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A Bitter Adjustment for German Family Capitalism

Succession and a Changing Ownership Transfer Regime

Isabell Stamm and Allan Sandham

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Abstract

Germany is known for its family-owned businesses that transfer ownership across generations. However, business owners in Germany increasingly envision selling their business beyond the family, which fundamentally changes the institutionalized way private ownership of businesses is transferred. In this paper, we analyze and explain this fundamental change in German family capitalism since the 1990s. Drawing on a sociology of ownership, we view family succession as a transfer regime and show how this regime has been problematized and gradually reframed. Based on analysis of a rich corpus of documents, archival materials, and twenty-seven expert interviews, we show how a new transfer regime – the exit regime – emerges, which coordinates ownership transfer among founders through matchmaking. Our study contributes to research on family capitalism and succession by demonstrating how family capital moves toward the financial sector without becoming financial capital as it loses the family and gains the founder as personalized points of reference.

Keywords: capitalism, family, ownership, regime change, succession

Zusammenfassung

Deutschland ist für seine Familienunternehmen bekannt, die das Eigentum am Unternehmen innerhalb der Familie halten und es familienintern an die nächste Generation übergeben. Allerdings ziehen immer mehr Unternehmenseigentümer in Betracht, ihr Unternehmen an Externe zu verkaufen, wodurch sich die institutionalisierte Form des Eigentumstransfers von Unternehmen stark wandelt. In diesem Discussion Paper analysieren und erläutern wir diesen sich seit den 1990er-Jahren vollziehenden Wandel, der den Familienkapitalismus in Deutschland grundlegend verändert. Wir setzen uns aus der Perspektive einer Soziologie des Eigentums mit familieninterner Nachfolge als spezifischem Transferregime auseinander und zeigen, wie dieses Regime problematisiert und allmählich umgestaltet wurde. Anhand der Analyse einer umfangreichen Sammlung von Dokumenten und Archivmaterialien sowie von 27 Experteninterviews veranschaulichen wir, wie sich ein neues Transferregime – das Exit-Regime – herausbildet, das den Eigentumstransfer zwischen „Gründern" über moderierte Vermittlung koordiniert. Unsere Studie leistet einen Betrag zur Forschung über Familienkapitalismus und Nachfolge, indem sie verdeutlicht, wie Familienkapital finanzialisiert wird, ohne dabei selbst zu Finanzkapital zu werden, solange die Familie mit dem Gründer als persönlichem Bezugspunkt ersetzt wird.

Schlagwörter: Eigentum, Familie, Kapitalismus, Nachfolge, Regimewandel

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1 Introduction

Germany is known for a high number of family-owned businesses that are often transferred across generations. Studies suggest that more than 90 percent of the 3.3 million German businesses are owned by individuals or families (Gottschalk and Lubczyk 2019). These family businesses, as Lehrer and Celo (2016) argue, have developed over the past decades in symbiosis and bifurcation with a growing financial market. Individual and family ownership dominates in most countries around the world (Faccio and Lang 2002), but Germany is a particular case as it has a fairly high number of businesses that have been owned by the same family for generations (Lehrer and Celo 2016).

Germany's family capitalism, however, is in flux. Family experts and policymakers warn that family succession – the transfer of business ownership between family members (Le Breton-Miller, Miller, and Steier 2004) – is at risk. For years they have predicted a "succession wave" that will hit the German economy because of the aging composition of the business owner population (Freund, Kayser, and Schröer 1995; Kay et al. 2018). In parallel, business owners' intention to transfer their business within the family has been declining. In 2019, for the first time, a majority of German business owners even intended to sell their business externally (Schwartz 2019). A recent study based on income tax data shows that between 2001 and 2016 the number of business owners selling their business (or shares thereof) increased by 80 percent to more than 150,000 sales in 2016 (Kranzusch et al. 2022).

This turn toward owners selling externally is, as we argue in this paper, a bitter adjustment for German family capitalism. In family capitalism, family internal succession is the essential mechanism for reproducing a family-driven ownership structure (Kay et al. 2018). As business historians have shown (Berghoff and Köhler 2020), succession in German family businesses is based on the tradition of steward ownership, meaning that the family passes on its caretaking responsibilities for the business across generations. If succession within the family is no longer viable, an alternative would be to turn to individuals intimately familiar with the business, such as long-term employees or managers, as new stewards. But selling the business and putting it into the hands of strangers seems to flout the norms of steward ownership (Berghoff and Köhler 2020) and mark a family betrayal (Breuer 2009). The move from succession to selling the business is a fundamental change in the way ownership transfer is coordinated, and one that no longer shields family ownership as a distinct institutional sphere coexisting in bifurcation with a financial sector (Lehrer and Celo 2016) but rather opens it up to financial sector interests. The traditional transfer of ownership in Germany family capitalism may still be valued, but it can no longer be sustained, and a more financialized version of German family capitalism takes shape.

Our paper attempts to explain this development of family capitalism. Empirically, we trace the history of succession in Germany from the 1990s until today, drawing on a rich collection of documents and twenty-seven expert interviews. Using previously unanalyzed aspects of that history, we explore the more general problem of why institutional-level changes in ownership transfer can occur and how they unfold. We draw on a sociology of ownership (e.g., Davies 2012; Carruthers and Ariovich 2004) to argue that family capitalism features a specific configuration of a transfer regime, an institutional way of transferring business ownership, which we refer to as a succession regime. We argue that a shift in the succession regime is fundamental to the very character of family capitalism. We then focus our research on the practical dimension of coordination problems with succession from a pragmatist perspective (Beckert 2009) and show how the dimensions of the succession regime were altered to the extent that a new transfer regime became viable. We refer to this new transfer regime as an exit regime because the term "exit" is frequently used by practitioners and business scholars to refer to the sale of a business (e.g., Wennberg and DeTienne 2014). This new exit regime is centered around selling the business to "new founders." As such, the exit regime is financialized and simultaneously has the potential to reframe the particular features of family ownership and draw an alternative, personalized boundary to the financial sector, thus reconfiguring a bifurcation of family/personal and financial ownership in a new version of German family capitalism.

