examines publicly traded companies, where agency problems and market pressures dominate the story. In private firms, owners' identities and values drive decisions more directly. The Swedish data, complemented by interviews spanning three continents, suggests these dynamics are not a Scandinavian anomaly but a feature of family ownership itself.

## RECOMMENDATIONS

For family firm owners: the next time a merger opportunity arises, ask a different first question. Instead of "What's their EBITDA?" start with "Who are their owners, and what do they care about?" Owner identity compatibility predicts merger success more reliably than financial metrics alone.

For researchers: the private firm context matters enormously. Future work should examine whether these findings hold across different institutional contexts and whether family firm heterogeneity—different generations, governance structures, levels of professionalization—moderates the effect. The study's authors also note that family firms are not monolithic; some may prioritize nepotism over competence, or entrenchment over stewardship. Understanding when family identity helps and when it hinders remains an open question.

For the broader ecosystem of family business advisors, boards, and intermediaries: workforce stability is not a soft outcome. It is the causal mechanism through which family firm mergers create value. Every integration playbook should reflect that reality.

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