2 The bifurcation of family and financialized ownership in German family capitalism

Family capitalism, as we define it in this paper, refers to a capitalist economic system in which families are the dominant private owners of businesses (Colli 2013; James 2006; Sjörgen 2018). Families reproduce their powerful position via familial means: socialization, gifting, and inheritance (Gilding 2005; Kuusela 2018; Yanagisako 2002). Playing an essential role in this reproduction is the transfer of ownership within the family, which is enabled by a legal and tax system that privileges families as business owners (Beckert 2008). Through their expertise in navigating these complex legal frameworks, fiduciaries – professionals with special client obligations, such as tax advisors and lawyers – assist families in preserving ownership within the family (Harrington and Strike 2018). Berghoff and Köhler (2020) show how ownership is often transferred in families in patrilineality, thereby imitating aristocratic forms of succession but also shaping the idea of steward ownership: the idea that every generation is only a contemporary caretaker of the business. Overall, family capitalism links to a specific form of ownership transfer: family internal succession.

In economic sociology and economic history, family capitalism was long treated as a historic phenomenon of industrialization during the nineteenth century (Kocka 1979; Chandler 1996; Aldrich 2005). It was believed that the economic functions of the family would decrease and be replaced by new institutions for financing and governing entrepreneurial ventures (Berle and Means 1931; Penrose 1959), and in particular that the corporation would develop into the dominant form for the entrepreneurial organization of capital (Chandler 1994). Remarkably, this corporate form of capitalism is also linked to a specific form of ownership transfer whereby shareholders purchase and sell their shares on (stock) markets and which rests upon a highly institutionalized market for business shares (Aspers 2011; Carruthers and Ariovich 2004). The transfer of ownership is thus no longer coordinated within the family but by a financial market and financial institutions; as such, ownership transfer becomes financialized (Davis and Kim 2015).

The family as an economic actor and business owner, however, proved to be more persistent than expected in most capitalist economies around the globe (Faccio and Lang 2002; La Porta, Lopez-De-Silanes, and Shleifer 2002). Not only did non-corporate forms of business (such as private partnerships) persist, but families could also exercise control in corporations (Zeitlin 1989), thus largely discrediting the idea that family-controlled and -owned businesses are merely historic organizations (Harrington and Strike 2018; Lehrer and Celo 2016). As the business historians Berghoff and Köhler (2020) show, Germany experienced a second phase of family capitalism after WWII: families continued to be the dominant owners of capital (especially businesses) and preserved their specific owing culture, in which families perceived themselves as stewards of their businesses (Berghoff and Köhler 2020). This revival of family capitalism arguably provided fertile ground for corporatist structures in Germany. From the 1990s, Germany took a neoliberal turn and with an increasing financialization of businesses came a shareholder value orientation (Höpner 2003) and an increase in institutional investors as well as mergers and acquisitions (M&A) in Germany (Callaghan 2018).

Lehrer and Celo (2016) argue that family ownership and financialized ownership of businesses coexist in a symbiotic relationship in German family capitalism. In order for this relationship to work, an institutional bifurcation is needed, creating two specific institutional contexts that stabilize each form of ownership (Lehrer and Celo 2016). A key feature of the specific institutional context of family-owned businesses is the “blocking” of family business from market exchange (Beckert 2006, 16–17). Such family businesses act “comfortably protected from markets for corporate control even when such firms are listed on the stock market” (Lehrer and Celo 2016, 730). Succession is an important institutional mechanism for blocking market exchange, as it is through succession that business ownership is transferred within the family rather than bought or sold on a market for corporate control.

Building on the bifurcation argument, a weakening of succession can be read as the unblocking of business ownership from market exchange. If succession, as an essential part of the institutional setting that upholds family ownership of businesses, crumbles, this ownership becomes exposed to financialization. The bifurcation argument thus points toward studying changes in ownership transfer within the symbiotic organization of capitalism. A change from succession to sale requires the unblocking of business ownership within the family and a reframing of ownership transfer in a market sense (Aspers 2011). In line with previous financialization literature, we can assume that such a change is driven by strategic actions and the self-interests of profiteers and market intermediaries (Callaghan 2018; Bessy and Chauvin 2013).

3 Succession as a transfer regime

For our argument that succession constitutes a *transfer regime* specific to family capitalism as it undergoes substantial change, in the following we sketch our conceptual understanding of transfer regimes and change in them. Regimes typically refer to institutional configurations or, as Krasner (1982, 185) defined them, "the principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area." Previous research on the issue-area of intergenerational transfers has already pointed to the particular features of how parents transfer financial resources and social support to their children and has argued for a distinction between various transfer regimes (Albertini, Kohli, and Vogel 2007). These transfer regimes refer to and rest upon a geography of structures, institutions, and values related to family solidarity (Reher 1998; Stier, Lewin-Epstein, and Braun 2001; Esping-Andersen 1989).

In this vein, we suggest that the succession regime is a habitualized way of transferring a specific resource (i.e., business ownership) within the family. The transfer of business ownership involves the transfer of bundled property rights (Bencherki and Bourgoin 2017; Davies 2012; Swedberg 2007; Merrill and Smith 2019), which regulate issues of liability, control, and the distribution of profits (Pistor 2019). When choosing and legitimating a successor, family members observe their life choices (Stamm 2016) and adjust their roles accordingly (Handler 1990). Given reciprocity norms prevailing in the family (Long and Mathews 2011), the committed incumbent and successor is likely to care about the various interests of family stakeholders and preserving the family legacy (Richards, Kammerlander, and Zellweger 2019).

In order to capture succession as a specific transfer regime, we build on the heuristic put forward by Carruthers and Ariovich (2004), which distinguishes five interlinked dimensions of owning relationships. The *transfer dimension* defines how property moves between different owners. Ownership transfer is embedded in normative ideas of transfer and institutionalized ways of organizing it. Carruthers and Ariovich (2004) distinguish between gift exchange (including intergenerational inheritance) and market exchange as two forms of transfer. The *subject dimension* defines who can own a business and includes natural and juridical persons. Who is seen as a competent and legitimate owner may vary by gender, marital status, kin relationships, education, or prior investment (Carruthers and Ariovich 2004). The *object dimension* defines what can be owned. The "business" as an owned object is a complex social and legal construct (Pinnington and Morris 2002). It can be attached to powerful, noncommercial social meanings that may deem it inappropriate for ownership. The *articulation of use dimension* defines what can be done with the owned business and therefore defines within which limits property can be used. Business owners make claims on control of the business, particularly defining its structure and strategic development, and on residual income (Carruthers and Ariovich 2004). The use of business ownership further includes obligations such as compliance or paying taxes, as well as internal restrictions such as a norm to retain profits (Lehrer and Celo 2016). Finally, the *enforcement dimension* defines how property rules are maintained. The state and the judicial system play an important role in enforcing business owners' property rights (Dagan 2021; Carruthers and Ariovich 2004).

Expanding on Carruthers and Ariovich (2004), we suggest that different forms of ownership transfer relate to these dimensions. The underlying definitions are constitutive for a transfer regime. In the succession regime, the family is defined as the *owning subject*, which restricts the transfer of the business to family members. Succession creates reciprocal promises and expectations that promote high levels of commitment within the business family, thus putting the family's long-term well-being above short-term individual needs but also providing fertile ground for nepotism (Jaskiewicz et al. 2013; Sharma and Irving 2005). Likewise, the business as an *owned object* carries a high symbolic weight and is perceived as a personalized object (Lubinski, Gartner, and William 2023; Breuer 2009). The *use is articulated* by the family's mission of nurturing the business, which justifies the accumulation of capital in the family's hands but also obliges the family to retain the accumulated profits within the business for future benefit (Lehrer and Celo 2016). Succession is *enforced* by a legal system that sees the family as the main recipient of gifts and inheritances and grants generous tax exemptions for business transfer (Beckert 2008). Previous research has also highlighted the key role of fiduciaries in enforcing succession (Strike and Rerup 2016). Fiduciaries mediate personal relationships within the family (Bertschi-Michel, Sieger, and Kammerlander 2021), "offset dysfunctional family biases" (Le Breton-Miller, Miller, and Steier 2004, 315), and provide support in formalizing the ownership transfer (Harrington and Strike 2018).

Violation of the succession regime by family members can come at the cost of diminishing family cohesion, open conflict, or even exclusion (DeMassis, Chua, and Chrisman 2008). From this perspective, family business owners are unlikely to offer their businesses for sale or may experience a proposal to sell as hostile and any actual sale as a failure and family betrayal. The succession regime thus prevents market exchange relationships by keeping the family outside of the market realm (Beckert 2006) and reproduces family ownership in bifurcation to financial ownership.

With this enriched understanding of the succession regime, we can now examine how it began to change. In order for a regime change to occur, the norms and principles underlying the transfer regime must shift (Krasner 1982) in all dimensions of owning relationships (Carruthers and Ariovich 2004). Studying these changes can make visible the fundamental nature of a shift from succession to sale for German family capitalism.

4 A pragmatist approach to studying regime change

As our intention was to capture the change in the succession regime, we follow Davies (2012) and apply a pragmatist approach centering on acute problems of action and their negotiation across time. This means recognizing that "human agents are endowed with the capacity to judge, justify and criticize" owning relationships (Davies 2012, 169; similarly see Nungesser and Wöhrle 2013). In a pragmatist approach, the norms, rules, and habitual decision-making procedures within a transfer regime form the starting point of analysis (Davies 2012). These are understood as ongoing solutions to practical problems and remain unchanged as long as the solution satisfactorily meets specific ends, while the means of doing so are constantly adjustable (Dewey 1930; Mead 1937). The practical problem in our case was the coordination of ownership transfer, the solution to which would be succession. Taking a pragmatist perspective, we then analyzed why family succession was no longer considered to bring seamless solutions and studied how owners and their fiduciaries engaged in collective inquiry and experimentalism in order to find a next best practical solution. Negotiations carried out in such a way may change the dimensions of owning relationships and culminate in changed institutional procedures (Beckert 2009) – in our case, a change in the transfer regime.

We began our empirical investigation with a handful of expert interviews with fiduciaries of family owners, such as lawyers, tax advisors, and business consultants, and asked them how they perceived succession to have changed. In contrast to business owners, who often only go through one succession process in their life, these fiduciaries were constantly confronted with succession issues in their interactions with business owners, other experts, and policymakers (Bertschi-Michel, Sieger, and Kammerlander 2021). The interviews provided initial cues as to what initiatives, public discourses, events, or actors may be relevant to understanding the changes in the succession regime.

From there we identified further informants for our study and documents that would protocol the indicated changes in succession, such as pamphlets, news articles, laws, and law commentaries. We followed the principles of theoretical sampling by selecting our next interview participant and the next set of relevant documents based on what we had already learned (Glaser and Strauss 2006). Over three years (2019 to 2022), we interviewed twenty-seven experts, from fiduciaries to representatives of the chambers of commerce, private equity investors, and owners of firm platforms. More importantly, we compiled a rich collection of documents, including all chamber of commerce succession guides, postings for succession events, articles in industry magazines on succession, images and texts of business platforms, plenary discussions and legal documentation on tax breaks for business sales, and statistics and all succession forecasts by the Institut für Mittelstandsforschung (IfM) in Bonn. The collected data materials allowed us to trace the origins of the gradual change in the succession regime since the 1990s until today.

A pragmatist approach to changes in the succession regime allows us to focus on a theory of action that emphasizes not a causal interpretation of means enforced by actors but rather a procedural understanding of ongoing negotiations between current and potential owners who try to create solutions that are best suited to their problems. This focus on the practical dimension of negotiating changes of ownership transfer considers the interweaving of facts, values, knowledge, and action while acknowledging the dependency of the institutional context in which these factors emerge (Ogien 2014). Our analysis aims to study the consequences of action that gradually unfold as actors embed ends-in-view into conformable and current definitions of owning relationships. A pragmatist approach thereby holds that the dimensions of the succession regime develop in the course of practical activity and new forms of ownership transfer may come into being.

During our analysis, the dimensions of a transfer regime as presented in the previous section guided our emerging understanding of how the succession regime in German capitalism gradually changed. In continuous iteration loops of collecting, comparing, and analyzing the multifaceted data (Gioa et al. 2013), we eventually were able to describe how succession became problematic and how each dimension of the succession regime was renegotiated and reframed. This process involved a number of next best solutions that were once again renegotiated and reframed. Eventually, all dimensions had been reconfigured in such a way that a new transfer regime emerged, which we call an exit regime. The term exit refers to the owning family's departure by selling their ownership of the business (Wennberg and DeTienne 2014). Although incorporating key features of the financial market in coordinating ownership transfer, this new exit regime remains distinct from coordination of ownership transfer through financial markets and thus reconfigures the institutional bifurcation between family ownership and financial ownership.

5 From succession to exit

In the following, we describe the unfolding of the change in the succession regime. We identified four main phases, which we refer to in pragmatist terms as problematization, collective inquiry, experimentalism, and norm substitution. In each of these phases, multiple dimensions of the succession regime were renegotiated. The problematization of succession gradually spread, bringing about next best solutions and eventually altering the succession regime in such a way that a new transfer regime emerged. In this section, we tell the story of this gradual change before reflecting on our learning in the next and final sections.

Problematization: The rising uncertainty of the succession regime

In the 1980s, business practitioners began to notice and voice problems in the habitual transfer of business ownership within the family. Tax advisors, lawyers, business consultants, and corporate bankers in concert with the chambers of commerce agreed that many family business managers failed to hand over power in a timely and efficient manner, thereby jeopardizing the well-being of the business. The issue of letting go was regularly picked up by business magazines (e.g., *Handelsblatt*, *Wirtschaftswoche*, *FAZ*) and industry reports (e.g., Sparkasse, IHK), which thus painted a consistent public picture of a succession planning problem. For example, a 1986 article in *Wirtschaftswoche* magazine explains the issue as follows:

> In family businesses, owners often struggle with the organization of the business. Founders consider themselves indispensable, employees in the middle management are trusted with leadership responsibilities too late, or endless family disputes complicate the work of the management. (*Wirtschaftswoche* 1986, own translation)

This early problematization of succession points to the responsibility of the incumbent business owners. They are usually portrayed as strong-minded founders and leaders who have succeeded in growing a business. At times, however, they are overly depicted as old men "who cling to corporate power with all kinds of embarrassing disruptive maneuvers" (*Wirtschaftswoche* 1990, 54, own translation). This conveys the impression that the transfer of business ownership within the family is a difficult task that needs early planning and mediation among family members.

Inefficiently planned and potentially failing family internal succession had been portrayed as a major threat to the German Mittelstand by consultants and in the media. An article in *Büromarkt* (1984), for example, claimed that failed succession planning was a "not insignificant" reason for bankruptcy, and *Wirtschaftswoche* (1990) referred to family internal succession as the "Achilles' heel" of the Mittelstand. The weight that has been attached to the succession problem in the public discourse is key to understanding the doubts that emerged around succession as a viable option for ownership transfer. The problematic aspects of family internal succession began to insert doubt among all involved parties with regard to the family as the owning subject, but without generally questioning the business itself being an object that is assigned to the family. This emphasizes the emerging uncertainty surrounding the succession regime, which concurrently raised questions on the viability of the habitual mode of ownership transfer. Given the issues of family internal succession, the solution to the succession problem must be tailor-made to every family business, with one measure being out of the question: "the opening of the family business to the outside" (*Wirtschaftswoche* 1990).

As the uncertainty of succession grew stronger, the issue began to be scientifically systemized. The Institute for Mittelstandsforschung (IfM) in Bonn predicted the number of successions expected in the next five years based on the number of business owners reaching retirement age (Freund, Kayser, and Schröer 1995). It thus no longer tied succession to the intergenerational longevity of a business but to the current business owner's career. This was an important move that already set the stage for redefining the owned object as a life project rather than a family possession – a notion we will return to later. In addition, the forecast connected the number of businesses going through a potential succession to the number of employees affected, which was estimated to be up to half a million (Freund, Kayser, and Schröer 1995, 60). This shed light on the macroeconomic dimension of the changing succession regime and further advances the idea that succession must be a function of preserving these businesses. A failed succession in the Mittelstand could turn out to be a severe problem for the German economy.

Through the work of the IfM, the very meaning of the succession problem shifted in light of a predicted succession gap: at the center of attention was no longer the incumbent who is incapable of letting go, but the lack of successors. The growing number of aging business owners, especially in the baby boomer cohorts, stands vis-à-vis a shrinking number of potential successors. As our interviews showed, this is explained with three main arguments: First, as birth rates stagnate, there are fewer children and hence fewer family internal candidates that could potentially take over. Second, the children of business owners strive for independence and autonomy and are not interested in or qualified for taking over the business. Third, the proclivity for entrepreneurship in Germany is low. The parents, as one interview participant put it, "do not want to impose the burden of entrepreneurship on their children" (B2). The arguments share the perception that the succession problem is no longer a management issue but rather a looming new owner gap.

The IfM forecast functioned as an important tool that underlined the large number of aging business owners who would face the challenges of having to find a successor owner. It pointed strongly to a probable and deeply incisive transformation of family capitalism regarding the owning subject. While family members were still considered the preferred candidates for succession, family-related reasons were given to explain why this family continuity was no longer possible. As a consequence, the successor gap degraded family internal succession to the less likely option for ownership transfer. The family itself was no longer regarded as the exclusive possibility for the succession regime, but it left behind a void in defining a new owning subject. Meanwhile, the purpose of succession had also shifted from serving the well-being of the family to preserving the business.

Collective inquiry: Campaigning and systematic intervention

Realizing the practical problems of succession, policymakers, business associations, and fiduciaries engaged in raising awareness for succession issues. A good example is the "Go NRW" initiative of the Ministry of Economic Affairs in North Rhine-Westphalia in 1996. A business consultant and later professor for family business who was involved in the campaign recalls:

> We rented large billboards all over the country, which was highly innovative at the time, and made posters, huge ones. They showed a younger man and a small child, and the small child asked the father: "Tell me, Dad, are you actually already a boss?" Or there was a poster with an older man and a small child, who asked: "Grandpa, why are you still working?" (F2)

This campaign is informative in multiple ways. In terms of content, it underlines several important characteristics of the succession regime at the time, such as an adherence to the norm of family continuity as the guiding principle in ownership transfer as well as a strong male-centric tradition. It also stresses how strongly succession was problematized in the context of business owners' reluctancy to organize their stepping down, as argued above. However, the choice of a billboard campaign itself signals the economic dimension and breadth attested to succession as a problem of public interest.

Directly addressing policymakers, in 1999 another IfM report underlined the severe disruptions to the succession regime and prompted further collective inquiry: if firms could no longer be transferred within the family, an over-the-counter (OTC) market for firm sales could be a viable solution. Although at the time such a market in Germany had already been established with increasing M&A activities, it was not fit for the small and medium-sized businesses that were affected by the predicted succession gap, as their low transaction volumes were not considered profitable. In effect, a "market failure in the field of external business succession" (IfM 1999, 82) was the IfM's conclusion. If one wanted to ensure the continuity of these businesses, as the IfM report implied, an entirely new support structure was needed that allowed business owners to manage their ownership transfer.

This paved the way for a visible shift in the enforcement of property rights: while before, succession was enforced informally within the family with on-demand support by fiduciaries, these fiduciaries and business associations now no longer remained in an informing role but rather spread the word about potential dangers of the succession problem, thereby intervening in the field in a more systematic manner. One of our interview participants, who works at a chamber of commerce as a succession advisor, explains: "Until 2000, all the players largely relied on succession being handled somehow within the family. Then, in the early 2000s, the IfM took up the cause and pushed the issue. And that's how it got flushed into the chambers" (G1). The chambers, business associations, practitioners, and policymakers began to organize events on succession, where tax advisors, lawyers, and often business owners would teach others how to navigate the succession process more efficiently and, by informing current business owners, simultaneously campaigned for the topic's relevance.

The new proactive role of fiduciaries was complemented by a reinterpretation of succession cultures that enlarged the pool of potential successors (owning subject). For example, in 1999, the German Chamber of Commerce (DIHK), the Central Association of the German Trades (ZDH), and the Deutsche Ausgleichsbank joined forces to support succession in small and medium-sized businesses by forming the "Change/Chance" initiative. They focused especially on female succession, which stood in contrast to the androcentrism often found in (German) family capitalism. This included raising awareness both of daughters as potential successors, thus breaking with a strong patriarchal tradition in family internal succession, and of the many qualified female employees or entrepreneurs who could become future business owners.

In 2001, the then Federal Ministry for Economic Affairs and Technology also began to engage in directly addressing succession issues. It launched the "nexxt" initiative, partnering with key associations and organizations to stimulate a favorable climate for succession in Germany. As stated on the initiative's website in 2001, "nexxt is intended to raise public awareness of the issue of business succession more clearly than before."[1] What we want to stress here is the scale of collective inquiry into succession that had increased significantly by the turn of the millennium. The activities that were initiated included events and consultancies informing widely about succession and the necessity of succession planning, and pushing for potential owners beyond the family to be considered.

Campaigning and collective inquiry led to the practical problem of succession becoming decoupled from its scientific description and turning into a loud call for action. An IfM researcher reflects:

> After years, economic policymakers and other actors finally became aware of the succession issue and acted. But later I felt as if we had let a genie out of the bottle. The whole thing developed its own dynamic. And the extent of the succession problem became bigger and bigger. (F1)

Remarkably, the various campaigning activities and systematic interventions were carried out by a broad set of actors including the state and business associations but also fiduciaries, who began to actively inform and educate business owners on succession issues. Through these campaigning activities and systematic interventions, the new support structure that the IfM called for began to emerge and the pool of legitimate successors slowly extended beyond the family circle.

1 From the January 2002 website of the nexxt initiative (https://web.archive.org/web/20020117085514/http://www.nexxt-initiative.de/index.aspx?m=1210&KID=26) generated by Wayback Machine by archive.org; own translation.

Experimenting with new forms of ownership transfer: The rise of intermediaries and matchmaking

During the 2000s, the intense public discourse on succession continued and manifested in a number of policy changes. Among them is the large-scale tax reform of 2001, which contained a tax break for individuals aged fifty-five or over for private gains from selling businesses. This policy adjustment, among others, manifests the issue of a succession gap and the need to preserve businesses. It contributed to a reinterpretation of the owned object as a life project rather than a family possession and set the stage for the rise of intermediaries as indispensable agents in the transfer of business ownership.

Germany's coalition of the Social Democratic Party (SPD) and the Greens (Bündnis 90/Die Grünen) proposed a large-scale tax reform in 2000. The initial bill was rejected in the Bundesrat for the way capital gains from business sales were treated in income taxation. In comparison to previous regulations, the new bill no longer included a reduced tax rate for capital gains from private partnerships. However, sales of stocks of a company were tax-free (the capital gains tax was only introduced in 2009). The opposition complained about unequal treatment of business owners across different legal structures and privileges for those owning stock corporations while small and medium-sized family business owners were disadvantaged. A revised bill developed through a mediation committee reintroduced the reduced tax rate. New to this adjustment was the condition that the tax reduction could only be used once in a lifetime and by business owners who were over the age of fifty-five or unfit to work (a condition previously only found in section 16 of the German Income Tax Act, ESt). Members of the opposition claimed a victory for the German Mittelstand. For example, Hans-Artur Baukhage (FDP, liberals) explained in the Bundesrat:

> This has a special quality, especially in view of the increasingly urgent issue of business succession, which is of central importance to small and medium-sized enterprises. As of 2001, the transfer of a company to its successor will be much less hampered by the tax burden. And the SME owner who wants to retire in the truest sense of the word will be left with sufficient retirement income from the sale of the business, even after taxes.
> (Bundesrat 2000, *Plenarprotokoll* 753, 284; own translation)

This quote is exemplary for the overall tune in the plenary debates on this bill. In light of the acute problems of succession, this quote not only underlines that selling the business is a legitimate option and preservation of the business the ultimate goal but also points to a reinterpretation of the owned object that had been looming since the IfM's first forecast: the business is no longer seen as a family possession but as the business owner's life project. Ownership transfer, as the quote implies, is expected to occur at the end of the owner's career, with the sales proceeds funding their retirement. The reduced tax rate linked to a certain age limit is thus seen as a mechanism to ease the sale of a business, and it manifests this reinterpretation of the owned object in the legal structure.

We further argue that this and the other policies provided a legitimate reason for fiduciaries and business associations to seek conversations about ownership transfer with business owners and to develop mediating services, thereby taking on the role of what can now be regarded as intermediaries. While a fiduciary simply assisted during the ownership transfer, an intermediary is an essential third player in this social exchange relationship (Simmel 1900). For example, for commercial bankers it became "standard practice to address the issue of succession, in the case of owner-managed businesses, i.e., family businesses" (B4) in the course of assessing the credit rating of a business. The corporate banker no longer acted on demand by the business owner but actively questioned the transfer of ownership. From this position, intermediaries offered to assist business owners in finding a potential new owner through their networks. Eventually, such mediating services grew into an integral part of a new form of enforcement of ownership transfer. Compared to earlier transfer activities, which still focused on succession, there was now a much stronger reference to matchmaking.

In 2006, the two large succession initiatives "Change/Chance" and "nexxt" joined forces to create a "national exchange platform that bundles all offers and provides a single infrastructure that in the end all businesses can use" (P5). This platform was tailored to find potential new owners for small and medium-sized businesses. The key idea was to offer a digital infrastructure for contact ads of business owners and potential buyers. Such platforms had been set up previously by Firmenboerse (1995), Unternehmensbörse GmbH (1997), and Concess (1999). These early attempts operated mostly regionally and struggled to gain traction on their sites. The nexxt platform aimed to build a national matching platform for Mittelstand businesses and quickly grew to be the largest business platform in Germany. To appear on the nexxt platform, an ad must be entered or approved by the regional partners, meaning that business owners cannot use the platform without being in touch with an accredited intermediary that helps moderate or organize the ownership transfer. This setup helps intermediaries to enter into a conversation with business owners and allows them to actively search for potential new owners.

Today, business owners can rely on a mature support structure that positions intermediaries as an indispensable part of ownership transfer. The coordination of ownership no longer occurs within the family and assisted by fiduciaries but is mediated by advisors, industry associations, banks, and platforms. If they need to, business owners can join regional transfer networks and clubs (e.g., Nachfolgenetzwerk Baden-Württemberg), gather information through transfer events and reports (e.g., Nachfolgemonitor), use consultations offered by their chambers of commerce (e.g., Stabwechsel) or business consultants (e.g., Nachfolgeexperten e.V.), and, when searching for a potential new owner beyond the family, can use online platforms to find a suitable candidate or hire a specialized broker. As soon as the infrastructure was set up for matchmaking in this way, the professionalization of an OTC market specific to family-owned firms was only steps away.

Norm substitution: Passing the business from family entrepreneur to founder

Although policymakers and intermediaries had long embraced the succession problem and provided a complex support structure, the enthusiasm for the topic of ownership transfer only reignited in the 2010s. While attendance of events in the years before was slow and offers of consultancy rarely used, things now changed. For example, one of the business consultants we interviewed recalls:

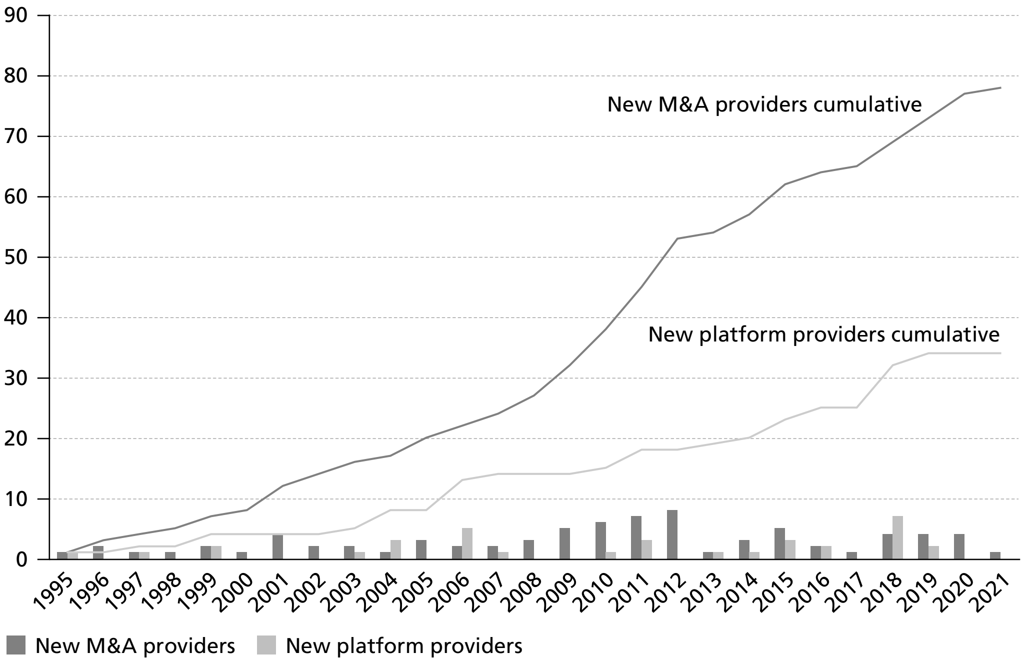
> We had a big conference in Munich, there sat about 800 business owners in a room. And at the opening event, the moderator asked: "So, business succession is a big topic. How many of you are currently dealing with it, for whom is it currently an issue?" And that's when at least a third of the hands went up. I mean, five years ago, nobody would have dared to do that. (B3)

This quote illustrates how, after decades of campaigning, interventions, and policy adjustments, the taboo around talking publicly about one's succession problems had been broken. Another interview participant reinforces this notion, elaborating that "the willingness to openly communicate this [succession] to the outside world has increased significantly" (P4). The coordination of ownership transfer had escaped the secrecy within the family and become a topic that business owners regularly discussed with business intermediaries and their peers. The constant confrontation with the topic in conversations with business intermediaries and in the public discourse paved the way for this new openness of business owners to talk about ownership transfer and consider alternatives to family internal succession, including selling the business.

A number of intermediaries viewed this new openness toward selling the business as an opportunity. The market for advising on ownership transfer developed into one of the fastest growing segments of the consulting market (Murmann 2019), and more and more intermediaries became engaged in the expansion of the market for OTC sales of family-owned businesses. For example, during the 2010s the numbers of M&A advisories that specialized in the Mittelstand grew substantially, as did the number of firm platforms (see Figure 1). For the year 2021 we identified seventy-eight M&A advisories active within the German Mittelstand as well as thirty-four firm platforms. Accordingly, one of our interview partners who operates such a platform explains that "the M&A consultants are increasingly trying to create their own platforms […] and then generate their business through them" (P2).

On the rise were also private equity investors that had discovered the succession problem as an investment opportunity. A textbook example is the Droege Group, a family business founded in 1988 which successfully capitalized on the idea of the succession gap as a business opportunity. Early on it offered private equity to Mittelstand businesses – arguing that as a family business it understood the culture and goals. As Boehm (2020, 230) has shown, today "it is impossible to imagine the German succession market without private equity companies."

Figure 1 Development of M&A providers and platforms for company sales, 1995–2021



At this point, it becomes clear that the relationship between family ownership and financialized ownership is being reconfigured and the intermediaries of ownership transfer are now in a powerful position to reinterpret its very nature. We particularly observe a reinterpretation of the owning subject, who now turns from being a person reluctant to let go and without any successor into a successful entrepreneur who makes a sensible economic decision in selling the business. The cover shown in Figure 2 (next page) of the practitioner-oriented business magazine *Fuchs-Report* from 2011 playfully depicts this reinterpretation. It shows a middle-aged man (the business owner), dressed up for a special occasion, presenting the sparkling business like a fancy cake on a silver platter. This depiction emphasizes the task of presenting the business at a particular point in time and to the taste of a potential buyer. The headline reads "From entrepreneur to rentier – how to sell the business best," indicating what the business owner can expect once the sale has been accomplished.

This new interpretation of ownership transfer focuses very much on the moment of transfer and frames the selling of the business as an act performed by a competent entrepreneur. One of our interview participants referred to selling one's business as "a healthy entrepreneurial action" (B3) and viewed business sale as "a truly economic action, in which one of course seeks their own benefit" (B3). The business owner is no longer narrated as being reluctant to let go but as harnessing an entrepreneurial opportunity. With the sale becoming an entrepreneurial act, ownership transfer in the form of a business sale becomes linked to an exit orientation previously only known from the start-up scene.

Figure 2 “From entrepreneur to rentier”

As ownership transfer turns into an entrepreneurial opportunity, the new owners are similarly placed in an entrepreneurial context. Buying a business is thereby perceived as a form of founding in no way inferior to starting a business. The boundaries between these two forms of entrepreneurship are blurred. For example, a recent brochure by the nexxt initiative reads “No matter if you found a new business or take over an existing one […] you are a founder.” With no differentiation made between these two categories, new business owners also appear more willing, credible, and competent than before. The transfer of ownership has now completely lost its attachment to the family and its continuity; in its place steps a strict focus on business continuity, with transfer being an entrepreneurial milestone in managing and building a healthy business.

Finally, the exit orientation is also apparent in a new emphasis on the financial aspects of business sale, pointing toward a new articulation of use: the well-being of the entrepreneur. Our interview partners connected a high sale price with the fulfillment of individualized life plans (e.g., traveling the world, buying a boat) or with funding a comfortable retirement. For example, they describe how these business owners "want to be sure that they are well provided for financially" (P6), they want to "enable themselves to make a living privately" (B2), or they "just want to have a few more good years" (M&A3). On the websites of business platforms or in newspapers, the sale of a business is often accompanied by pictures of yachts, golf clubs, or sports cars, suggesting that selling the business could make business owners rich and give them the life of a rentier. Remarkably, this financial prosperity is portrayed on the level of the exiting individual and not as family wealth.

6 The exit regime: Reconfigured bifurcation of "family" and financialized ownership

This paper set out to understand a puzzling empirical observation on succession in German family capitalism: while selling the business outside of the family was seen as taboo for decades among family business owners, in the late 2010s a majority of family business owners could imagine doing just that (Schwartz 2019). In the paper, we view succession as a transfer regime, which encompasses norms, rules, and decision-making procedures around ownership transfer that rest upon a specific understanding of the owning subject, the owned object, the articulation of use of the object, and enforcement. It seeks a potential explanation of how this regime gradually began to change. Beginning from the description of how this change has unfolded since the 1990s, we show how the family as the owning subject was increasingly problematized by fiduciaries, business associations, and policymakers, how these various actors engaged in collective inquiry and experimentalism until a new way of coordinating the transfer process through mediated matchmaking emerged, and how eventually the legitimate owning subject was replaced by the notion of founder succession, which establishes a new transfer regime that we refer to as an exit regime. This new regime promotes the sale of businesses among founders, which has the potential to reconfigure the bifurcation of family and financial ownership (Lehrer and Celo 2016) and ring in a new version of German family capitalism.

Table 1 summarizes the analysis on the gradual shift from a succession to an exit regime. It shows how in each phase – problematization, collective inquiry, experimentalism, and norm substitution – the dimensions of the transfer regime are contested and altered. A shift from succession to exit did not occur immediately in any dimension of the transfer regime but involved a number of next best solutions and interim steps before the new exit regime eventually emerged. The actors facing the upheaval presented above gradually reacted, found next best solutions, and eventually permanently re-evaluated ownership transfer, which resulted in an approach that may be understood as an action toward perceivable ends-in-view rather than a predetermined strategic action.

Table 1 The unfolding change in the succession regime

Owning relations		*Owning subject*	*Owned object*	*Articulation of use*	*Enforcement of rights*	*Transfer*
Succession regime		**Family**	**Business as family object**	**Family well-being**	**State, fiduciaries**	**Succession**
Procedural dimensions	*Problem-atization*	Family/ Successor gap	Business as family object	Family well-being/ Preservation of the business	State, fiduciaries	Succession
	Collective inquiry	Successor gap/ External	Business as family object	Preservation of business	State, activated fiduciaries	Succession/ Matchmaking
	Experiment-alism	Successor gap/ External	Business as life project	Preservation of business	State, intermediaries	Matchmaking/ Sale
	Norm substitution	Founder	Business as life project	Founder well-being	State, intermediaries	Matchmaking/ Sale
Exit regime		**Founder**	**Business as life project**	**Founder well-being**	**State, intermediaries**	**Sale**

Note: Different shades of grey represent the gradual change of the succession regime in each dimension of owning relations.

In the succession regime, the family is seen as the legitimate old and new owner of the business during ownership transfer. Among incumbents and successors, reciprocal promises and expectations exist which promote levels of commitment, trust, and obligation (Jaskiewicz et al. 2013; Sharma and Irving 2005; Breuer 2009). However, the family as the owner is increasingly questioned: the older generation is portrayed as unable to manage the transfer process, while the succeeding generation is portrayed as unwilling to take over or does not exist due to family demographic changes. This problematization of the family as the owning subject produces uncertainty and leaves a definitional void. At first, this void is tackled by expanding the circle of potential owners within the family (e.g., to daughters) and later to external candidates. It is only in the 2010s that this void is filled with a reframing of the owning subject as individual founders. This reframing embraces norms of individualization (Beck 1992) and cultivates entrepreneurialism (Brattström 2022).

Across the four phases, the owned object continues to be the business. In the succession regime, however, the business is viewed as an object that needs caretaking by the family (Berghoff and Köhler 2020), and that in turn shapes the family's identity, livelihood, and wealth (Stamm 2013). With the family as the owning subject being questioned, the understanding of the owned object also alters, as our findings showed. The business is now seen as the result of entrepreneurial efforts and managerial skills, a token of a life project. This reframing at first focuses solely on the incumbent who has invested their career in the business and now faces a successor gap. Later, it also encompasses future business owners for whom the owned object will be seen as life work, this time not of the family but of the founder as the new owner. As such, the business remains personalized.

The articulation of use dimension defines what can be done with the owned business. In the succession regime, the family makes claims on control of the business, its structure and strategic development, and on residual income (Carruthers and Ariovich 2004). In the tradition of steward ownership, the retention of profits is restricted due to the idea that the family must serve the business and put the family's needs behind the growth and development of the business (Berghoff and Köhler 2020; Lehrer and Celo 2016). As our analysis shows, however, the articulation of use of the business is reframed in multiple steps. An important milestone in this reframing is the linking of the number of businesses that may undergo succession with the number of jobs provided by these businesses. Later, the definition of use changes again: the "founder," who secures preservation of the business, can make claims on control of the business, including any residual income achieved through its operation but also through its sale to a new founder. The founder's well-being in terms of an income that mirrors the entrepreneurial effort and a sales profit that provides a comfortable retirement replaces the family's well-being as an important imaginary in the emerging exit regime.

With regard to the enforcement of rights, an important – if not *the* – driving force behind the shift from succession to exit seems to be the emergence of intermediaries as indispensable third parties involved in enforcing ownership transfer (Bessy and Chauvin 2013). While the transfer of ownership in the succession regime is a family internal affair only supported by fiduciaries, these fiduciaries start to actively intervene in the transfer process. Through collective inquiry and experimentalism, the role of third parties involved in ownership transfer changes dramatically as the impression is conveyed that succession comes with too many pitfalls for business owners to master this economic process alone. Hence, the reframing of succession creates legitimacy for mediating services, while transfer of ownership is now structured in a way that requires mediation by third parties accompanying the process. There is nothing to indicate that this was the intended outcome for these intermediaries, especially since their original intention was solely to organize succession in a new manner. However, the convenience of drawing on the financial sector to solve a problem in the family sector ultimately serves to change the underlying transfer regime in a fundamental way. Profiteers of this reframing (Callaghan 2018) are in particular business consultants specializing in succession, M&A advisors specializing in the Mittelstand segment, and newly emerging firm platforms. These new intermediaries promote a market for selling privately owned businesses (Stamm 2023).

Eventually, the mode of ownership transfer shifts from an intergenerational transfer within the family that is organized via gifting and reciprocity to a coordinated matchmaking of current and future founders on a market for privately owned firms. The sale of business as a particular form of exit (e.g., Wennberg and DeTienne 2014) is essential to this new mode of ownership transfer. Exit captures the focus on the founding entrepreneur, who leaves the business in order to transition into retirement or to new ventures, and it captures the focus on the continuity of the business, which continues to exist even after its founder has exited. In the exit regime, the act of selling the business is no longer viewed as leaving the firm behind but as the ultimate entrepreneurial act. Exit is followed by the entrance of a new founder who continues to grow and nurture the business. Family succession thus shifts to founder succession.

These findings contribute to understanding the fundamental change of transfer regimes. In the course of this change, family capital is unblocked from the financial market (Beckert 2006), eroding the marked bifurcation of family and financial capital typical for family capitalism in Germany (Lehrer and Celo 2016). The transfer of business ownership is commodified and now coordinated through a market that opens it up to financial sector actors and their interests. Financial sector actors such as private equity investors and M&A advisors now hope to expand their market reach and make a profit from matchmaking founders with new founders. This unblocking of the family sector from the financial sector can certainly be described as a financialization movement that puts financial sector actors in a powerful position (Davis and Kim 2015; Carruthers 2015).

At the same time, this financialization movement is limited (Davis and Kim 2015). The norm of founder succession re-personalizes the sale of the business. It limits the scope of potential sellers by excluding anonymous financial investors in favor of new founder personalities. Businesses that have been sold are expected to remain in private ownership and in the hands of dedicated individuals who are interested in building the organization long-term and making a career out of owning the business. We can thus view this as a process of valorization in which new boundaries are set for what is actually at stake – family ownership of businesses.

Importantly, these developments can be expected to have profound consequences for family capitalism. In the exit regime, family capital loses its multigenerational outlook. This means that we can expect to see a decreasing number of multigenerational family businesses in Germany and a shorter-term orientation of owners. At the same time, the exit regime embraces the idea of a career-long commitment of founder-owners to the business. This in turn means that we can expect to see continuous private ownership by individuals and their families that, compared to a short-term shareholder value orientation, still has a long-term perspective, but of a different quality and reach. Rather than a string of family members running and owning a business, a string of (unrelated) founders is now envisioned to run and own a business. This would not mark the end of family capitalism but a major structural change to it.

Our study thus extends the bifurcation thesis of Lehrer and Celo (2016) by emphasizing and empirically considering opening and closing movements between family and financialized capital. We argue that the symbiotic and closed relationship between family capital and the financial sector is threatened with the problematization of family internal succession. Family capital opens up toward the financial sector in the search for a next best solution. Institutions that formerly protected family ownership and succession from financial markets are reconfigured in all dimensions of the underlying owning relationships and a new form of coordinating ownership transfer (i.e., matchmaking) is embraced in the emerging exit regime. The personalization of private ownership around founders, however, draws a new boundary between family and financialized capital and reconfigures bifurcation between family and financial sectors.

These conclusions have important implications for future research on family capitalism and the ownership structure of business populations. First, it is not sufficient to define family capital according to ownership by a handful of private individuals, as for example in the repeated study on the economic impact of family business ownership in Germany (Gottschalk and Lubczyk 2019). In order to study changes in a family capitalist ownership structure, information on multigenerational ownership among kin and its potential decline is essential. Second, a long-term perspective of private ownership should not be simply assumed, and future research must acknowledge that a long-term perspective is socially constructed and dependent on the underlying owning relationships. Third, future research should study more carefully the reproduction of private ownership of businesses through matchmaking, as the matches made will define the future ownership structure of the business population.

Following on, it is legitimate to ask to what extent the exit regime we have described already represents a consolidated habitual mode of action. Here, it is important to acknowledge that the process of financialization and new boundary making is still ongoing and that its possible course can be influenced by various factors, especially with regard to the ongoing normative negotiation of the owning subject and the enforcement of transfer. If the businesses for sale are bought by "founders," that is, private individuals and their families who are committed to the development of the business, the current imaginaries of the exit regime are substantiated and reinforced. If, however, these imaginaries remain fictions and the businesses are bought by financial market actors such as private equity investors, the new exit regime will likely only be another next best solution and more turmoil in German family capitalism can be expected. In particular, more research on the intersection of family capital and private equity is needed (Faust and Kädtler 2018).

Finally, this paper has important implications for policymakers and practitioners. On the one hand, the backdrop of a family capitalist entrepreneurial culture that is deeply entrenched in the German Mittelstand raises the question of to what extent the developments described here are sustainable and acceptable, and what ideological foundations are likely to help shape the process. On the other, there is the question of alternative scenarios that would also be conceivable but have not yet been considered in the exit regime: management buy-out or employee succession. In fact, these alternative scenarios are even the more likely solution to the succession problem and have many relevant examples in business history. The critical question is therefore whose interests the current exit regime really serves and why likely alternative scenarios are not promoted either in the discourse or by policymakers.

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